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8 The Vision of Hungarian Small and Medium-Sized Enterprises

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8.1 Introduction

In the second half of 1997, two researchers of INSEAD carried out research titled "The European Small Enterprise Information Technology Study" in order to investigate their vision concerning year 2000 (Dutta and Evrard 1999). The basic hypothesis of the study confirmed that small enterprises have to be organizationally and technologically renewed, and create strategic partnership to be able to face the future tendencies and challenges of globalisation and to exploit competitive advantages and opportunities offered by increased application of information technology.

Owing to the fact that tendencies of globalisation have already reached Hungary and due to recent rapid spread of information technology, the vision of Hungarian small and medium enterprises concerning the application of information technology seemed to be reasonable to be investigated in depth.

Within the framework of our research on "Application of Information Technology among Hungarian Small and Medium Enterprises", we took over five sets of questions from the INSEAD study focusing on entrepreneurial vision, relationship between entrepreneurs and information technology and opportunities to create strategic partnership. Among others, we were interested in how actively Hungarian SMEs prepare themselves for the new environment and how much opportunity they manage to seize.

In this article we will first present our experience of entrepreneurial vision, briefly comparing them with INSEAD results of year 2000, then three categories of enterprises will be described that have distinct vision about information technology.

8.2 The vision of Hungarian small and medium-sized enterprises

In the framework of the research we asked 406 owners or managers of micro, small and medium enterprises about their IT use, needs and future investment plans. The sample was selected from the database of VOSZ (National Alliance of Hungarian

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Employers and Entrepreneurs) based on the so-called layered sampling method. Approx. 65% of the sample consisted of micro and small enterprises. Further interesting feature of the sample was that enterprises from manufacturing industry, trade and other services were overrepresented. They made up 70% of the sample altogether. The sample was representative by the regional location of enterprises and the enterprise form (Table 8.1).

Table 8.1 Sample characteristics by regions and enterprise form

Regions	Sample characteristics					
	Incorporation		Sole proprietorship		Total	
	Number	%	Number	%	Number	%
Budapest	65	16,0	47	11,6	112	27,6
Pest County	18	4,4	30	7,4	48	11,8
Central Hungary	83	20,4	77	19,0	160	39,4
Central Transdanubia	14	3,4	26	6,4	40	9,9
Western Transdanubia	15	3,7	26	6,4	41	10,1
Southern Transdanubia	13	3,2	23	5,7	36	8,9
Northern Hungary	12	3,0	23	5,7	35	8,6
Northern Great Plain	18	4,4	29	7,1	47	11,6
Southern Great Plain	16	3,9	31	7,6	47	11,6
Total	171	42,1	235	57,9	406	100,0

The five sets of questions concerning entrepreneurial vision were asked to be answered according to the attributed importance or probability of the given factors. Three answers could be given: low, average and high. The answers, represented by figures (low = 1, average = 2, high = 3), were then averaged, as a result of which it became clear how important and probable the given factor is regarded by Hungarian SMEs. The five sets of questions basically covered three topics:

- opportunities and challenges,
- threats and competitive advantages of information technology, and
- strategic partnership.

(a) Opportunities and challenges

According to the answers, external environment has been now and will be in 2003 characterised by the following opportunities and challenges (Figure 8.1 and 8.2). The Hungarian small and medium-sized enterprises, in accordance with European ones, expect intensifying competition which can be traced back to the appearance of new, foreign competitors and the increasing implementation of governmental and EU policies.

Figure 8.1 Assumed challenges of external environment

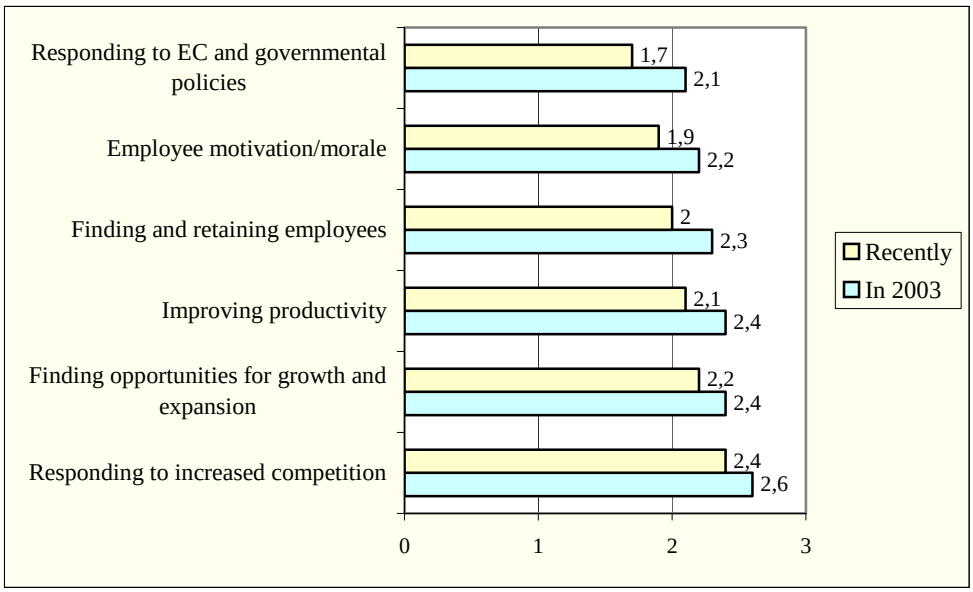
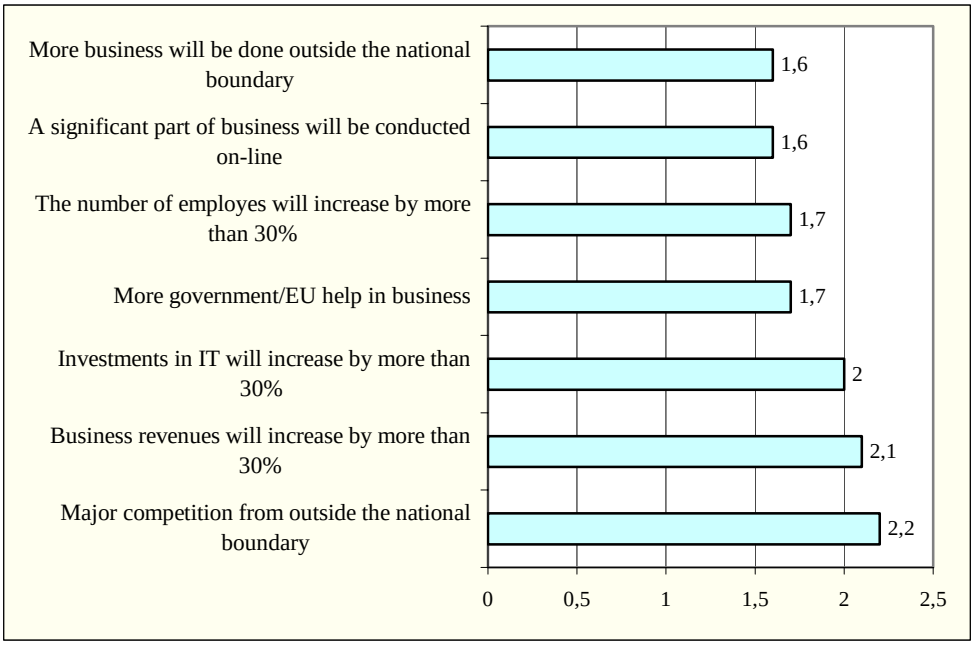


Figure 8.2 Assumed opportunities of external environment in 2003



In order to cope with intensifying competition, it is essential to both be aware of their opportunities of growth and improve their productivity. It is unfeasible, however, to improve productivity without maintaining existing workforce of increasing importance and without their proper motivation. On the other hand, Hungarian SMEs do not take intense expansion concerning the number of employees into consideration, which is bad news in respect of labour policy.

Unlike European small enterprises that consider the expansion abroad and e-commerce as the main source of growth, among Hungarian SMEs, the tool serving the same aim is regarded to be the increase of domestic activities. Moreover, European small enterprises, in comparison with Hungarian ones, take the growth of IT investment into greater account, which can probably be explained by their better supply of capital.

Hungarian small enterprises, just like European ones, do not count on governmental and EU sources, which can be attributed to the lack of knowledge about tenders, high indirect cost of handing them in, and slow administration.

(b) Information technology

In this section it was investigated what kind of competitive advantage and future threats Hungarian small and medium enterprises need to handle due to the application of information technology (IT) (Figure 8.3 and 8.4).

Figure 8.3 Competitive advantage offered by information technology

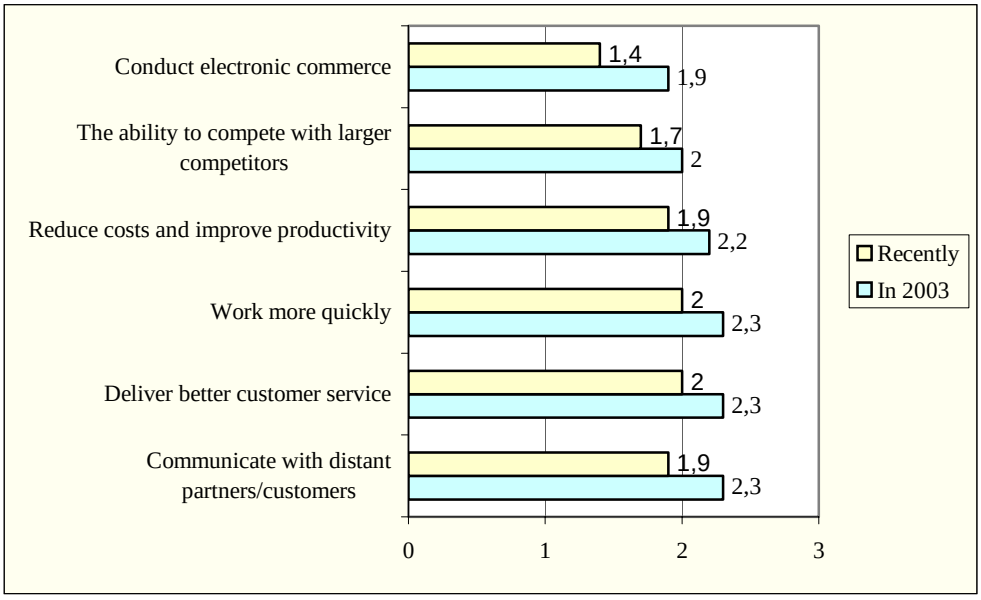
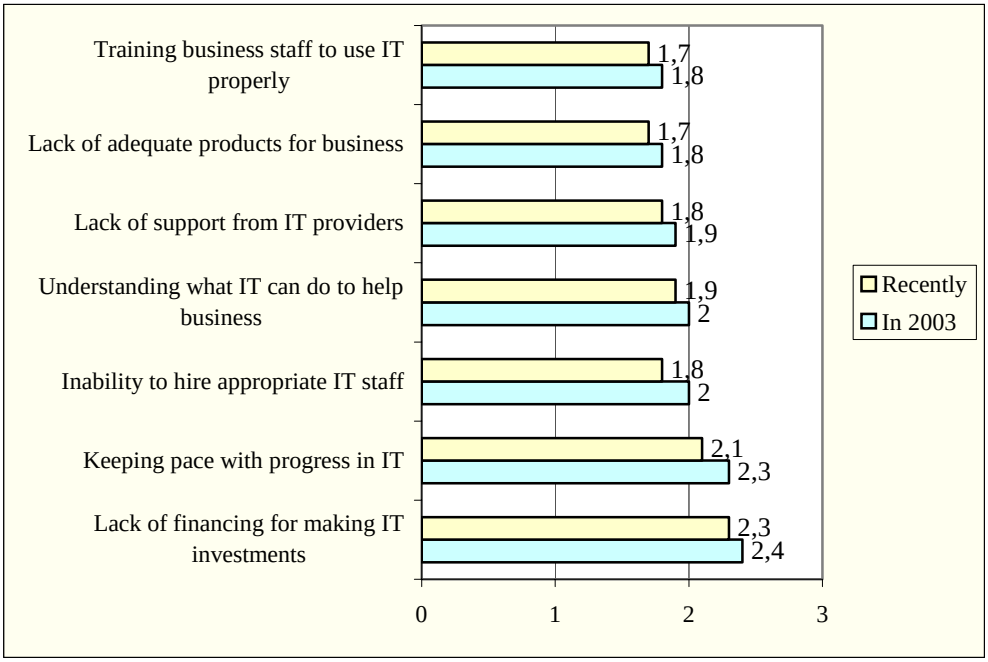


Figure 8.4 Challenges and threats of IT development



It is the customer who stands at the centre of IT application both among Hungarian and European small and medium enterprises. Keeping in contact with distant partners and customers, and the ability to provide better service quality are the two main competitive advantages that information technology offers to enterprises. These competitive advantages enable them to satisfy costumers' demands at a higher level. Competitive advantage concerning quicker workflow and decreasing costs has been of less importance although they still mean determining factors. On the other hand, participating in e-commerce has become an increasingly emphasized and distinctive element of competitive advantage.

The reason for the above mentioned restructuring in competitive advantages is the rapid spread of applying more developed Internet based technology among Hungarian small and medium enterprises. In the long run, disappearance of competitive advantage concerning cost reduction and productivity improvement is expected as they will be embodied in abilities that are actually needed for maintaining market position, but do not represent distinctive elements. It is the competitive advantage of e-commerce that has emerged as a distinctive characteristic, instead.

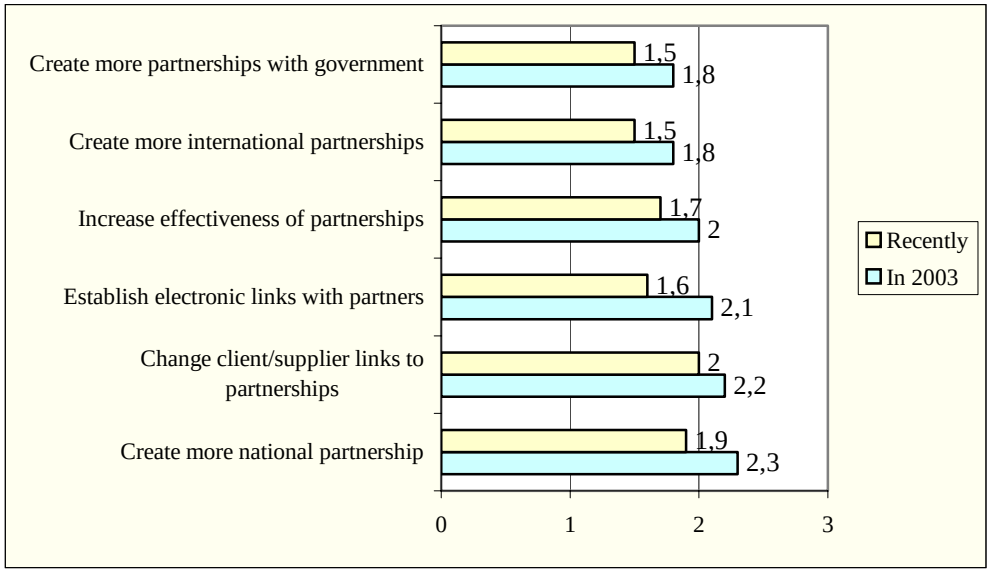
Contrary to the opinion of European small enterprises, according to which difficulties in understanding information technology are considered to be the main threat, the biggest challenge for Hungarian small and medium enterprises is to raise the necessary amount of capital needed to operate such technology. This is a fact worth considering.

It is important to draw attention to the fact that it has become more and more challenging for enterprises to find well-qualified information technologists. It is therefore advisable to start training employees in information technology right now as it is a really costly procedure.

(c) Strategic partnership

The research also involved investigation into the willingness of Hungarian small and medium enterprises to create strategic partnership with market actors around them (Figure 8.5).

Figure 8.5 The opinion of Hungarian SMEs on strategic partnership



Hungarian small and medium enterprises would be willing to create strategic partnership with domestic companies (especially with members of the supply chain so with their own suppliers and customers) in order to give a more efficient answer to intensifying competition and to expand their domestic activities. Increasing efficiency of existing partnership is also considered to be important. The difference

between Hungarian and European small enterprises is that the latter is more inclined to create strategic partnership with not only domestic but also with foreign enterprises.

In the way of creating partnership, it has become more and more frequent to build up electronic contact with business partners. This fact is in accordance with the rapid spread of modern information technology.

As it can be seen on the above figure, European and Hungarian enterprises are similar in respect of lower willingness to create partnership with governmental and EU organizations.

8.3 Vision categories and their characteristics

Based on the answers given to the five sets of questions, we defined three distinct categories with the help of cluster analysis. These are the following:

- the so called conservatives (25,9%),
- careful advancers (42,9%) and
- pioneers (31,2%).

(a) Conservatives

The category of conservatives is comprised of 105 enterprises. Conservative enterprises count on intensifying competition in the future which will seriously threaten their businesses. To cope with the situation, they have realised the necessity of product improvement and growth which they plan to implement exclusively by domestic expansion. Therefore they are inclined to create strategic partnership mainly with domestic enterprises of the supply chain (suppliers and customers).

They show a rather rejecting and pessimistic attitude towards developed Internet based information technology which manifests itself in their opinion that the two main competitive advantages that information technology, namely PC application, can offer are quicker workflow and cost reduction. The reason for this fact is that due to lack of IT knowledge they do not understand in what ways Internet based technology is able to support their businesses. A further obstacle is meant by the shortage of capital needed to invest in information technology.

(b) Careful advancers

The category of careful advancers is comprised of 174 enterprises. In some respects they are similar to conservatives as they also realise the necessity of product improvement and growth which they wish to achieve exclusively by domestic expansion. They are willing to create strategic partnership with domestic enterprises, not only with suppliers and customers, tough.

What makes them different from the conservative category is on the one hand the fact that they do not expect intensifying competition and new competitors and on the other hand the fact that they have already started to use modern Internet based information technology. However, IT application has been restricted to electronic contact with customers and distant partners. This is exactly what they consider the main competitive advantage of information technology as it enables them to provide better service quality. According to them, the most hindering factor is that it is impossible to keep pace with the development of information technology.

(c) Pioneers

The category of pioneers is comprised of 127 enterprises. Just like the other two groups they find product improvement and growth crucial factors. But there is a difference in their conception of realising them. Unlike the other two categories which think that the key to the problem is domestic expansion, pioneers attach great importance to external markets, e-commerce and regular participation in governmental and EU tenders, too. Therefore they plan to create strategic partnership not only with domestic but also with foreign enterprises, governmental and EU organizations.

They want to make significant use of developed Internet based information technology to obtain further competitive advantage. Besides electronic contact, IT is applied as a complementary, virtual room for business. Therefore it is not surprising that they mentioned e-commerce as the most important on-line competitive advantage as it enables enterprises to compete with companies bigger than themselves. Keeping pace with IT development was designated as the above-all threat, which was followed by the difficulty in finding well-qualified IT experts and by the lack of capital to invest in information technology.

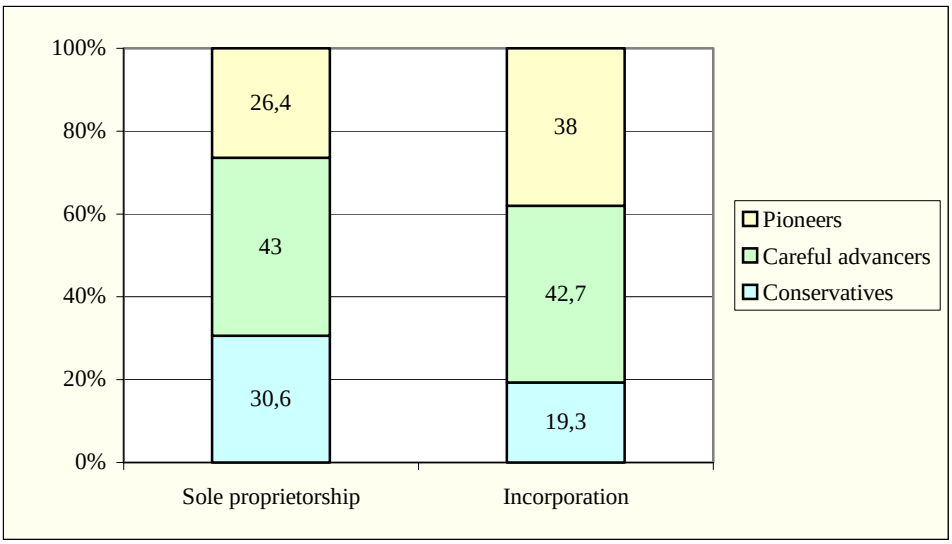
8.4. The characteristics of vision categories

Significant relationship could be discovered between vision categories and the legal form of enterprise, size and location, while there was a less meaningful connection in regard to fields of activity.

(a) Characteristics based on legal form of enterprise

On the basis of legal form of enterprise, vision categories are divided into two groups: sole enterprises and joint ventures (Figure 8.6).

Figure 8.6 Vision categories characterised by legal form of enterprise



As it is demonstrated on the above figure, pioneers are more typical to joint ventures while conservatives more frequently occur among sole entrepreneurs. It is therefore assumed that joint ventures have a more positive vision than sole entrepreneurs.

(b) Characteristics based on business size

In the research, size was measured by the number of employees and net sales (Figure 8.7). Both elements showed strong relationship with the different vision categories. This means that the bigger an enterprise is the more positive vision it has. This is due to the fact that bigger companies have better information technology and greater knowledge in the field than smaller enterprises.

(c) Characteristics based on location

There was a significant relationship between vision categories and the level of regional development measured by GDP contribution. It is remarkable that contrary to our preconception according to which the more developed a region is the more optimistic entrepreneurs there are, they are the underdeveloped regions such as Northern Hungary that have more positive vision.

Figure 8.7 Vision categories characterised by number of employees

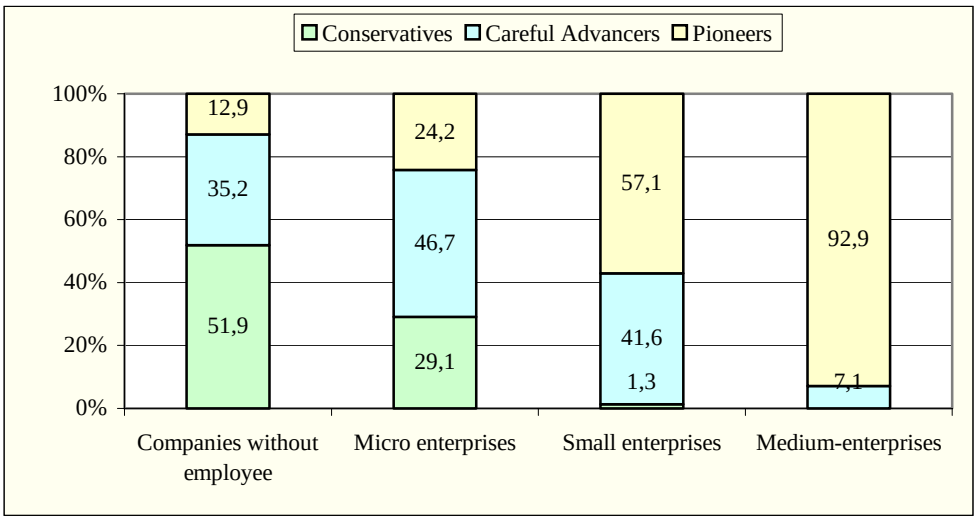
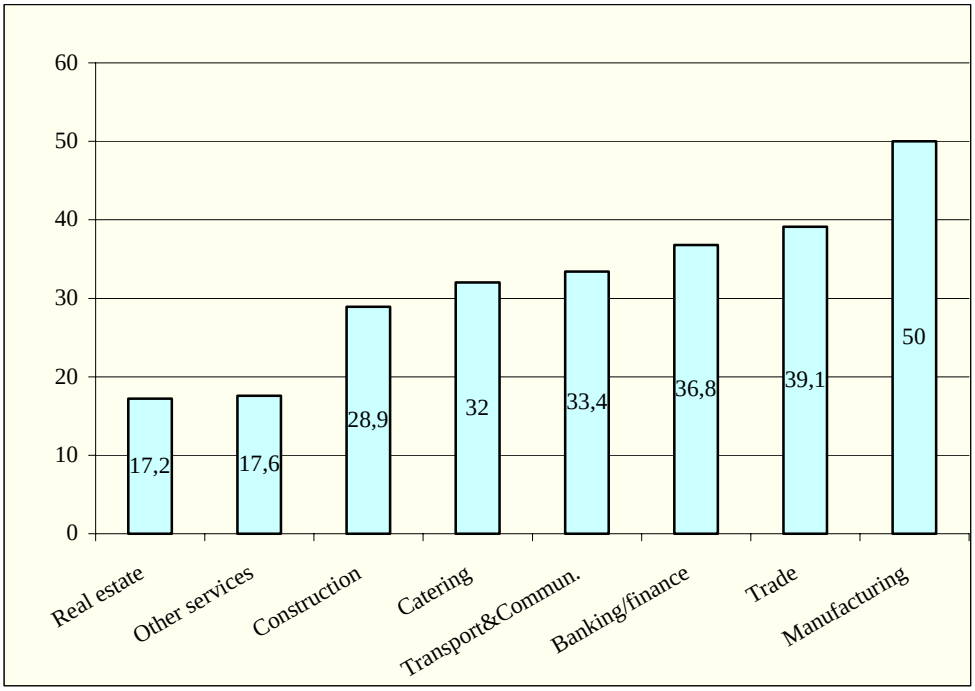


Figure 8.8 Proportion of pioneers in different sectors



(d) Characteristics based on fields of activity

It can be seen on the above Figure 8.8 that pioneers, characterised by positive vision, are present in the greatest proportion in manufacturing industry, commerce and financial services which are the leading sectors of the Hungarian economy. On the other hand, enterprises in the fields of real estates, economic and other services can be less featured by pioneers.

8.5 Summary

In the first part of this article we were focusing on the vision concerning the application of information technology among Hungarian small and medium-sized enterprises. It was pointed out that enterprises are expecting intensifying competition in the future. The question of growth has been a challenge of great importance, the key to which is considered to be domestic expansion. This is in contrast to European tendencies where small enterprises concentrate more on enlarging external relationship.

In the second part of this article three distinct vision categories of Hungarian small and medium-sized enterprises were described: the so called conservatives that are aware of the challenges of globalisation and the spread of information technology; however they are unwilling to use on-line technology. Careful advancers represent a segment that already uses the Internet but restricted to electronic contact, while pioneers are enterprises planning to participate in e-commerce in the short run.

At the end of this article we drew the conclusion that the bigger an enterprise is and the more important sector it works in, the more positive vision it possesses. It is essential to make mention of the fact that contrary to our expectations, results of the research suggest that the less developed a region is, the more positive vision enterprises there have. This fact has shed light on the necessity of further investigation.

References

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