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The financial situation, capacity to compete in the SMEs sector of the Hungarian construction industry in the crisis period (The lessons of an empirical study)

Summary:

In the last twenty-five years the Hungarian economy has been undergoing profound changes that companies have had to keep up with in order to survive. The rapidly changing economic environment, and the world crisis impacting Hungary as well, forced companies to make constant adaptation and radical changes. The pre-condition of effective activity and of the survival of Hungarian small- and medium-sized companies is the possession of a suitable and well-conceived financial strategy; for its implementation they have to be ready to make structural changes following a new way of thinking. The targeted goal is not limited to being cost efficient and technologically-orientated. The general financial crisis, which originated from the American mortgage credit cataclysm, must now be considered a global phenomenon, and the consequent uncertainty in the financial situation shows its multifaceted effects. This study examines the financial difficulties, the possibilities for growth, and the survival chances of the small- and medium-sized companies, and analyses their situations and problems with special regard to one of our industries in crisis, i.e. the construction industry.

Keywords: Financial-and economic crisis, survival, competitiveness, SME strategy, economic policy

Introduction

Companies in the construction industry – if we look at all companies generally – react with special sensitivity and rapidity to the changes in the economic environment and in market conditions. Small-and medium sized companies' role in employment and in the Hungarian GDP: according to statistics, in 2008 there were 1,5 million enterprises in this category.

99,9 per cent of the enterprises are small- and medium sized companies, which employ 69,9 per cent of all employees.¹ The constantly changing economic environment has meant more and more demands and challenges for enterprises, both on a governmental and on a market level. Predictable and stable government action, a business-friendly state policy would be vitally important for the sector of the small- and medium-sized companies, for their strength and competitiveness.

But in reality there are fewer and fewer possible alternatives, the small- and medium sized companies are mostly pre-occupied with their daily survival that consumes nearly all their energy and thus they have hardly enough force and time to concentrate on medium- or long-term, strategically

¹ Hungarian Central Statistical Office, 2010

important decisions. Most of the companies are facing serious liquidity problems, and these are always paired with a lack of resources. To find the roots of these problems several factors of the recent past should be looked into. Hungarian companies carry, both on the domestic and on the international markets, a significantly heavier burden than enterprises in the neighbouring countries. Higher taxes, higher, benefits contributions, dues, and more barriers to financing through other sources, high administration costs, complications and difficulties in receiving financial support through tenders – these are the characteristics of the Hungarian small- and medium sized companies economic activity.

And with this we have arrived to the key word that best describes the economic activity of the Hungarian small- and medium sized companies: survival. When saying „survival”, it must be emphasized at once that though the basic objective of enterprises in the financial-economic crisis is survival, companies cannot build up a structure around this alone and view on all questions accordingly. The primary objective should be to create a healthy, long-term-oriented economic structure which establishes a stable market position, while outlining their development-supporting strategy. One of the most important potentials for the Hungarian economic growth can be fuelled by the reservoir of funds for development of small- and medium-sized companies. The sector of small- and medium-sized companies could be the engine of our economy.

This study is seeking an effective responsive action adaptable to current market conditions and challenges that is incorporated in a competitive strategy, and with which it is also important to activate functional strategies within the overall company strategy. There are only a few Hungarian, independent private enterprises that are capable of withstanding the competition present in the Hungarian market, aggressively conquering multinational chain stores and large enterprises.

For survival a permanent innovation is a must, and this often requires radical changes. The lack of strategic planning, a missing medium- and long-term concept has characterized managerial practice in recent years. Small-and medium-sized companies consume most of their energy struggling to stay alive in the market, and so they do not have enough time for preparing professionally well-thought-out strategic decisions that determine the company’s future existence and survival. Development and growth are constraints on the enterprises from a certain standpoint, which is essential to maintain their position.

This study demonstrates that the sector of small- and medium-sized companies deserve to be appreciated and esteemed for its performance and should be considered as a genuine and powerful source of modernization. It is important to realize that the sector of small- and medium-sized companies confronts intense competition. The sector of small- and medium-sized companies is largely contributing to the capacity of performance and to the competitiveness of our country’s economy.

Impact of Globalization and Macroeconomic Environment in Crisis Period

Several phenomena of globalization, such as the disappearance of borders or the internationalization of markets have brought significant changes in the life of the companies. The constant diversification of the environment, adaptation, reduced time to react, flexibility, striving for constant renovation, maintaining market positions and liquidity have become key factors. The macroeconomic conditions and environment strongly influence the results of companies’ activity. Competition among the companies is present on several markets and in different aspects in parallel, so for a company competitiveness means the ability to stay on the market and keep up with the competition from multiple aspects and points of views. Profit, liquidity, healthy financial indicators, possibilities for preserving market positions and strengthening positions, acquiring new markets, a predictable and stable government policy, programs that support companies’ activity and development, subsidies that promote

these, an entrepreneur-friendly policy that values, boosts, and encourages research and development initiatives – these are all vitally important components of an effective and competitive company activity.

Both in 2006 and in 2007 international economic processes still enjoyed prosperity – and the growth of the international economy was above 5 % and the growth of the German economy favourably impacted countries of Eastern and Central Europe which were showing dynamism as well. However, though the prosperous international economic expansion had a positive effect, the Hungarian economy's growth was already losing its dynamism in 2006, and the GDP was increasing only by about 1 % in 2007 and by 0,6 % in 2008. These results were significantly lagging behind the 3,19 % growth of the EU-27 in 2007 and the 1,1 % growth of 2008. As a consequence the Hungarian economy lost its élan in keeping up with the European trend, and compared to the other new EU-members it was also gradually losing pace and dropping behind.

The Chart n.1. presents the Hungarian per capita GDP compared to the other new EU members which entered the EU at the same time as Hungary.

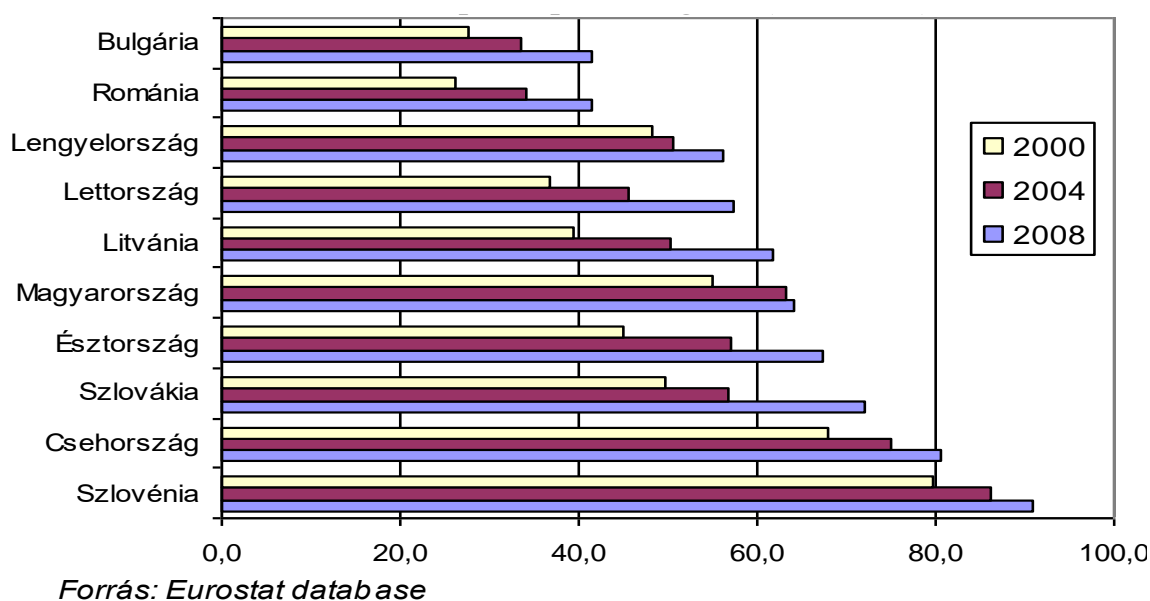


Chart 1. GDP per capita based on purchasing power parity in the 10 new Central-European EU countries²

As the consequence of a slower growth compared to competitors, the Hungarian economy fell from its 3rd position in 2000 to the 5th position among the 10 new members by 2008.

In 2009 as a consequence of the global crisis the Hungarian economy shrunk by 6,3 %, more than the other three countries of the Visegrad Group and than the average of the EU-27. This greater backdrop was due partly to the stagnation already visible earlier, and partly to the strict fiscal policy that remained characteristic in the crisis.

In 2007-2008 the halt in the GDP growth was mainly caused by the shrinking and stagnation of the (state-owned) service sector, however, already in 2007 the construction industry's performance was markedly decreasing, especially because of the reduction in state orders. Before the crisis the industry enjoyed strong performance – thanks to rapid export growth – but became the „big loser“ in the period of the crisis, as the export volume (mainly the processing industry) fell by 12,2 % in 2009. Market services stayed very successful still in 2007 (and showed a growth of 4 %), but in 2008 they also reached stagnation. In 2009 because of the crisis the demand for market services became also reduced,

² Remark: The figure/table Hungarian terms are explained in the text of this paper

and branches of the sector (trade, transport, communication, financial and economic services) showed a significant decline (approx. 5 %) in value added.

Investments generally stagnated in 2007-2008, showing only a slight increase. The significant reduction of state investments were somewhat compensated by the moderate increase in private investments. But in 2009 the investments of the competitive sector also suffered a decrease, so total investments fell back by 8,6 %. The investment rate (as a percentage of GDP) was 20 % by 2009, compared to a 25 % in 2000, which should be the desirable minimum in a country of Hungary's development category. Personal consumption has been continuously declining in recent years in parallel with the reduction of real incomes.

In 2007-2008 this decrease was only 0,5-1,5 %. Inflation was highest in 2007 with a 8%, mainly due to the tax increase of the government adjustment package. In 2008 - 2009 consumer price indices were 8% and 6,1 % respectively, i.e. in 2009 it was 6,7 % less than in the previous year.

In the last two years before the crisis Hungarian economic processes were primarily determined by the fiscal adjustments of the government's 2006 June adjustment package, which was also manifested initiation of the Convergence Program in December. The severe fiscal measures bore results in the sense that the state budget's deficit declined from more than 9 % in 2006 to 5 % by 2007 (which was even a sharper decrease than originally foreseen). Furthermore, in 2008 there was further success in reducing the state budget deficit (to 3,8 % of the GDP). The national debt, which was already higher than 70 % of annual GDP by 2008 could not be successfully decreased because the deficit still stayed high – the highest in the EU – and expenditures on interest also impacted the economy increasingly. As a result of the crisis, banks became more prudent and sharply decreased their lending activity. As the aftermath of the financial-economic crisis today there is a palpable lack of confidence and liquidity in the circle of enterprises. Banks' willingness to grant loans has decreased, whereas demand for the enterprise-supporting so-called Széchenyi-card³ has grown by 30 per cent. There are less and less available financial sources which makes it more difficult to grant loans.

Granting micro-loans has been paralyzed, and at the same time the market keeps shrinking. Mortgage financing has slowed, or even stopped, and has become significantly more expensive. We may experience market turmoil, reducing demands and recessions. This negative process is the most visible in the real estate market and on the non-perishable consumer goods market, in car sales, IT, electronics, and transport are also facing serious problems. Beside the above-mentioned sectors, tourism is also suffering from a decline. The number of vulnerable countries has grown dramatically, and the international financial system has proven to be insufficient and weak.

3 Hungarian Central Statistical Office, 2010 Remark: The figure/table Hungarian terms are explained in the text of this paper Széchenyi-card: 146,000 cards have been issued in cooperation with KA-VOSZ Zrt, the Hungarian Chamber of Commerce and Industry, and the National Association of Entrepreneurs, and the banks involved in the scheme provide credit on favourable terms to a total of HUF 880 billion to small and medium-sized enterprises taking part in the programme. Besides cash credit, the Széchenyi Card offers working capital, the opportunity to buy investment facilities, and the possibility of taking out loans for borrowers' own contribution will begin soon. An Agro Széchenyi Card will also be introduced. The Széchenyi Card can be applied for in the 133 branches of UniCredit Bank, which has recently joined the programme. Ágnes Molnár, State Secretary of the Ministry of National Development, Kristóf Szatmáry, State Secretary of the Ministry for National Economy, Sándor Demjén, President –CEO of the National Association of Entrepreneurs, László Parragh, President of the Hungarian Chamber of Commerce and Industry, Henrik Auth, President–CEO of Garantiqua Hitelgarancia Zrt, and László Krisán, CEO KA-VOSZ Zrt were present at the press conference that introduced the new opportunities. Tatay, T. (2010) Az üzleti tervezés gyakorlata, Kockázatelemzés című fejezet, 224-225. old, AULA The left axis of the chart shows the columns-diagrams, the right axis is related to the high taxes rates marked on the line diagrams SWOT analyses: that is, an analysis of Strengths, Weaknesses/Limitations, Opportunities, and Threats

The effect of the economic crisis on the activity of the Hungarian small- and medium sized companies:

- Turmoil in the international financial markets and the accompanying recession make the financing of companies more expensive, and there is no growth in consumption, facts that will aggravate the situation of Hungarian companies.
- Heavy taxation – as mentioned above – mean a huge disadvantage in international competition.
- The proportion of companies that intend to cut back on staff is growing, corresponding to the high administration costs and benefits contributions that companies have to pay for employees.
- There is a perceptible further strengthening of the grey economy
- Increasing export sales may be a way out.

Struggling for survival has become an everyday routine for enterprises, as losing liquidity on a monthly, weekly, or daily basis, the inevitable staff reductions and salary reductions, and the necessity for the company's structural changes, with certain functional strategic changes mean further burdens on them.

Companies must tailor their own strategies individually, in view of their potentials, carving out and building on their special assets and values, and using the widest possible range of governmental subsidies and support programs. Radical changes, permanent adaptation, and innovation are required. A well-thought-out financial strategy is fundamental for long-term, capitalization and development.

Available sources are becoming more and more scarce for the small- and medium-sized company sector because of the economic crisis. Companies find themselves in a tougher and tougher situation, struggle with the lack of resources which form obstacles for the growth of their development and competitiveness. The economic-financial crisis has seriously damaged the economy, increased small- and medium-sized companies' difficulties for surviving and reduced their potential for maintaining their activities or actually made it impossible in some cases.

Within the sector of small- and medium-sized companies there must be a clear distinction between micro-enterprises and small enterprises. In previous years microenterprises could benefit from a larger amount of subsidies and support, but this is the most vulnerable sphere of enterprises, showing the least capability of survival. Their professional knowledge regarding entrepreneurial activity is the lowest, their capital resources are more limited than the necessary minimum, and their financing cannot be realized through market means. It is important to understand that the potential for survival of microenterprises can be significantly increased by supporting their cooperating activity.

The situation of liquidity of the small- and medium-sized companies

No matter whether we are talking about a small, medium, or large company, the objective of company decision is maximizing company value. „Value“ can have a very different sub-content when comparing small-, medium and large companies. In the case of large companies, especially those registered on the stock market the owners are principally motivated by the goal of maximizing the profit on money invested, whereas smaller companies may have a completely different definition of company value than financial profit. Many owners of small enterprises consider their company basically as employment providing the needs of the family. For them, company value is securing a basic income, with safe jobs and minimum risk for the family.

Owners of small companies are basically risk-avoiders. They find credit sources expensive, and they are far from showing any willingness to involve external investors. As a direct result these companies

basically cannot be and are not intended to be developed but by the company's own retained earnings and by free (or extremely favourable) state programs.

However, risk does not necessarily mean a negative event, its concept also implies the possibility of a positive outcome or change. Managing risks does not mean to eliminate risk; it should rather be a well-examined choice and a carefully thought-out decision how much risk to take as well as which risks to take. "This means that risk assessment and risk-management must be integrated into the business directing the company. A kockázatfelmérésnek és kockázatkezelésnek tehát az üzleti tervezés folyamatába is be kell épülnie."⁴ Experience shows that the majority of small companies do not integrate risk analyses into their business plan, in spite of its importance. The profit gained is very often withdrawn from the company, instead of being reinvested in it.

Main characteristics of small companies' financial management:

- Low level of accessible capital
- Low capacity for risk
- Chronic under-capitalization, problems of liquidity
- Problems of economy of scale, transaction costs
- Lack of transparency
- Insufficient coverage

A below-minimum availability of capital makes even a smaller loan appear as a large capital infusion and thus a large debit burden. Small- and medium-sized companies have a serious disadvantage compared to large companies when they need to attract financial resources, because the basis of financial resources of these enterprises is the owners' private wealth. Another disadvantage is that the ability to retain earnings is rather low within smaller companies. For the sector of small- and medium-sized companies the possibility of attracting capital are strongly influenced – apart from the general state of the economy – by the legal and institutional background of the given country and region. Competition between institutions offering the finance, the sophistication of the products they offer, the transaction costs of loans or capital investment – show tremendous differences in different countries, and even in different regions within countries, and these discrepancies can be considered as national or local characteristics

Because of the limited availability of capital-, small- and medium-sized companies cannot take high risks, because they cannot overcome instability of revenue, not to speak of a precipitous fall in revenues. The other reason for low risk-taking can be found in traditional and cultural roots.

For most of the small- and medium-sized companies sustaining continuous adequate liquidity creates a problem. In most cases companies which otherwise have a healthy condition and management must also face liquidity problems. The main reasons for these liquidity difficulties are scarce capital availability and the weak negotiating position vis-a-vis buyers and suppliers which results in being in the position of being a net creditor. Since 2004 the phenomenon of circle of debt – which was already present once in the 1990's but were successfully eliminated - has again been spreading, where the chief factor in this domino-like situation is the delayed payment (or non-payment) of some, often bigger, companies and thus again smaller companies have to suffer from limited liquidity-resources. Obtaining financial sources does have costs, i.e. transaction costs. Decisions concerning capital investment have much higher transaction costs than decisions regarding extending credit, which explains why smaller companies should rather give priority to those external financial sources which are granting credit.

⁴ Tatay, T. (2010) Az üzleti tervezés gyakorlata, Kockázatelemzés című fejezet, 224-225. old, AULA

Transaction costs of external financing necessarily bring small- and medium-sized companies to a more disadvantageous position compared to big companies. However, nowadays most of the banks appear on the market with credit products designed especially for small companies. Characteristically, small- and medium-sized companies do not act with transparency, as a consequence their activity is rather obscure. Lack of transparency results in potential creditors viewing the financial statements of small companies with scepticism, because data in these reports can easily differ from reality.

For finance providers and especially for lenders, it is most important to minimize risks. With the help of collateral, creditors can moderate risks. Collateral, from the creditors' point of view should be liquid, with stable value, and be easy to sell. The access of the small- and medium-sized companies to sources are limited by the need to post collateral, because without adequate disclosure by borrowers, creditors cannot fully rely on data of their annual reports and on their strategic plans. The majority of small enterprises has only a rather small level of retained earnings.

Companies with 100% Hungarian ownership show a significant difference in their structure and in the effectiveness of their activity compared the companies partly or totally owned by foreign owners, and these differences are also visible in company traditions.

A well-capitalized company with a strong and long reputation as a significant firm, with all its traditions and with its dominant market position, (OR A SMALLER SIZED subsidiary of some foreign company) cannot be regarded with the same consideration as a fully Hungarian-owned company.

The financial situation and the competitiveness of the Hungarian small- and medium sized companies are demonstrated with sharp precision in the empirical survey presented below. The sample of the examination was compiled from 42 companies the activity of which were related without exception to the construction industry; all of these companies are located in the Western-Trans-Danubian Region, and most are in the counties Vas, Zala, and Győr-Moson-Sopron. First, companies were examined according to the number of employees. Companies were chosen which have a determining role in the region in the paint- and construction industry. The selected companies, considering their past and present roles, their professional experience and capability can rightfully be regarded as „market leaders” – or at least they have a dominant market position. The chart below shows the sample's distribution according to the number of employees:

Number of employees	Sample size (number of companies)	Sample (%)
Less than 40 persons	23	54,8
Between 41-50 persons	6	14,3
Between 51-80 persons	5	11,9
Between 81-130 persons	8	19,0
Total:	42	100,0

Table 1. The distribution of the sample's companies according to the number of employees

Source: Table made by the author of this article (2008).

On the basis of the number of employees, the majority of the sample are companies with fewer than 40 employees, i.e. they are small companies. Among the 42 companies inquired 15 were of Hungarian ownership and 27 were of foreign ownership. If we look at the ownership of the enterprises we can say that 35,7 % were of Hungarian ownership, 64,3 of foreign ownership, - all being active in the private sector. Enterprises are mainly privately-owned companies, i.e. local governmental bodies or other organizations - in their ownership structure – are not significantly represented. The question arises about the effect the ownership structure has on a company's activity. It must be emphasized that

compared to enterprises with only Hungarian ownership, enterprises with partial or complete foreign ownership have significantly more market experience. The majority of companies are family enterprises with a tradition that goes back several generations. Management practice and company culture play an important role in defining the structure of a given company. Here the statement is also true if the company is founded in Hungary as a subsidiary. A routine gained through everyday practice, the appropriate professional education and training of the new staff members, all contribute to the successful functioning of the company. Enterprises perform trading activity, and provide service in the construction industry.

The following chart shows the range of activity of the enterprises in the sample:

The type of activity	Frequency
Trade	7
Surface revetment, coating	4
Building construction (residential and others)	9
Construction industry	5
Iron, paints, and glassware [fiberglass], retail	3
Paints, chemicals, retail and wholesale	4
Overground building	2
Machine parts production and engineering	3
Paint manufacturing and sales	2
Gate and door technology, electrical installation, and sales	3
Total	42

Table 2. Fields of activity of the companies in the sample

Sources: Table created by the author, (2008.)

Constrained resources – Reduction of competitiveness – Survival

As a consequence of the economic crisis opportunity has been significantly reduced, and the constant struggle consumes a huge part of management's energy. There is no time left over for weighing medium- and long-term strategic decisions, and most of the companies face serious liquidity problems. In all cases, liquidity problems stem from the lack of capital sources. Roots of the problems can be found in the recent past. Hungarian companies had to make their start with a much higher burden in the Hungarian as well as in the international markets. Higher costs of benefits, higher taxes, more difficulties in obtaining financial resources, high administrative costs, hard conditions and complicated procedures to gain subsidies from support programs, are the lot of Hungarian small- and medium-sized companies.

Most of the enterprises were already suffering from liquidity difficulties before the crisis. At the time of this survey more than half -- 57,2 % -- of the companies surveyed were having liquidity problems. We should not forget that at the time of the inquiry, the crisis in Hungary had not yet reached its full depth, which means that the data and the proportions show more positive figures.

According to the latest survey of the GVI conducted in the construction industry there has been continuous regression in the last four years. As a conclusion we can state that even in the period before the economic crisis small- and medium-sized companies did not have enough capital to replace their

obsolete equipment, to apply innovative construction techniques and methods, or to introduce systems to assure quality standards and norms. These factors continue to create obstacles in their efforts to increase competitiveness and without these investments they cannot comply with the EU regulations either.

Actors in the sector of the small- and medium-sized companies show great variability regarding their financing. In 2007 30-40 % of Hungarian small- and medium-sized companies were not bankable at all because of the shrinking level of bank guarantees; however, there were other possibilities for the companies which entered the market with the necessity to obtain capital, but these possibilities are less well-known among company managers.

For more than two-thirds of the surveyed companies (71,4 %) asking for credit presents a problem, and this proportion has become even higher with the crisis and present market conditions.

Underfinanced companies have more difficulty, in view of banks' selective credit-assessment criteria. Companies which have difficulty obtaining credit attributed the problem to three major reasons: the lack of collateral or guarantees, bureaucracy, the poor client service of the financial sector. Besides credits there are several other possibilities to involve external sources both for financing the activity both for investment financing.

Besides credits there are several other possibilities of involving external sources both for financing operations and for investment financing. The most frequently used sources of these financing options are subsidies that can be obtained through different government or other programs (37,5 %), indeed one third of the inquired companies take these available advantages. The survey discloses also that professional knowledge regarding risk capital investment is very low: none of the queried companies chose it as a source of financing, just as the overall general Hungarian practice shows exactly the same experience; however, companies that used risk capital in the past (their proportion is 14,3 % in the whole sample) had the opinion that that it was worth accessing this form of financing. The same can be said about incubation possibilities(i. e. information channels, safety networks, generally Hungarian companies, just as the companies of our sample region have very little knowledge concerning it, only one company in our sample indicated they were using it.

Companies with trading activity have huge difficulties in obtaining government supports for their development projects. The application procedure and functioning of the Széchenyi card requested by a significant proportion of the small companies merits attention. The logistics of the Széchenyi card can be fitted perfectly well into the everyday business activity of the enterprises; its practical and realistic aspects suits the companies' business activity. Its credit structure relies on state subsidies, which lower interest rates, which give further advantages to the enterprises, as they can have access to loans with lower interest rates.

64,3 % of the surveyed companies seek for external professional help from consulting firms in financing questions. It is of vital importance to make financial decisions which are based on well-planned, sound considerations, to which consulting firms with their professionalism and experience can contribute significantly.

The economic activity of the enterprises is often burdened by the common phenomenon of vicious circles of indebtedness, i.e. a linked chain of debtors. Companies in the construction industry who are suppliers are in an especially difficult situation. Most of the energy of the small- and medium sized companies in the construction industry is consumed primarily just surviving in the market and by collecting their receivables. Although companies endeavour to conduct business with more liquid partners, it is very hard and time-consuming to gain objective information that reflects a completely reliable picture. We could even say it is impossible. To keep adequate liquidity continuously is particularly important in maintaining smooth business operation. Depending on the size of the enterprise, the level of the company's outstanding receivables have various weights in a company's life

and in its activity. Most of the enterprises in the construction industry are small companies, for which the phenomenon of circular constant indebtedness creates tremendous problems.

Most of the companies see the lack of capital (50 %) and existing laws (26,2 %), as the major reasons for circular indebtedness, especially characteristic of the construction industry; a smaller proportion of the companies (11,9%) thinks it is a culture of delaying payment which causes it. However, the latter is a consequence rather than a cause of the endless debt spirals.

Often companies apply for current account credits to overcome financial difficulties and problems of liquidity. More than half of the queried companies (57,1 %) operate with current account credits within their enterprise. The chart below shows the results of a 2009 survey by the GVI with data since 2005:

In the small box:

- fire – and safety regulations
- employees' contract regulations
- obtaining permissions
- corruption (in government offices)
- manpower with insufficient training
- export documents in multiple copies
- customs administration
- environment regulations
- EU regulations
- Tax laws
- Bureaucracy of government offices (too slow)
- High tax rates

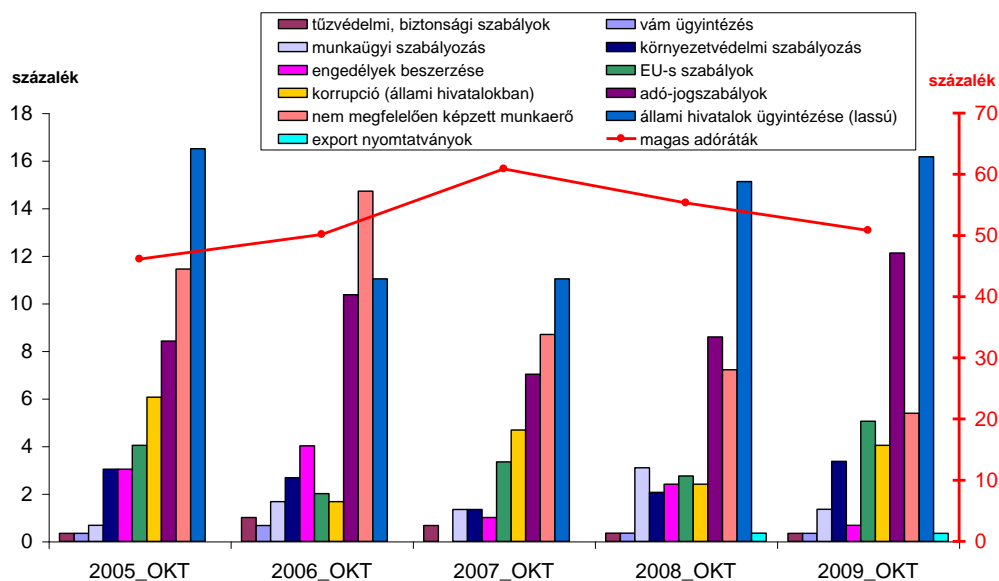


Chart 2. The distribution of factors enterprises considered to be the most significant obstacles⁵

The growing distance behind the EU countries is reflected primarily by the other countries' the economic indicators, dues, benefits contributions, tax rates, the legal and social systems, the political-economic situation, and level of the state deficit. Because of the extremely high dues and contributions compared to the neighbouring countries Hungary had to start „with a much heavier backpack” in the fight for obtaining subsidies and winning tenders. A dominant role is given to financial institutions,

⁵ The left axis of the chart shows the columns-diagrams, the right axis is related to the high taxes rates marked on the line diagrams

credit institutions, and other organizations that facilitate the extension credits. It would be vitally important to win tenders and subsidies – as these improve competitiveness – but the extremely complicated and over-bureaucratized application procedures prevent the companies that most need subsidies from receiving them.

Interviews with companies

The in-depth interviews, aimed at the future expectations of the companies and at the company strategies that companies consider and use as sound and wise in connection with the positive and strong features of the small- and medium-sized companies sector. In this survey, ten in-depth interviews were conducted with enterprises that are active in the construction industry in the Hungarian, more precisely the Trans-Danubian region, market.

Based on examining the enterprises and analysing their situations, and through the researching their managerial practices, several problem areas will be discussed in detail, that are closely connected with the research and with the conclusions above; this discussion will show how the results support the hypothesis of the study.

We must emphasize that even though the survey sample's composition, with its selection of major and dominant companies, cannot be considered as a complete representative sample of the Hungarian companies' situation in every respect, through the responses we nonetheless saw a clearly demonstrated, plausible, and well-evidenced pattern of the changes we expected. Generally speaking, these companies belong to the same basic size category, as all of them are rather in the lower-sized-category within the sector of the small- and medium-sized companies.

The companies do not share the same point of view, they operate on the basis of different management principles. There are significant differences among the companies concerning their structure and also their ideas and their outlooks. All the selected companies conduct wholesale business in the traditional sense, but they also maintain retail shops. Some of the companies have established their own brand names, however they have other producers for them, one company is specialized in the paint industry.

A SWOT analysis of the sampled companies

While analysing the in-depth company interviews, I concentrated on X-raying the organization, identifying the enterprises according to their assets, and endowments, their management techniques, their current philosophies, and their long-term objectives. Beside the in-depth interviews, the companies' basic documents concerning the organizational functioning of the enterprises, and the Organizational and Functional Regulations, the descriptions of the scope of activity of the employee served as an equally important resource and basis for the research. On the study of these documents and of the responses received through the in-depth interviews, a SWOT analyses⁶ became feasible.

Before the presentation of the most characteristic features, parameters, and components of the companies examined, I gave priority to outlining the SWOT analyses that I prepared about the years before the economic crises that was characteristic of the sector.

Strengths:

- Experience gained during more than the 10 years of transitional period in a competitive environment

⁶ SWOT analyses: that is, an analysis of Strengths, Weaknesses/Limitations, Opportunities, and Threats

- Good professional background, improving managerial training
- High-level capital investments from abroad
- The availability of a wide range of economic services and the taking advantage of these
- Flexibility, aptitude for quick adaptation and specialization

Possibilities:

- Favourable investment- and business climate.
- A well-developed infrastructure with further development prospects (especially in telecommunications)
- With the creation of entrepreneurial networks the reduction of drawbacks in competition vis-à-vis the large companies
- The positive effects of globalization (cheaper input, better access to foreign markets)
- Taking advantage of the economy's new possibilities with special regard to productivity increases
- Development of some lagging areas, based partly on the small enterprises
- The appearance of a new generation in management
- In the medium- and long-term, because of the growing markets; in internal markets because of growing purchasing power, in external markets because of joining the EU.
- Reduction of administrative costs

Weaknesses:

- The level of the ability for profitable production is significantly falling behind the European standard
- In comparison to the rest of the EU, a very high unemployment rate
- Low capital intensity
- A relative disadvantage in competition because of the strong power of big companies
- The high proportion of companies with small capital resources and with ineffective managerial directives
- High real estate prices and rental fees
- Only a low percentage of entrepreneurs that direct policies reach

Dangers:

- Further losing positions and lagging behind of certain groups
- Growing disadvantages in competition with large companies
- If the efficiency does not improve fast enough, then the negative effects of globalization can be more powerful
- The insufficient development of transportation infrastructure or, in some regions, even its worsening condition
- A tax structure that favours more foreign multinational companies

From the SWOT analyses, it becomes clear that expectations are fairly „optimistic“, and „threats“ are less significant and deep in the life of the companies, compared to present economic environment.

Let's have a look at what kind of SWOT analyses result for the companies which have their activity mainly in trade, in the construction market of the industry, or more precisely in the painting industry; what is the structure and content of this SWOT analyses in the period of examination, in correspondence of the managers:

Points of strength:

- Obtaining the exclusive right to sell certain product groups in Hungary
- A circle of regular clients in the region (in a given city and in its surroundings)

- Wide range of products
- Competitive professionalism, professional experience
- A company's size, well-adapted and tailored to the company's profile to be effective

Possibilities:

- Entering new markets – also internationally!
- Introduction of complementary products
- Service for a diversified clientele and for various client groups
- Diversification in similar products

Weaknesses:

- Lower profits in certain product groups because of failures of the direct service of producers
- Sensitivity to market pressures
- Tight money sources because of rapid growth

Dangers:

- Appearance of new competitors
- Growing sale of modernized products by competitors
- Unfavourable government policy
- Growing pressure of competition
- The negotiating position of buyers and suppliers
- Aggressive expansion of multinational companies

As responses from the in-depth interviews also show, the very changeable economic environment of the last years and the never-ending challenges evoked by the market conditions place severe difficulties on the very existence of the enterprises. Companies' liquidity is endangered, chances for existence and survival have been diminishing significantly, - these facts become explicit through the in-depth interviews with the company managers.

It became necessary to search for and find an answer concerning their expectations for the future, to obtain replies about how they envision workable strategies and then to compare these answers to the results of previous inquiries, and finally to make an analyses based on all facts. In this way the gained reliable and real-life reflecting answers managed to contribute to a more comprehensive and complex evaluation of the situation.

Characteristics and environmental conditions with all the everyday difficulties and challenges that small- and medium sized companies in the construction industry nowadays can or rather must experience in their activity can be summarized in the followings:

- Because of turmoil in international financial markets and the subsequent recession, financing of enterprises is becoming more expensive, whereas at the same time there is no growth in consumption; all these facts aggravate the situation of Hungarian companies
- Hungary's high tax rates are a serious disadvantage in international competition
- There is an increasing number of companies which intend to take measures to reduce staff, as a direct outcome of the increasing burden of benefits contributions
- The increase in the „grey” economy
- Increasing efforts for sales abroad, i.e. for exports
- Struggles for survival is becoming a routine, an everyday phenomenon (losing liquidity, reduction of personnel, changing strategies)

Most fundamental requirements of the enterprises were vividly expressed in the interviews:

- Reaching appropriate level of competitiveness
- Knowledge of markets and wider access to markets
- An infrastructure for entrepreneurs (banking system, guarantees for loans, capital, etc.)

- Trained manpower
- Knowledge of foreign languages
- Up-to-date information technology
- Professional expertise in change management and crisis management, and a competent implementation of these

Future expectations of the companies

The in-depth interviews gathered data and also served an analyses and assessment of company plans and future expectations. I had special interest in learning what managers I queried thought about the financial-economic crises and how much they thought it would impact their own organizations. At the beginning of each in-depth interview I wanted to make clear to each company manager that we need primarily basic information, i.e. in the manager's opinion how long he thinks the crisis will be and what would it be like. Eight of the managers interviewed gave me an answer which predicted the crises would last for one or two years.

More than half of the responses (six enterprises) estimated the 2009 inflation would be below 7 %. (the major part expected a 5 % below rate). But regarding the influence of the growing recession, they had a much more negative view, the entrepreneurs were rather pessimistic with their predictions. Seven of the managers declared the economic crisis, infiltrating and expanding from abroad, had decreased their company's growth. Concerning the price income, 60 % of the enterprises expected a reduction. Managers shared the opinion that the Hungarian market, and within it their own market, was impacted by the crisis.

30 % of the managers had the view that the economic recession would have a negative influence on EU markets, and this statement is closely related to another managerial opinion, i.e. 90 % of the owners estimated a medium-level or higher reduction of domestic demand.

It is worth paying special attention to the fact that only half of the companies expected a reduction of the availability of credit, and the other half of the sampled companies clearly showed a growing trust and confidence toward the liquidity of the financial institutions and toward the banking system, because of the governmental and international salvation packages. The reason that half of the sampled companies were pessimistic and expected shrinking credit availability was the extremely high interest rate – 9,5 % - of the central bank and the very bleak state budget.

Summarizing, we can infer that all the enterprises without exception considered the infiltrating crisis dangerous to their everyday business activity and life, since the first signs of the crisis became apparent. However, we might remember this period when the government had a rather unclear and inconsistent or contradictory view concerning the crisis and its future effects. The governmental approach was altogether optimistic with positive expectations and hypotheses regarding the problems of the crisis, in spite of the international feedback and reactions. We should keep in mind that enterprises conduct their activity in the real economic sphere which means they experience directly all the effects of the changes or/and the effects of any kind of measures.

In the following points we are summarizing the general disposition and basic expectations of the managers:

- A continually sharpening of international and domestic competition
- With the passage of time, more signs of panic and despair
- Another demonstration of growing dissatisfaction and intolerance of the managers toward the excessive administrative burdens
- The vicious circle of mutual indebtedness is becoming insuperable

- Prices of raw materials and energy are skyrocketing
- Lost markets and shrinking market possibilities
- A massive disappearance of enterprises, of micro enterprises

To reduce and mitigate the negative effects of the financial-economic crisis, fundamental changes, first of all the introduction of new measures aligned along the transformed market conditions, have become of utmost necessity that can add and contribute to the market and survival chances of the enterprises. Only two of the inquired companies found that there is nothing to be done for the moment because they expected a solution from the government. Luckily, most of the enterprises realized that a quick reaction is required, and no postponing or delays in action will be tolerated.

Measures taken in the highest proportion by the enterprises:

- Rationalization of costs, cost reduction on all company-levels, in all aspects
- Postponing investments and developments
- Salary freezes, temporary salary reductions
- Primarily: reduction of working hours, secondarily: staff-reduction
- Revamping ideas concerning company strategy
- Rationalizing marketing costs, i.e. not necessarily an immediate costs reduction in marketing, but rather concentrating on more effective campaigns and marketing tools and on gaining more results from marketing

When scrutinizing the field of Human Resources, based on the replies obtained from companies, we can conclude that the enterprises do not envision making significant changes within this field. 40 %, i.e. 4 companies were demonstrating the idea that freezing the number of the personnel can bear results. The other „camp” of the managers did not intend to take any measures in the HR field. Concerning flexible working hours and flexible remuneration and benefits, three company managers decided that changes here are inevitable and could bring positive results.

Strategy and Practice: Potentials and Requirements in the sector of small- and medium sized companies

Those readers, who expect at this point – i.e. after the above thoroughly analysed managerial strategies and practice, and after the presentation of the economic factors that influence these – to receive a panacea, a solution applicable to all cases, where, as if on command, all companies would enjoy an easy and adaptable method that works, and or use a recipe with a hundred per cent effectiveness – well, I must admit, that this will be rather a disillusionment.

If such a magic solution, command, or recipe were possible, then we should ask why this essay was written, and the study of active enterprises would lose its credibility. I must underline that regional and territorial characteristics, and changes occurring in the long-run, cause discrepancies and significantly different individual features in certain companies. These differences are visible in several elements of the organizations’ functional structures. The origins of these differences are embedded in the company’s history, in its traditions and organizational culture, and also, primarily in the manager-owner’s conceptions about managerial strategies, his professional background in company management, and last but not least in the ideas and convictions of the manager-leader. Naturally, regional and territorial conditions and the given township’s or city’s characteristics also influence the companies’ managerial principles. And with this we have arrived at an important factor that should receive special attention: the enterprises’ market position. Through the years a market position can change, competitors and the enterprise’s own available resources (material, human, technical) of course do have an effect on it, just as an effective use of the sources or the enterprise’s market information also do.

The segment of the small- and medium-sized companies is far from being homogenous, it is rather many-coloured, and their participants show many different features.

I am convinced that the enterprises of the sectors – and here again we must emphasize that we mean the whole range, i.e. buyers, enterprises, and including policy-makers and decision-takers – share the same interest which means to support the enterprises, to increase the sector's competitiveness, to promote and facilitate their presence on the EU markets, to assist their activity in the international competition and their ability to win international tenders. We do not mean here a quasi-automatic and self-activating series of strategic moves or an applicable method, but we do mean a direction that takes into consideration the characteristics of the enterprises, or rather that pays attention not only to the general attributes of the sector as a whole, but also within the sector to the interest of individual companies. It is also a basic demand, a basic requirement to consider time-flow, as changes in an international context are constantly emerging, and new challenges are appearing without notice, much faster than anyone could predict them.

I have already referred several times to the turbulent, violently changing economic environment in which Hungarian enterprises must conduct their activity. A synthesizing analyses of data from the present and from the past plays an extremely important role when outlining entrepreneurial characteristics.

The objective of this thesis and, within it the objective of the primary research, was to design a company strategy with answers responding to the challenges, and which could contribute to find a possible and successful coexistence in parallel with multinational companies. We examine also the chances of companies participating in the construction and paint industry market in an increasing competitive environment and try to find those factors that could become a market advantage for the enterprises.

Evaluation of the survey's results

The data gained from the survey show that all the previous statements concerning the sector of the small- and medium-sized companies – especially concerning companies in the regions of our sample – proved to be true and appropriate. The sector of the small- and medium-sized companies represent a particular segment in the environment of the Hungarian political economy, with special characteristics and assets, and it is also a powerful engine of the Hungarian economy. So as the sector plays a highlighted role, all special characteristics and idiosyncrasies of the sector had to be subjects of this study. The more and more rapidly changing economic and legislative environment and the consequently continuous appearance of new challenges, all burdens and difficulties of the small- and medium-sized companies' activity became a basic issue necessitating special attention, with particular regard to their possibilities and alternatives for survival.

Beside the generally noticeable decline of the markets, the two other major problems were caused by the diminishing financial resources, by general indebtedness, liquidity problems, and also an unpredictable government policy, which did not favour enterprises with all the heavy taxations, contributions and administrative costs. All these extra hardships appear as obstacles when the Hungarian companies enter the European markets and try to compete with the neighbouring countries. The empirical research gave a precise picture of the companies' managerial practice, and reflected well what managers considered wise and useful attitudes toward the markets. Also, through the company interviews we gained not only comprehensive information concerning a package of measures that would be vitally important to be taken in the atmosphere of financial-economic crisis, but also company managers gave their estimation concerning the duration of the crisis.

Finally we can agree that, generally, Hungary's international economic environment has significantly improved compared to the conditions in the previous year. According to the economic predictions,

the negative spiral typical of an economic recession does not damage Hungary's situation any longer, which means no further deepening of the crisis is expected, however, climbing out of the crisis will be a rather long process. It will be a long process also for the enterprises, which might necessitate the introduction of further measures.

The first statement is related to the Hungarian small and medium-sized companies' financial situation, problems of financing, and the gravity of the phenomenon of the circular indebtedness. The hypothesis is that available sources are becoming more and more scarce for the sector of the small- and medium-sized companies, especially because of the economic recession that has been following the financial crisis already since 2008. This hypothesis is clearly supported by the fact that even in the period before the crisis sources were insufficient, access to credit was hard, and circular indebtedness became a typical phenomenon in the companies' economy. The survey by means of the questionnaire was prepared in the pre-crisis era and the situation became more aggravated with the crisis. The responses received supported the hypothesis and proved its validity.

1. Accessible sources are constantly diminishing for the sector of the small- and medium-sized companies. Enterprises find themselves in a more and more problematic situation, they have to struggle with insufficient resources and with the phenomenon of spiral debts, which form obstacles against their development and the possibility to increase their competitiveness.

The second statement is related to the analyses of Hungarian small- and medium-sized companies' difficulties caused by over-taxation, excessive benefits contributions, dues and administrative costs. According to the hypothesis, these excessive burdens form obstacles to the companies' opportunity to increase their competitiveness.

2. Reduction of the enterprises' taxes, benefits contributions and administrative costs is critical, a necessary requirement for the Hungarian companies in order for them to increase their competitiveness against the neighbouring countries. When Hungary entered the EU a general unprofessionalism, a certain unpreparedness, was often characteristic of the country, and this insufficient readiness, this not always professional approach has worsened, as in the last years Hungary was rather getting further away from the EU instead of getting closer to it.

The third statement is related to the in-depth interviews with the companies, which focused on questions concerning the companies' future expectations. According to the hypothesis the major part of the companies are pessimistic about the future. Apart from a growing level of production, they do not expect any increase, either in profitability, nor in the number of staff, nor in an effective use of the capacities, nor improvement of business. It is a particularly complex task to prove this hypothesis, and it required both the primary and the secondary results of the research. A comparative study was also necessary, because this is the only way to receive a reliable picture concerning the present economic situation and the future prospects. The original hypothesis has to be modified, as according to the most recent results of the research and survey there is a slight improvement in the companies' future perspectives. This improvement is of a smaller scale only, there is a tendency of a small increase of the orders (in the construction industry), but it has not reached yet the pre-crisis level. The regression of Hungary's industrial production is 17,7 % in a year, which is higher than the EU average (according to the latest data of the World Institute of Economics). And the construction industry's performance has been constantly decreasing in the last four years. Based on these facts I have to formulate the third statement as follows:

3. The monetary-economic crisis has caused severe damages on all levels of the economy, down to its deepest layers, and, as such, augmenting the small- and medium-sized companies' difficulties, aggravating their existential problems, and sometimes completely destroying their chances for survival. According to company managers, in the coming years business, profitability, staffing size, use of

capacity and investment activity will all take a negative turn, and they expect a positive change only in production, i.e. an increasing level of production.

In my opinion a second research project, a re-launched and also expanded survey with certain modifications and more thorough examinations will be required and very valuable later (especially in the presumed post-crisis boom) as the sector's political-economic and structural transformation has not yet been concluded.

Summarization, Propositions

The present survey was focused on the dominant factors of the sector of the Hungarian small- and medium sized companies and on the characteristics of their market environment, with special regard to the strategic features of the small- and medium sized companies functioning, examining at the same time the problems of the financial situation.

In spite of the fact, that the Hungarian small- and medium-sized companies play a significant role in the production of GDP, in employment, and in the economic growth and development, governmental and political decision-takers do not pay enough attention to support their development and their performance and promote the increase of their competitiveness. In the sector of the small and medium-sized companies, an over-all conceptual change of government policy and a thorough re-adjustment of the political measures and decisions concerning enterprises have become of utmost importance, so that in Hungary the sector of small- and medium sized companies can achieve the same esteem, role, social prestige, and political-economic support as in the more developed countries

The empirical research was conducted by combining two methodical approaches. On one hand it examined through questionnaires the financial-strategic views and practices of the small- and medium sized companies, and also investigated how successful companies' reactions were to the challenges and difficulties of the financial-economic crisis. On the other hand the research was taking company interviews that provided further information, precision and more insight concerning the data captured in the questionnaires, and also it endeavoured to learn how companies adjusted their strategies, what concrete measures, responses, and program packages were prepared and how effective these were under the present economic and market circumstances.

Based on the results of the empirical research, we can conclude that the sector-related hypotheses of the research – with some slight modifications – proved to be correct. The research demonstrated that the sampled companies were using only a part of their available opportunities, i.e. capacity, professional expertise, which means they need to introduce new effectiveness-improving measures, modifications, adjustments in the future, with special regard to their managerial- and survival strategies. Quick reaction is a fundamental in unexpected or in crisis situations, which means companies must keep an „emergency-script” designed for such cases.

Suggestions for the decision-takers of enterprises

The research provided proof, that for the assured survival of the Hungarian small- and medium-sized companies, a more succinct socio-political awareness and an economic-political consciousness is a prime requirement, where these companies' role and weight in Hungary's competitiveness and in its increase is acknowledged in its full value.

It is exceptionally important that entrepreneurs know those principle macro-economic processes that have indirect or direct influence on the results and on the success of their enterprises. Unfortunately the recession has been continuously present in Hungary for 7 quarters, the major indices of 2009 were as follows:

- GDP: -6,2 %
- Consumption: -6,7 %
- Investments: -6,5 %
- Unemployment: 10,4 %

Stagnation in revenues and salaries, stagnation and shrinking markets were characteristic of our country in 2009. The decrease of industrial production was extremely strong: it was – 17,7 % (higher than the EU average). In the commodity branches, the decrease was 14,4 %, the services sector of the was hit by a decline of 2,3 %. We have to accentuate that the construction industry' performance has constantly decreased for four consecutive years.

If companies' managers realized how much significance it would have for them to acquire entrepreneur expertise, or to further develop and enlarge their professional experience, and to complement their backgrounds with valuable information that they can receive from market feedback, which reflect the Hungarian conditions in their full reality, then their business planning would be based on more predictable data and reliable calculations. It is tremendously important for the enterprises to create business- and strategic plans. The outlining of plans should not be exhausted simply by thinking ahead and making plans in medium- and long-term aspects, but also to consider their competitors' activity and make an assessment of the market positions. They should review trends of the past years and also plan for the coming years. To master an appropriate understanding of the market, the market situation with its conditions is one of the major initial points.

While planning a financial strategy it is also very important to possess a thorough and precise understanding of the enterprise's liquidity, which is based on facts. The company's potentials for growth, for market expansion, for conquering new markets, for strengthening its market positions, for assuring success in competition, the company's possibilities for capital-intensive development, for risk-assessment and healthy judgements concerning risk-takings, are all determined by a well-designed, soberly conceived financial strategy and with realistic objectives:

- When seeking credit, research, and canvassing the full range of credit availability and terms are necessary, based on precise and reliable data. Only one bad decision or a too quickly taken choice can even endanger the survival of the enterprise. In my study of the financial strategies of the companies I highlighted the advantages of the structures of credit issued by the Hungarian Chamber of Commerce and Industry and by the KA-VOSZ Zrt., its favourable terms and flexibility compared to other credit resources.
- The phenomenon of the vicious circle of debtors is a real danger for all small- and medium-sized companies, especially for companies in the construction industry, which should remind company managers to be prudent. They should collect extensive and precise information about business partners and about their reliability. Often it is useful to learn the details concerning the partner's solvency. Enterprises should pay special attention selecting their business partners, and concentrate on details of the negotiations with special regard to the terms and concessions the partners offer in payment terms. Contracts with longer payment terms mean always increased risks for the credit providers.
- When it comes to collecting receivables, they must be consistent and confident, keeping their own business interest in mind and also referring to legal recourse if necessary. Delayed payment can cause severe problems in the life of a seller. If this is the case then most likely there is in the background a financial or liquidity problem of the defaulter, and this will

negatively effect the seller's potential for survival, depending also on the amount of money (in longer terms it becomes a real crisis for the company) and on how severe the situation becomes. Long and strenuous liquidity problems can propel a crisis and also can lead to the end of the company i.e. to closing the company. The company's indebted position toward multiple creditors can generate further problems.

- In the case of persistently unsettled account obligations sometimes it is more useful to find a compromise solution instead of initiating a legal process. It could bring a certain relief for the indebted company as well, if there is a possible agreement to pay in instalments. It goes without saying that if the default company cannot pay the instalments either, then this approach should be discarded. Another solution can be, in such cases, a so-called „mixed“ solution, which means that the given real estate is burdened by a mortgage, but the possibility for cash settlements still exist. The obligor pays his debt in cash, and covers the rest from e.g. apartment sale. In my experience the default interest quite often will not be paid.

Experience shows that most companies make efforts to settle debts without going to court. Even though in most cases the creditor also prefers choosing a solution without legal processes, payments will not be effected without further complications and in payment terms. After a rather too long period of time and after repeated dunning without effect, the claimant company can engage a debt-collection firm. Nowadays such debt- collection specialists are proliferating.

For several reasons it is more fortunate to consult a lawyer and ask for his services to take the necessary steps to initiate a procedure to wind up the company (especially if the debts are of a more significant amount).

Suggestions for economic-political decision-takers

The most basic message of the research for economic policy and to its decision-makers is to realize the importance of the sector of the small- and medium sized companies, the importance of promoting and supporting these enterprises and their survival, and to understand how much they can effect these by their decisions. It is a complex task to integrate company and regional objectives into the system of state (government) concepts.

Decision-takers in the economic-political sphere should consider the following facts in their assessment and re-evaluation of the real conditions and environment of the enterprises and in close connection with such approaches to pay attention to the basic demands and expectations of these enterprises:

- To reach an appropriate competitiveness
- Managerial expertise
- Understanding the markets and possible market access
- Entrepreneurial infrastructure (bank system, credit guarantee, capital, etc.)
- Trained manpower
- Knowledge of foreign languages
- Up-to-date information technology
- Transformation and crisis-management knowledge and their effective implementation
- Improvement of capital supply
- Lower dues (taxes, work force contributions, and other payments)
- To eliminate complicated, sometimes obscure and senseless administrative obligations, to make administration reasonable
- To improve poorly-conceived government programs that have hardly any useful effect (unadvised distributions of EU funds, etc.)

- An entrepreneur-friendly government
- Creation of a more transparent, more flexible system of tenders and applications for subsidy programs, which would be more effective and quicker
- Revamping of credit- and support structures

Possible solutions:

- Accentuated support for the circle of micro-small- and medium-sized companies
- Special programs targeting the changed environment: legislative , financial, informatics, research and development, innovation
- Programs specially created to improve the enterprises' financial position
- Re-structuring the allocation system of the EU sources
- Development of the economy along priority issues (food industry, processing industry, recreation, logistics)
- Improving productivity
- Creating stable work places for employment
- Introduction of training and incentives for employees
- Transformation of structures that have an impact on the economy
- Increase in the proportion of Hungarian suppliers who sell to international large companies (in Euro)

Advantages of a strong small- and medium-sized company sector:

- Increasing productivity and ability for adaptation
- Growing employment level
- Export strengthening
- Sustainable growth
- Becoming better prepared for the EU
- Growing competitiveness

The companies' interest in applying for tenders and winning special projects have been significantly decreased in recent times. Less than 10 % of the enterprises consider filing applications, even though most of the companies would be able to find appropriate tenders among the EU's operative programs that would suit their company profile. The basic explanation is the extremely complicated application procedures. Applications typically require innumerable permissions, certificates, bank guarantee, warrants, and effort, with transaction costs between 5-10 %. In addition, there is a strenuous period during the time-lag between the date of application and the time of the actual investment. To prepare an application takes huge efforts, the firm's business is tied up to maintain the conditions of the tender.

Even though the government offers several financing sources, the access channels to these are rather tight, there are many programs, but they are ones that do not have much effect (JEREMIE programme, New Hungary Microcredit Programme, Small- and Medium-sized Companies' Credit Programme, New Hungary Current Asset Credit programme, Portfolio Guarantee Programme, Capital Risk Programme for risk-capital investment with share financing). In the future the availability of bank credits and access to investment or current asset credits should be much wider and easier so that the process of overcoming the crisis could be faster, and the sector's competitiveness could be increased. The procedure of applying for and receiving credits should be modernized and alleviated, as the example of the Széchenyi card shows.

One principal asset of Hungary's economic growth and dynamism is the development reserves of the small- and medium-sized companies. Small- and medium-sized companies provide nearly 70% of all employment and produce 50 % of the Hungarian GDP.

It is important to make functional strategies effective within the company strategies and if necessary to re-structure these in order to obtain the expected level of profitability in the companies' economic

activity. Only a few Hungarian independent and privately-owned companies can successfully respond to the challenges they are exposed to because of merciless competition from multinational chain store-companies present in the Hungarian market, and their aggressive expansion policy. A condition of survival is constant renovation, that often demands radical changes. Development and growth is a must for the enterprises, it is compulsory for maintaining their market positions.

A comprehensive study of the sampled companies could not have been prepared without also paying attention to the macroeconomic conditions and to the changes of these, as macroeconomic conditions have a strong impact and influence on company activity and on its results and success. Competition between the enterprises has several appearances at the same time, on several markets and on several aspects in parallel, which requires multi-faceted competitiveness and multiple abilities to keep market positions and to be successful in different market areas at the same time. Profitability, liquidity, good financial indicators, the possibility to keep market positions and strengthen these positions, acquisition of new markets, a stable and predictable government policy, programs that support company activity and promote their development, subsidies, research-and-development promotion, and entrepreneur-friendly government policy are all vitally important pre-conditions for the profitability and competitiveness of enterprises.

According to the hypothesis the major part of the companies are pessimistic about the future. Apart from a growing level of production, they do not expect any increase, either in profitability, nor in the number of staff, nor in an effective use of the capacities, nor improvement of business.

In the following points I summarize the problems present over the last-ten years that burdened small- and medium sized companies:

- Low capital supply, a chronic under-financing
- Low efficiency and productivity
- Often insufficient professional managerial knowledge
- Lack of chains of suppliers
- Over-dependence on domestic consumption
- Exposure to black economy

It is tremendously important for the enterprises to create business- and strategic plans. The outlining of plans should not be exhausted simply by thinking ahead and making plans in medium- and long-term aspects, but also to consider their competitors' activity and make an assessment of the market positions. They should review trends of the past years and also plan for the coming years. To master an appropriate understanding of the market, the market situation with its conditions is one of the major initial points.

While planning a financial strategy it is also very important to possess a thorough and precise understanding of the enterprise's liquidity, which is based on facts. The company's potentials for growth, for market expansion, for conquering new markets, for strengthening its market positions, for assuring success in competition, the company's possibilities for capital-intensive development, for risk-assessment and healthy judgements concerning risk-takings, are all determined by a well-designed, soberly conceived financial strategy and with realistic objectives.

Finally we can agree that, generally, Hungary's international economic environment has significantly improved compared to the conditions in the previous year. According to the economic predictions, the negative spiral typical of an economic recession does not damage Hungary's situation any longer, which means no further deepening of the crisis is expected, however, climbing out of the crisis will be a rather long process. It will be a long process also for the enterprises, which might necessitate the introduction of further measures.

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