

ROLE OF SMES IN COMPETITIVENESS, COMPARISON OF HUNGARIAN SMES WITH EU SMES

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Abstract

SMEs play an important role in the country's economy. SMEs employ more than two thirds of the workforce and generate more than half of the added value in EU-28 until 2019. The importance of small businesses is also taken seriously by the EU, and the European Charter for Small Enterprises. Improving the competitiveness of SMEs is one of the 11 thematic objectives for Cohesion Policy in 2014-2020. Access finance for investments through grants, loans, loan guarantees, venture capital. Forge valuable links with research centres and universities to promote innovation. The data were taken from the World Economic Forum database. Research analysed the following sub-areas: Role of SMEs in competitiveness, presentation of problem areas, comparison of domestic values with EU average according to SBA Facht Sheet database with using digital system. The Hungarian National Bank depicts the most important aspects needed to improve competitiveness in a pyramid model, culminating in sustained catch-up and growth. Hungary ranked 60th out of 137 countries in the World Economic Forum's in 2017-2018 competitiveness ranking. In Hungary SMEs are not very development-minded, but it is a positive development that they receive a significant share of grant funding.

Key words

Cohesion Policy, Innovation, Investment, Venture capital, WEF

JEL Classification: D40, D24, L20.

Introduction

SMEs play an important role in the country's economy. SMEs employ more than two thirds of the workforce and generate more than half of the added value in EU-28. The importance of small businesses is also taken seriously by the EU, and the European Charter for Small Enterprises [9], adopted in 2000, indicates that small businesses are the backbone of the economy. The Lisbon goal is to make the European Union the most competitive and dynamic knowledge-based economy in the world. The European Union gives priority to supporting SMEs (Small and medium enterprises). The European Structural and Investment Funds will provide more than € 450 billion to Member States over the period 2014-2020, and this amount will be used for investments to create jobs and growth in order to strengthen SME competitiveness, as follows: Small and medium-sized enterprises are vital for the EU's economy, accounting for more than 99% of European businesses and two thirds of private sector jobs. The European Structural and

Investment Funds will make available more than €450 billion to Member States in 2014-2020 to finance investments for enhancing jobs and growth. [12].

Improving the competitiveness of SMEs is one of the 11 thematic objectives for Cohesion Policy in 2014-2020. Additional investments in SMEs will also be made under other thematic objectives, particularly research and innovation, the low-carbon economy and information and communication technologies. €57 billion or around 20% of funding from the European Regional Development Fund (ERDF) will be dedicated explicitly to SMEs. The increased use of financial instruments mobilising additional EU, national and regional funds during the 2014-2020 funding period is also expected to benefit SMEs. These investments will help SMEs to:

- Access finance for investments through grants, loans, loan guarantees, venture capital, etc;
- Benefit from targeted business support, e.g. know-how and advice, information and

networking opportunities, cross-border partnerships;

- Improve their access to global markets and international value chains;

- Exploit new sources of growth such as the green economy, sustainable tourism, health and social services including the “silver economy” and cultural and creative industries;

- Invest in human capital and in organisations providing practice-oriented vocational education and training;

- Forge valuable links with research centres and universities to promote innovation [12].

New simplified and common rules and measures make it easier for SMEs to access Cohesion Policy Funds in 2014-2020. These include online reporting of how the Funds are used clearer eligibility rules

more targeted and less frequent audits for small operations wider scope and simplification of the set-up and access to financial instruments Increased investment in SMEs in 2014-2020 will build on the achievements of EU Cohesion Policy during the 2007-2013 funding period: more than 95,000 start-ups supported and more than 300,000 jobs created in SMEs.

According to Kállay - Lengyel [17], the size of the company and the ownership structure are also important for internationalization. Domestic SMEs with foreign interests are more export oriented than domestically owned. The most important source of GDP growth is knowledge and innovation. Unfortunately, good professionals emigrate, and today over 300,000 workers want to work abroad. Intelligent people who produce smart products and work smartly can only get ahead and should be recognized. The current devaluation of human capital only adds to our underdevelopment [7].

It would be particularly important to utilize IT developments, for which the human resources are available, and this area should even be developed with state support. According to Lakatos [18], companies entering the global network-based market are facing a bright future. Small and Medium Sized Enterprises Strategy [20]. Study 2014-2020 identifies three key areas, which are: - improving growth potential, - improving the business environment, -

facilitating access to external sources of finance. The ideas should be taken up and guidance should be given to SMEs. Material and method. The importance of SMEs for the country's economy is unquestionable. The analysis of SMEs is done on the basis of expediently collected statistical data and presentation of the extensive literary background, depending on its size. Our decline in competitiveness also warrants a detailed analysis of this area, as this leads to a lack of R&D and innovation in other countries. I arrange the most important statistical data in tables and, where appropriate, present them in graphs. My conclusions and suggestions are intended to be corrective, and in many cases, to highlight errors by drawing attention. The study provides a detailed analysis of the situation of domestic SMEs.

Objective and Methods

The data were taken from the WEF (World Economic Forum) database. During my research I analysed the following sub-areas: - Role of SMEs in competitiveness, presentation of problem areas, comparison of domestic values with EU average according to SBA Facht Sheet database with using digital system [12]; [26]; [27].

SMEs in the ‘non-financial business economy’ in Hungary account for more than two thirds (68.3%) of total employment, slightly above the EU average of 66,6%. The SME share of 54,1% of total value added is slightly below the EU average of 56,4%. The productivity of Hungarian SMEs, calculated as value added per person employed, is €19,800, less than half the EU average of €44,600. The average number of people employed by Hungarian SMEs is 3,3, which is lower than the EU average of 3,9. As in many EU countries, the most important SME sectors in terms of both employment and value added are manufacturing and wholesale and retail trade, which together account for more than 40% of SME employment and SME value added.

In recent years, Hungarian SMEs in the ‘non-financial business economy’ have generated strong value-added growth. In 2014- 2018, SME value added rose by 38,1%, outperforming the value-added growth of large firms, which

increased by only 34,5%. SME employment also increased steadily, by 9,7%, but lagged behind the employment growth of large firms, which at 20,9% rose at almost double the rate. Most recently, in 2017-2018 SME value added and employment grew by 10,1% and 2,4% respectively. [13].

Literature Review

SMEs play an important role in the competitiveness of the country and of companies. Documents also show that SMEs are indispensable for more sustained growth and for more and better jobs [10]. Economists and politicians agree that everything needs to be done to strengthen SMEs, as their competitiveness is crucial for the competitiveness of regions, national economies and the European Union. By SME competitiveness, the term users mean the competitiveness of the companies that make up the sector. In the interests of the sector, the positive impact on competitiveness is primarily due to employment, job creation and their prosperity. Of course, economic performance is also an important factor. According to Némethné Gál [22]: “The precondition for this competitiveness is that companies in the sector, by exploiting the flexibility of their size, are able to adapt to changes outside and inside the company and to exploit the competitive advantages offered by the environment. to improve their position under conditions that will provide a return for their owners.

Farmers need for financial subsidies and credit to invest into their agricultural production, which last one also needs for adequate operating bank system for realising aim. The successful economic conditions in Hungary is proved by some experts [9] and [10] in field of financial background of taxes and loan conditions. Additionally, to the financial background of farming in order that the farmers can decrease the cost of production and their transaction cost, they are stimulated to strengthen their cooperation. “During the period of 1995–2012, the bank loan for agriculture in percentage of the total bank loan in Hungary was at the highest level, namely 9,76%, when the total loan amount

was 192,1 billion HUF in 1998, and this was at the lowest level, namely 3,69%, when the total loan amount was 265,6 billion HUF in 2010. The authors draw a growing linear trend of loans until 2005, namely the loan amount was 358,8 HUF billion, after that little decreasing occurred until 2008, and the loan amount has considerably decreased since 2008, when the economic and financial crisis started; while a decreasing trend of the loan ratio was going on. The average yearly credit increase is 24,486 billion HUF. The Hungarian agricultural sector is in a better position than other sectors of the economy. The new technology should be used even in field of digital development trends for improving the agricultural sector”.

Also, it can be declared about the earlier conditions of Hungarian agriculture concerning the SMEs in this sector, that „the income conditions made a significant influence on the capacity of the agricultural sector in fields of investments and accumulation. The main problem was the decline of real value of investments. For example, the real value of investments in 2001 had not implemented half of investments realised in 1989. This situation showed the low level of technological and technical development in the agricultural sector during a longer period, than a decade. It was important to increase different kinds of supports for agricultural producers, for example: export subsidies, interests of credits, supports for establishing new farmland structure. The share of supports for agricultural production and food industry was 12–14 percent of the two sectors’ GDP in 1990s.”

Most SMEs do not export, although there has been some improvement in recent years. The weight of productive sectors (agriculture, construction) increases with the size of the organization. About half of medium-sized enterprises already produce goods [8]. Literature review Hungary has a small and open economy. The ability of companies to appear in the global economy with increasingly lucrative goods or services is particularly important for the country, as it does not have a sufficiently large internal market. The concept of competitiveness has been summarized in the literature by several authors, e.g. [5]; [2]; [4]; [6].

Szucs [25]”The concept of corporate competitiveness has also been defined by international organizations in the [23] definition of both corporate and national approaches. By this definition, competitiveness is the ability of companies, industries, regions, nations and transnational regions to generate relatively high incomes and relatively high levels of employment while being exposed to international (global) competition. The potential of SMEs in itself is scarce and can be improved by exploiting the potential of clusters. SMEs are finding it difficult to survive in a fierce price competition and neither expanding production nor settling for cheap resources is an option.

The EU-12 achieved a higher increase of output value of agricultural industry and agricultural gross value added, more than average results of EU-28, while these values per agricultural annual working unit (AWU) and agricultural income per AWU increased more in EU-12 than in EU-28 for the period of 2010–2016. In EU-12, the growth of output value and GVA (Gross value added) was a result of concentration of agricultural production in less farms, modernization and mechanization in the sector, increasing productivity of input and factor income per AWU, better price income, better market conditions and increasing subsidies on production. Subsidies on production ensured higher agricultural income per AWU and factor income per agricultural AWU. Despite EU-12 had more subsidies on production than the average level in EU-28, only 21.7% of all subsidies of EU-28 were paid for EU-12. The agricultural income per AWU in EU-12 increased more compared to the average level of EU-28. In EU-28, the output value of agricultural industry and agricultural gross value added per intermediate consumption (input) decreased, but factor income – net value added at factor cost – per AWU increased by 21% because of the subsidies on production that

increased for the period of 2010 and 2016. In EU subsidies on production were concentrated on developing technology by subsidizing consumption of fixed capital. Generally, the value of subsidies was 87% of value of consumption of fixed capital in 2016. Their work focused on the increase competitiveness of farmers, which are mostly SMEs in agricultural industry in Middle-East European EU member states.

Results and Discussion

These are estimates for 2017 produced by DIW Econ, based on 2008-2015 figures from the Structural Business Statistics Database (Eurostat). The data cover the ‘non-financial business economy’, which includes industry, construction, trade, and services, but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

" According to the preliminary data of the CSO, at the end of 2017 there were 724 thousand enterprises operating in Hungary, 99.86% of them, ie more than 723 thousand enterprises were classified as SMEs. According to the EU Commission data on the "business sector", which is comparable between the individual Member States, the number of employed SMEs in Hungary was slightly above the EU average, in terms of value added (Table 1).

Table 1: Number of Hungarian businesses, number of employees, value added generated by them in 2017

Class size	Number of enterprises			Number of persons employed			Value added		
	Hungary		EU-28	Hungary		EU-28	Hungary		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	525 857	94.0 %	93.1 %	912 599	33.4 %	29.4 %	11.2	18.0 %	20.7 %
Small	27 939	5.0 %	5.8 %	520 731	19.0 %	20.0 %	10.9	17.5 %	17.8 %
Medium	4 604	0.8 %	0.9 %	450 171	16.5 %	17.0 %	11.4	18.3 %	18.3 %
SMEs	558 400	99.8 %	99.8 %	1 883 501	68.8 %	66.4 %	33.5	53.7 %	56.8 %
Large	936	0.2 %	0.2 %	852 759	31.2 %	33.6 %	28.9	46.3 %	43.2 %
Total	559 336	100.0 %	100.0 %	2 736 260	100.0 %	100.0 %	62.4	100.0 %	100.0 %

Source: European Commission (2019): 2018 SBA Fact Sheet — Hungary [12]

Evaluation of Competitiveness: The MNB (Hungarian National Bank) depicts the most important aspects needed to improve competitiveness in a pyramid model, culminating in sustained catch-up and growth. Regardless of the task at hand, increasing productivity is essential. OECD Productivity Ranking in 2014 based on GDP per hour worked (US = 100) [24]; [21]. Hungary is also not good among Central and Eastern In Hungary, in terms of macroeconomic indicators, labour productivity is lagging behind V3 and the EU average. With higher wages, entrepreneurs pay more attention to mechanization, which can improve productivity. We went in that direction. We are in a relatively good position with regard to the competitiveness of work, and we are also approaching good performance in the case of the employment rate and the average tax wedge (families with 2 children). State competitiveness figures are not very good. Public administration expenditures and the number of procedures required for building permits in Hungary are significant, with only the administrative administration on the Internet developing well. Business competitiveness is improving, but there is still room for improvement. Research and development and innovation are lagging behind in every respect. Research and development spending are far below the 1,8% (as a percentage of GDP) target for 2020, being the last in the

summary innovation index [11];[19]. We are also among the weakest in the EU Digital Economy and Society Index. We have a moderate performance in the competitiveness of the energy market.

The energy intensity of the economy is not showing good value. Demography and social fabric are improving. The fertility rate is constantly rising and we are well on the HDI (Human Development Index) index. In the field of education, the results of the PISA survey are poor, and fundamental changes are needed. Public education spending is extremely low compared to other countries, which could pose serious problems for the future. The proportion of science graduates is low and changes in education are needed. We are far from the EU average in terms of health, and healthy life expectancy is low. The number of doctors per thousand inhabitants is small. There is also room for improvement in the competitiveness of the banking system, with a low proportion of Internet banking users. We are by far the last in the proportion of operating expenses and interest on assets.

European countries. We are particularly bad at institutions (114), macro-environment (47), labour market efficiency (80), technological readiness (54), business readiness (113) and innovation (80).

Hungary ranked 60th out of 137 countries in the WEF's (World Economic Forum) 2017-2018 [27] competitiveness ranking. The Czech Republic was ranked 31st, Poland 39th and Slovakia 59th. Hungary ranks 24th among the 28 EU Member States. Although most of the indicators examined are subjective, only 26% of the indicators are objective. The WEF examines 12 pillars in the Competitiveness Study, the first four pillars analyse the fundamentals, the next six deal with efficiency-enhancing factors, while the last two deal with innovation and economic complexity. The change in WEF rankings is deteriorating and the EU average and V3 average are significantly higher than the rankings for Hungary.

Health is rated relatively well, but significantly worse in primary education. The availability of skilled labour remains problematic. Secondary and higher education are more favourably regarded. The efficiency of the commodity market is good. Significant improvements have been made in technological and financial market developments, but the sophistication of the business sector is problematic. The size of the market is favourable due to Hungary's openness, but our innovation position is poor. The MNB's Competitiveness Report [21] aims to analyse the determinants of competitiveness in numerical terms, over time and internationally. Today, Hungary is no longer at a significant competitive disadvantage in terms of macroeconomic environment, employment and corporate competitiveness, or R & D & I (Research, Development, Investment) and demography.

Factors that undermine competitiveness. The World Economic Forum (2017-2018) [27] announces obstacles to competitiveness. Ranking these can help you identify areas where changes are needed and where change can deliver the greatest results. The main hindrances are shortages of labour training, corruption, the level of taxes and tax regulation. In terms of pillars, we have one of the worst performances in terms of innovation. In particular, the lack of domestic SMEs is significant in this area. The percentage of SMEs that introduce product or process innovation is low and few SMEs have introduced internal innovation. Domestic SMEs have difficulty accessing R&D money. Free

movement of labour was one of the fundamental objectives of the founding of the EU. Hungary is affected by emigration, and more skilled workers emigrate. Between 2012 and 2017, the Hungarian active population aged 20-64 decreased by an average of 30,000 per year[15].

Many believe that migrant labour is more mobile and adaptable than the home country [1];[16];[14]. Behind this is the assumption that regions with surpluses and shortages of labour may achieve more efficient labour allocation [28]. The outflow of skilled workers is detrimental to competitiveness. The free movement of capital is also important. Foreign Equity Investment (FDI) is an important driver of globalization. Both the domestic and foreign capital stock of the EU is growing. The main destination for EU foreign investment is North America (37%), primarily the US. The EU is therefore a major player in the global economy, both in terms of international trade and capital markets [3].

IMD Ranking Results. In the 2017 IMD ranking, Hungary ranked 52nd out of 63 countries. The countries surveyed are usually among the more advanced, so Hungary is at the bottom of the list. According to the IMD, Hungary is lagging far behind in the competitive sector and in government efficiency, but our economic performance is considered good. In terms of infrastructure, Hungary is ahead of the CEE region. International trade and the results of the sub-groups measuring them are particularly good. The foreign trade balance is positive and inflation is moderate. On the other hand, the country is doing poorly in international investment, due to a decline in FDI inflows in 2016.

Conclusions

The role of SMEs as a top priority in employment is indispensable. By developing this sector, we can create new, profitable jobs. Micro-businesses are decisive, but they are weak in their tasks. The performance of Hungarian SMEs in terms of value added is significantly lower than that of large companies and labour

productivity should be improved. The SBA 2018 rating is a criticism of Hungary in many respects. Innovative companies are significantly more productive and export-oriented, and this direction should be supported. There is room for improvement in the economic environment for SMEs, and rapid and unpredictable changes are causing significant damage. In Hungary the SMEs are not very development-minded, but it is a positive development that they receive a significant share of grant funding.

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