

University of West Hungary
Széchenyi István Business and Management Sciences
Doctoral School (Ph.D.)

**Current Situation and Survival Chances of Domestic Small and
Medium Enterprises (SMEs)**

Synopsis of Doctoral (Ph.D.) Dissertation
THESISES

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1. Dissertation Objectives and Hypothesis's

The dissertation analyses the situation of domestic SME's and attempts to estimate the growth potential. It seeks for the answer to which extent is the Hungarian SME sector able to meet competitiveness requirements determined by a rapidly changing, dynamic environment. The basic assumption of the thesis is that within corporate strategy efficiency or even restructuring of functional strategies is inevitable in order to preserve expected profit value management. The fundamental idea behind the dissertation is that ensuring long term competitiveness of domestic SME's managers are required to think strategically and command entrepreneurial spirit. Competitive requirements prescribed by **multinational retail chains** and enterprises that operate in Hungary and command an aggressive expansion policy are met just by a small number of independent domestic private enterprises. A major survival condition is continuous innovative turnaround, which also often requires radical changes. In the author's experience lack of medium and long term strategic planning and thinking had a deep impact on recently detectable leadership practice. Preservation of markets consumes major energy of SME's and no appropriate time is left to ensure corporate future through carefully prepared and professionally sound set of decisions. However, achieving and maintaining market positions inevitably generates a pressure for growth and development.

Globalization has brought factors influencing major changes in corporate business such as elimination of borders and internationalization of markets. Key factors now include the ability to meet challenges related to the constantly changing diversified environment, adaptation and reaction time span decrease, flexibility and innovation ability, preservation and development of market positioning and financial stability.

The primary objectives of this dissertation's research include mapping of the Hungarian SME's environment, situational assessment, analysis of chances for survival and growth and detection of developmental reserves. The author considers important to differentiate between domestic and foreign privately owned enterprises since there are differences in structure and operational efficiency appearing in corporate traditional management practices. This research's fundamental objective is to examine and verify the hypothesis's following below.

H1.

The first hypothesis examines the exclusivity rights question that provides a competitive advantage for domestic SME's.

The hypothesis formulated by the author states that Hungarian SME's exclusivity rights ownership (domestic or foreign) provides them a substantial competitive advantage for the given market..

H2.

The second hypothesis indicates at the lack of strategic planning in the leadership practice of the SME's. The state of art and setbacks in corporate leadership result in poor entrepreneurial competitiveness. Improperly considered, often ad hoc like created and implemented corporate strategy concept and leadership style does not enable an efficient and rapid reaction considering the challenges of the fast changing market environment

The hypothesis formulated by the author states that a very serious problem for majority of enterprises is the lack of long term, in many cases medium term strategic thinking. A carefully considered corporate strategy and business planning is unavailable, in several cases functional strategies objectives are only written down.

H3.

The third hypothesis assesses the role of HR strategy in corporate strategy and **declares that HR strategy is one of the most decisive corporate functional strategies and has become an inevitable part of corporate competitiveness ability. However, in Hungary several enterprises have not been able yet to recognize the importance of this functional strategy.**

H4.

The fourth hypothesis estimates that **development of a marketing strategy in the Hungarian SME sector is not paid appropriate attention usually it is very seldom enterprises create a marketing unit. Domestic SME's are not focusing properly at long term result-oriented marketing strategy that would ensure a sustainable corporate competitive advantage.** There also is no efficient follow up of internet usage from the marketing strategy point of view.

H5.

The fifth hypothesis emphasizes the importance of a sound financial strategy. A long term capital intensive corporate development has to be based on a properly structured financial strategy.

Availability of sources for domestic SME's has been rapidly decreasing as a result of the crisis. The enterprises are **facing growing difficulties in obtaining financial resources which is a major barrier to their competitiveness and development.**

H6.

The sixth hypothesis gathers negative expectations of enterprises caused by financial and economic crisis. Overcoming the crisis might be a long lasting process.

Serious damages may be detected in the deeper layers of the economy as a result of the financial-economical crisis which generated substantial barriers to SME's survival, recovery and existence.

2. Content, methods and reasoning of research.

The dissertation maybe subdivided into two parts: literature research and primary personal research. Within the scope of literature research the author has strived to investigate the theoretical background of the topic, identify linkages in domestic and foreign sources through ranking, processing and summarizing the key findings. **During overviewing the theoretical background she used a multiple problem solving approach** including considering aspects that have not appeared yet in domestic literature and focused on a logical, step by step sequence of well structured and clear reasoning.

Multidisciplinary approach due to the nature of the topic was inevitable including several areas of relevant scientific findings. In order to demonstrate the specific economic features of SME's, the applied strategic thinking approach, functional strategy areas and leadership concepts considering the necessity of restructuring and market positioning the dissertation dealt with several disciplines such as micro- and macro- economics, business economics, corporate finance, marketing, management, HR strategy and management, corporate strategy management and relevant publication sources. Formulation of

findings required consideration of secondary information from various research institutions such as Eurostat, KSH, GVI, GKI and Kopint-Tárki.

The theoretical aspects of operating domestic SME's, the extent of applicability and relevance of major definitions from research literature background have been carefully and critically analyzed by the author often detecting new, undiscovered relationships. Therefore, the research literature part extracts **ideas and problems in a logical sequence** demonstrating the reasoning relationships **to prove the necessity of every specific element within primary research.**

The primary research consists of two parts combining two methodologies. The first part includes a questionnaire research method while the second is based on qualitative interviews. The two parts complement each other, the qualitative research investigates in a structured manner the nature of the relevant problems.

In the process of implementing the **questionnaire approach** several operational domestic SME aspects are examined such as functional structure, business and strategic planning, strategic elements of HR planning, the concept and practice of marketing and finance strategy, and ability to cope with challenges of financial and economic crisis.

Assessment of the questionnaire and in-depth interviews outcomes help to decide to support, modify or reject author's hypothesis's listed above conducting relevant questions and answers analysis.

The questionnaire research has been initiated in spring 2008 with 42 participating enterprises. The forms have been filled in by senior management or

owners of the firms. The process was conducted in summer 2008 and processing the questionnaire outcomes was completed in autumn of the same year. Selecting the corporate sample consisted of a number of criteria including the operational profile, headcount and geographic positioning. Concerning operational profile all of the enterprises were a part of construction and building industry. Geographically the firms were spread in three counties: Győr-Moson-Sopron, Zala and Vas.

The corporate interviews were aimed at identifying the structure and content of specific market and economic environment adjustment measures and analyzing their efficiency and examining verification of questionnaire outcomes. **The main objective of in-depth interviews was better understanding of formulated problems and approaches in terms of background reasoning and priorities to be able to more precisely interpret them and identify possible new points of view..** The in-depth interviews were launched in autumn 2008 and took half a year to be completed. The in-depth interviews were designed taking into consideration the questionnaire data and outcomes. The two methods show a very strong series of interdependence relationships. The open atmosphere of the interviews served a sincere and corrective environment.

Processing the valuable outcomes of in-depth interviews opened a possibility to design corporate SWOT analysis schemes. This part of the dissertation provides the most reliable overview of future opportunities and experiences of corporate leadership. The author therefore received **a newly assessed set of positive and negative elements and processes through an efficient combination of theoretical research and synthesis of empirical outcomes.**

3. Results of research.

The results of the research demonstrate that the findings for SME sector enterprises comprising the scope of this dissertation have proved to be correct and up-to-date. The SME sector could be a strong engine running national economy in case of an appropriate economic policy. The research results clearly show the necessity of restoring the visibility of this area in the national economy and its role in competitiveness growth in Hungary.

The empirical research results are a strong set of findings supporting appropriately effective corporate leadership style and market behavior backed up by senior managers. It has also been precisely detected what are those structures and content elements of measures to be taken as a consequence of the financial economic crisis and their estimated time span.

There have been three hypothesis groups designed by the author. The first aimed on general information elements has been examining the parameters of the involved SME's. The second group of hypothesis's was elaborating the answer to questions related to operational specifics of enterprises concerned. The third group dealt with those hypothesis's that were involved into the assessment of the future corporate expectations.

The hypothesis H1 dealing with the exclusive rights authorization of domestic SME's has been verified in the scope of expanded research both in questionnaire outcomes and operational specifics. The origin of exclusivity rights is also included into this dissertation. The in-depth interviews however have shown that exclusivity does provide a competitive advantage only in case of appropriate corporate performance which is usually a condition for determining the time span and validity scope in a particular case. The managers had different views on the relationship between corporate priorities and exclusivity rights.

T1:

Exclusivity rights for Hungarian SME's despondingly on the level of expected corporate performance and available time span may serve as a source of a major competitive advantage at a given marketplace.

It has been proven that the majority of enterprises have no medium or long range planning but it would be unacceptable to relate this directly to the degree it affects it. Business planning may be identified in a higher ratio due to specific leadership practice techniques than really strategic planning as such. Concerning strategic planning we may much more often detect entrepreneurial level strategies and lack of strategic focus.

T2.

The majority of enterprises lack long range and often even medium range planning view. A carefully considered corporate strategy is missing while business planning is seldom and covers a few areas (f.e. yearly financial/accounting plans).

The third hypothesis has been modified and complemented considering several points of views. Firstly it has been complemented to which extent a large portion of enterprises neglects an appropriately compiled motivational set of tools. In a number of cases enterprises are convinced that purely by involvement of financial incentives (motivators) the corporate performance level will substantially increase. Considering the effect of the financial-economic crisis it has to be inevitable complemented **by involvement of HR into the strategic planning process.**

T3.

Today HR strategy has become one of the keys of corporate competitiveness. However many of domestic enterprises do not involve it into the strategic planning process and don't design appropriately structured package of motivators.

The H4 hypothesis is concerned with **marketing strategy**. Marketing activity and marketing strategy are **one of the keys of efficient corporate performance** yet less than 10% of enterprises command a separate marketing unit. The chapter figures and diagrams clearly demonstrate the correlation between this statement and answers provided by senior managers. Therefore this hypothesis has been kept unchanged and is fully backed up by the author.

T4.

Development of a marketing strategy in the Hungarian SME sector is not paid appropriate attention usually it is very seldom enterprises create a marketing unit. Domestic SME's are not focusing properly at long term result-oriented marketing strategy that would ensure a sustainable corporate competitive advantage. There also is no efficient follow up of internet usage from the marketing strategy point of view

The H5 hypothesis is concerned with Hungarian SME's **financing ability and situation and seriousness of the current cross-debt process**. The questionnaire method has been conducted before the crises but since then things have severely worsened. The outcomes fully support the hypothesis and are complemented by the cross debt problem.

T5.

During the crisis the domestic financial sources availability has dramatically decreased. Enterprises find themselves in a poorly sourced and cross debt environment which is further declining during crisis. This is a major obstacle to development and competitiveness growth.

The sixth hypothesis has been closely related to the in-depth interview process which included the question of corporate future expectations. It was necessary to carefully conduct both primary and secondary research and matching of results to obtain a reliable view of the situation and alternatives. The hypothesis had to be slightly modified since fresh research data show a minor improvement in the relevant environment.

T6.

The economic financial crisis has caused deep layer damages in the economy, severely restricting in some cases eliminating the chances for SME survival and operational activities. The enterprises predict growth in the volume of production, but not in profitability or employment.

3.1. New scientific findings.

- A major result of scientific research is a complex, contemporary and relevant overview of professional literature concerning definitions and operational characteristics of SME's with a special emphasis on the corporate strategy area. It also identifies relationships of corporate and competitive strategy in the implementation process. Synthesis of a wide range of domestic and international literature sources is complemented with summarizing the opinion of renowned experts from the academic and

business. Another major result of the dissertation is that initial theoretical ideas and implementation techniques not so frequent in domestic literature yet are demonstrated emphasizing their specific interrelationships.

- The primary research, however, has proven that assumptions and propositions related to corporate strategy in the relevant literature may be only partially applied to operating domestically owned Hungarian enterprises. Moreover, during primary research the critical role of management and leadership activities has been proven through examining management style, formulation of strategic concepts, analyzing competitive environment and leadership preferences as a base for medium range and long range planning. It was also identified as crucial to involve employees from various levels and areas into the development of the corporate overall strategy concept.
- Based on the theses it maybe stated that domestic SME managers do not pay sufficiently deep and detailed attention to particular functional strategies which would force them to implement required restructuring processes. Therefore, it may be stated that business process reengineering and corporate culture are still of minor importance in this context.
- Another major finding of the dissertation is that it made possible to obtain a detailed view of differences of development alternatives detectable in the operation of SME's in Hungary, the neighboring states and European Union as a whole.
- The elements and primary and secondary findings of the dissertation are very well incorporable into education especially in the case of subjects or modules concerned with business economics and management, overall corporate and functional strategy management.

4. Implications and suggestions.

This research has proven that SME sector in Hungary could be a dynamic and strong engine running the national economy. The importance of the sector requires the research and its outcomes to strongly consider the specific features of particular industries. The increasing speed of changes in the economic and legal-regulatory environment brings up again the question of decreasing chances of survival of SME's during crisis.

The author points out that in such circumstances the SME sector deserves appreciation for its performance despite major obstacles and certainly has to be taken into account within the modernization process of EU integration schemes and globalization trends. It is especially crucial to understand that in future the competitive environment will further escalate. It is undisputable, however, that the domestic SME sector contributes substantially to the economic performance and competitiveness level of the country.

Last but not least the author considers it vital to **continue, deepen and expand this research** in the period after the crisis also **since the structural and economic policy transformation** has not been completed yet

5. Publications in Hungarian:

- 1.** Horváth Bianka (2004): A hazai agrárgazdasági szereplők piaci magatartása és túlélési esélyeik a versenyszférában - WEU Nemzetközi Konferencia (Magyarország-Ausztria-Szlovákia), Mosonmagyaróvár, ISBN szám: 963 9364 40 1
- 2.** Horváth Bianka (2005): Vállalati versenyképesség megőrzése az EU-ban, túlélési stratégia és túlélési esélyek. OTDK-PhD Konferencia, NYME, Sopron
- 3.** Horváth Bianka (2007): A hazai kis- és középvállalatok versenyképessége egyes funkcionális stratégiák tükrében, Versenyképesség – Fejlődés – Reform Tudományos Konferencia, NYME Sopron, ISBN szám: 978 963 06 6387 8
- 4.** Horváth Bianka (2009): Gazdasági válság hatása a hazai KKV-szektorra, Gazdaság és társadalom Nemzetközi Konferencia, NYME, Sopron, 2009. ISBN szám: 978-963-9871-30-4
- 5.** Horváth Bianka (2010): Új kihívások a humánstratégiában – Válság és valóság, Kautz Gyula „Válság közben, fellendülés előtt” Tudományos Konferencia, Széchenyi István Egyetem, Győr

Publications in English:

1. Bianka Horváth (2005): International presence and the situation, future of national small- and medium-sized enterprises, PhD Student's Conference, Miskolc
2. Bianka Horváth (2009): Winners or losers? SMEs in the crisis, Kheops Conference, Mór ISBN number: 978 963 87553 5 3
3. Bianka Horváth (2010): The Role of HR in the economic crisis – HR strategy today, the key to success tomorrow-job, Kheops Tudományos Konferencia, Mór ISBN number: 978 963 87553 6 0