

INVESTIGATION OF PERCEIVED BUSINESS ENVIRONMENT AMONG MSMEs IN HUNGARY WITH A FOCUS ON DIGITALIZATION

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Abstract

SMEs are under-researched in Europe, micro-sized enterprises are often even ignored in surveys. However, their contribution to GDP, employment, and balance of trade is beyond all dispute. A qualitative research has been conducted among micro, small, and medium-sized enterprises (MSMEs). Informants involved in the research were owner managers of companies various in terms of profile, age, and location within Hungary. Interviewed entrepreneurs named some common difficulties and hindering factors, as well as few specific trends supporting their business. Their perception of business environment, practice of planning, access to external funds, and level of digital readiness have been investigated. Outcomes of the study demonstrated the value of face to face semi-structured interviews with Informants of confidential relationship as well as served additional objective with the research, that is, to better establish and design a future quantitative study. This paper was also aimed to contribute to the SME/MSME research in Europe due to their significance in national economies detailed in the study. Findings are partially in line with those of previous studies in international literature.

Keywords: *business environment, SMEs, MSMEs, entrepreneurs, digitalization, planning practice,*

JEL: *H81, O12, O21, O30, O31, O32, O44, O50*

Introduction

Several factors of the business environment have a significant influence on the operation of business firms. Over the past decades, the importance of thinking and planning in corporate strategy has continuously increased, as a result of which the need to adapt to the environment has become more and more important (Barakonyi, 2002). In addition to profitable multinational companies and large business firms with solid financial background, the competitiveness of each national economy also depends, to a large extent, on the financial success of the vastly heterogenous micro, small and medium-sized enterprises (MSMEs) (Ajaz Khan et al., 2019; Chonsawat & Sopadang, 2020). The business environment perceived by the entrepreneur itself significantly affects the turnover of enterprises, therefore it is considered essential to profoundly examine certain factors of the business environment in order to better understand how specific economic variables affect the enterprises' life (Hulleman & Marijs, 2019). Namely, micro and small-sized enterprises are the most sensitive to any changes affecting their business environment, alterations in legal and tax regulations, burdens affecting employment, bureaucratic burdens, but in addition, compared to large enterprises, the micro and small-sized businesses can react more flexibly to environmental changes and make better use of new and favourable opportunities (Csath, 2017).

Research Gap

However, EU in their surveys and statistics do not measure business organizations under ten employees. Yet, due to the characteristics of the national economy, the average number of employees in a business firm in Hungary – taken all domestic employers into account – is still under five people (Hustiné Béres, 2012). Since there are no usable hard data available, even researchers often ignore enterprises under ten employees in their studies and rather focus only on companies starting with 'small-sized enterprises' (Matejun, 2016). In the case of research findings on large enterprises, the applicability and generalizability of the results, however, encounter difficulties in the case of micro-sized enterprises (Dooley et al., 2017). Most papers surveying MSMEs or rather SMEs only, have been made in developed economies, and – in accordance with researchers' opinion – most findings of such studies cannot be applied to emerging countries due to the fundamentally different conditions of the latter (Souitaris, 2002). Therefore, a research gap in this field is obvious.

Literature Review

As per data of Hungarian Central Statistical Office with respect to the year of 2022, micro and small-sized enterprises together provide over 56% of all employees in the national economy with a job, however, their total contribution to gross domestic product (GDP) still remains around 30%. Taken medium-sized enterprises also into account, aforementioned percentages increase to 67% and 43%, respectively.

Present study aims to discover the interdependences and differences of the perceived business environment, practice of planning, access to external financing opportunities, and level of digital readiness among MSMEs.

Planning Practice

Strategic planning is a key factor of the success of any for-profit organization. The more the owner manager of a business firm takes care for the strategic management and the strategic planning and the implementation of the latter, the better the company's performance can be expected (Tornike, 2018). Strategic planning is responsible for maximizing the company's profit, market share, and miscellaneous business-related outcomes (Bryson et al., 2018). Strategic planning is defined as putting together and coordinating all activities to achieve the organization's long term objectives including among others highest profitability possible (Majama & Magang, 2017). Yet, the share of MSMEs in total employment and their contribution to the GDP of Hungary indicates a quite significant difference. The reason for that, according to many business management scholars, may be that MSMEs are often characterised by low performance and high failure rate mainly due to the lack of strategic planning, resources such as funds and skilled labour (Chonsawat & Sopadang, 2020; Majama & Magang, 2017; Zeqiraj & Nimani, 2015). If we consider the fact that over 99% of all actively working companies in Hungary consist of MSMEs, this is a problem which needs improvement.

Business Environment

I draw the conclusion: MSMEs find it more difficult to flourish in today business environment than large enterprises do. MSMEs are an essential part of the economic system (Kotaskova & Rozsa, 2018), therefore steps need to be done in order to create a business environment more favourable for them than how it is today. I agree with Hamplová & Provazníková (2014) on their opinion that a favourable business climate shall be considered 'principal one' by all-time policymakers as it is not just about economic growth and prosperity, but it serves the interest of the whole society through employment, more stable state budget, and external economic balance. Furthermore, studies suggest that smaller firms are more innovative than larger corporations (Michaelidou et al., 2011), and can therefore enhance the position of aforementioned areas. Ajaz Khan et al. (2019) stated in their empirical research that investments primarily affect the European economy which vastly depends on the SMEs. Investments, additionally, have a great influence on business growth, economic stability, employment generation, and the quality of business environment. Authors also proposed the reduction of regulatory restrictions as a relief for SMEs (Ajaz Khan et al., 2019). In his empirical study, Rocha (2012) confirmed similarly: low entry costs, easy access to finance, and good level of innovation result in a larger SME sector. Innovation is officially acknowledged as a key factor in long-term growth of national economies, in which MSMEs are its main conductors (Victorovich et al., 2015). Today, business environment no longer consists only of suppliers, customers, employees and authorities as academists used to define decades ago. Rules and standards, laws and supervisory outlines, governance and policies have been added to what we consider 'business environment' (Ajaz Khan et al., 2019). In the meantime, digital transformation, digital readiness has also been added to the previous as a major megatrend having great influence on enterprises' performance as well as shaping business environment (Hoa & Tuyen, 2021; Nasution et al., 2018).

Digital Readiness

Digitalization trends do not only shape organizations but also create the opportunity to enhance development, increase employment opportunities, accelerate innovations and therefore improve business landscape (Wen & Atan, 2021). Organizations that implement a transformation towards digital technologies can enhance business growth and open up new opportunities (Khan et al., 2015; Wen & Atan, 2021), therefore assessment and improvement of digital level of companies is essential (Brozzi et al., 2021). High-state digital strategies can also support business firms to increase production efficiency, reduce energy consumption, and decrease manufacturer costs (Chonsawat & Sopadang, 2020). Researchers around the world focus even more on digital readiness, however, there is no common definition of digital readiness that is universally accepted (Nasution et al., 2018). In my work, I define digital readiness as to what extent the Informant's company is involved in using digital technologies in the firm's everyday activities including – among others – Industry 4.0 solutions and technologies. I also explore the entrepreneurs' attitude towards digitalization trends because, especially in the life of micro and small-sized businesses, they are the driving force of their companies as well as of the economy (Ajaz Khan et al., 2019). In every case in my study, the Informants were owner managers of their companies.

Data & Method

In this paper, I decided to choose a qualitative approach to receive a broader picture directly from entrepreneur informants in face to face conversations. I also intended to establish a better foundation for my future quantitative survey using the experience gained in the qualitative research as proposed by Abrunhosa & Moura E Sá (2008), Bryan Jean et al. (2017), Cheng et al. (2014). Data were gathered through semi-structured interviews from February, 2022 to April, 2023. Companies are miscellaneous in terms of their location within Hungary, year of establishment, profile, size category as well as the profession of their owner managers. The interviews lasted from about a half an hour to nearly two hours, then they were fully transcribed. The semi-structured interviews consisted of general open-ended questions that were followed by targeted questions about the surveyed topics to get in-depth and detailed information on informants' perceptions and experiences of the studied fields (Riivari & Lämsä, 2019).

The 'youngest' business firm was established 16 years prior to the interview, the 'oldest' ones in the time of the regime change in 1990. Interviewed entrepreneurs are predominantly characterized by higher education (11 of 17), their average age was just under 59 years, of which they spent an average of 32.7 years as entrepreneurs. One-quarter of the companies were micro-sized businesses, 9 were small-sized firms (56%), and 3 were medium-sized enterprises (19%). Additional information about the entrepreneurs and their respective businesses, including the month the interview was carried out, may be found in Table 1 below.

Table 1: Summary Table of Entrepreneurs and Their Companies

Number of Informant	Age of Informant	Company Profile	Number of Employees	Year of Establishment	Nature of Ownership	Time of Interview
1	48	hospitality	8-15	1997	family business	February, 2022
2	62	renewable energy trade and service	60-70	2002	family business	February, 2022
3	54	civil engineering, construction of water projects, wholesale of industrial pumps	25-27	2003	non-family business	February, 2022
4	(1) 45 & 51	software development	14	1997	family business	February, 2022
5	68	pharmaceutical wholesale	14	2000	non-family business	February, 2022
6	50	injection molding, tool manufacturing	70	(2) 1988 / 2001	family business	February, 2022
7	55	poultry-farm, egg production, feed production, poultry slaughterhouse	55	1995	family business	February, 2022
8	61	wrapping material manufacturing and wholesale	16	2003	non-family business	March, 2022

Number of Informant	Age of Informant	Company Profile	Number of Employees	Year of Establishment	Nature of Ownership	Time of Interview
9	63	electrical equipment manufacturing, development, design, and contract manufacturing, industrial process management software development	46	1995	non-family business	July, 2022
10	48	package logistics	33 (+40 subcont.)	2005	family business	July, 2022
11	67	dispatcher service	13	2006	family business	August, 2022
12	69	general construction	3-5	1990	family business	August, 2022
13	61	design and maintenance of broadcasting services	2 (+14 subcont.)	2003	family business	September, 2022
14	71	electrician services	3	1990	family business	November, 2022
15	64	wellhead and parts manufacturing for natural gas wells and oilrigs	35	1991	non-family business	April, 2023
16	63	accounting and payroll services	20	1990	non-family business	April, 2023

(1) *Both owners of the company, husband and wife, were Informants in the study.*

(2) *Father of Informant 6 established the firm in 1988. His son, the current managing director took over the management in 2001.*

Source: own research

Hereinafter I refer to the interviewees or their companies as Informant 1, Informant 2 etc.

Findings

Five of all Informants deemed their business environment very bad (31%), seven acceptable (44%), and four (25%) said it was excellent. There were certain problems that occurred during more of the interviews. Labour shortage, difficulties in finding workforce, and staff fluctuation causes entrepreneurs the most headache. In total, 7 Informants (44%) declared workforce difficulties have been crucial problem in recent years. Six informants (38%) deemed the 'general uncertainty' a hindering factor in their everyday life. The electrician (Informant 14) said he has been 'unable to give a quotation because material prices jump up every day' so he did not know what price to calculate with. Head of the general construction firm (Informant 12) complained about the same: one day there are materials at the store he does not need at the moment, and then certain products are unavailable for even a week when he would need it. But 'blue-collar sort' of industries were not the only one affected by this kind of uncertainty. Informant 16 complained about the always changing and unpredictable regulatory environment. His company's two largest partners are clinics, on which the most of the sales revenue depends. Yet, in mid-May, the entrepreneur did not know whether these clinics would be socialized (state-run) by 1st July and he would lose them at once or not. Informant 8 firm manufactures – among others – aluminum foil. They ordered and paid off a shipment with the required raw material from St. Petersburg in January, 2022 – like they did several times before

–, and when it arrived to the port in the Netherlands, sanctions have already been introduced against Russia upon 24 February, 2022 due to which the shipment was reversed. This phenomena makes planning impossible for small companies – and the examples are plenty.

Dominance of large enterprises as well as multinational companies (MNC) was the next most frequent problem (5 enterprises, 31%). Informant 9 complained about the low quality dump goods of competitors in the EU but mainly in Poland, Informant 8 said it was very difficult to negotiate with MNCs as 'they dictate from a position of strength'. Head of egg production business added: 'after the military conflict in Ukraine had started, the polish egg export dropped like crazy from one day to another, then we realized these have never been Polish eggs but Ukrainian, go compete with them: no EU, no regulations, no never returning investments, no nothing'. Volatility of Hungarian Forint was also named as a hindering factor when it comes to procurements and sales. Informant 13 carries out procurements in Euro, however, the firm makes its sales mainly in Hungarian Forint and the weak domestic currency causes great losses as the entrepreneur can enforce his increased procurement costs only to a limited extent. As they stated, Informants 6, 8 and 15 were affected by similar circumstances.

The difficulties and hindering factors set out above have a great influence on the entrepreneurs' attitude towards external financing (bank loans) and also on their practice of planning. 75% of the Informants' firms did not have any bank loan, successful tenders and subsidized loans occurred in very low proportion among respondents. Table 2 below summarizes Informants' feedbacks regarding areas of research.

Table 2: Summary Table of Informants' Feedbacks in Highlighted Areas

Informant No.	Business Environment	Access to External Funds	Length of Planning	Applied Digital Solutions
1	hectic, difficult along varying number of employees	mainly own funds, EU-funded tenders to lesser extent	2-3 months	order registration and inventory management system, homepage, Facebook
2	very good in last 3-4 years, finding workforce is difficult, acceptable fluctuation, environment protection and energy prices trends support the business	easier by today, investment is about to start with 75% loan	10 years	ERP, CRM, homepage, webshop, Facebook, Twitter, LinkedIn, Google Adwords, 4 vans equipped with drones and related applications
3	long term relationships and cooperations, but aging staff as well as labor shortage hindering expansion are problems	no use of external funds in last 10 years	2 years	not integrated ERP system included CRM, central data storage, online connection to accounting, Facebook, homepage, webshop
4	stable customers, decisive supplier in the market, regulation changes are only risk, stable staff, new services under development	no need for external funds	does not come up, demand for their product can be considered inflexible	self-developed not integrated ERP system, CRM, homepage, Facebook, Google Adwords, online professional forum with the most registered users in Hungary, online customer service
5	mixed, sometimes very difficult and unfair circumstances compared to big players, but favouring objective conditions, long term and stable partnerships, stable staff, but generics are always a threat	excellent credit rating, but self-financing is enough, owner refuses to ensure the collateral requested by the bank	quarterly reviewed, annually updated 5 year business plan	SAP, CRM, homepage, webshop (dental business only), LinkedIn
6	very good today, there is a demand for the business activity, re-industrialization trend, attractive employer in its vicinity, stable staff, good reputation, venturing into a specific technology as only firm in Hungary, 50-50% domestic and export sales	not required	10 years	Facebook, LinkedIn, Google Adwords, homepage, industry 4.0, ERP, CRM, robots, digitized processes, all machines and tools connected to network, all state-of-the-art technologies available in the industry, unique softwares of machine park, ISO 13485, Instagram, all tools of online marketing
7	risky industry, business is exposed to the dump goods of competitors in the EU, never returning investments due to EU regulations, low fluctuation, stable staff, low export share (5%)	loan offers from 2 banks, but trying to operate using own funds only, borrowing money is not necessarily worth it, but some loans are being repaid	2 year business plan is based on professional expertise due to determining biological characteristics of business profile	homepage, production management software, homepage, other software solutions
8	extremely difficult, critical supplier and sales side, stable staff, volatility of HUF causes losses, dominance of multinational companies is too great, high customer price sensitivity	tenders are not an option, difficult and long negotiations with banks	earlier 2-3 years, nowadays one year business plan, 4-5 years strategic guideline	machinery connected to network, homepage, ERP, remote access printing

Informant No.	Business Environment	Access to External Funds	Length of Planning	Applied Digital Solutions
9	varying, constantly becoming more difficult, few export markets	same bank relationship for lot of years, 200 Mio HUF line of credit for current assets, it is not worth to go for tenders	no formal long-term planning	homepage, document management system, introduction of ERP
10	subcontractor of a foreign concern, favorable environment due to growth of e-commerce	no leasing since 2020, van rental only with replacement in every 4 years, no tenders	no need to make plans due to the concern's 83% domestic market dominance	package logistics software, PDAs, devices required for couriers' work, changeover for electric vehicles
11	very unfavorable, 2 customers cancel the service every day, this is the first they save money on	not required, tenders are not an option	simple business, planning was not necessary, no plans today due to Informant's age	homepage, softwares
12	very good and bad at the same time, impossible to make plans when he does not know whether materials will be available tomorrow at the store, much more contracts than 20-30-40 years ago, no reinforcements of workforce	not required	did not need to make plans, wants to finish by the end of the year	n/a
13	company has an acceptable cash-flow for the time being, but dark clouds are gathering, volatility of HUF causes losses in profit as nearly the total procurement comes from Eurozone countries, extreme price increase in procurement the company cannot fully enforce on its sales side	does not dare to take the risk to borrow money, tenders never won	proceed as done before, contracts mainly depend on political decisions, construction of 20-30 broadcasting stations a year vs construction of zero next year	accounting, client management, homepage, remote interface
14	terrible, there are certain products one day in the shop, that are unavailable the next day, he cannot give a quotation because price jumps up 10% from one day to the next, the very low number of young workers have already left the country, no reinforcements of workforce	not required	never needed to make plans	n/a
15	currently fluctuating, mining needs have dropped in recent years due to green trend and UA/RU conflict, now the needs have slightly increased but decrease in needs is expected on the long term, replacing workforce is the greatest problem, Budapest HQ disables to apply for subventions and most tenders	1 Million USD overdraft	3 years	homepage, 3D production management software, nearly 100% efficiency of filtering out errors
16	workforce situation is critical, SMEs are the only market, aggressive expansion of competitors with very strong financial background	not required	4-5 years	homepage, Facebook

Source: own research

However, there were also examples for the contrary of the above. Having taken care a lot for CSR resulted in making Informant 6 a very attractive employer in its vicinity, who only knows fluctuation as a problem by hearsay despite the company's good berth in the agglomeration of the capital where workforce-related difficulties can be considered general in all size categories. By his self assessment, the company is among the top innovators in its industry today. Informant 2 was satisfied with how business was going since residential subventions and tenders along with green trends noticeably supported his business, founder of the company made plans for no shorter than ten years – it was outstanding in the sample. A profound diversification has been in progress in the firm of Informant 16: besides the manufacturing of wellhead and other parts for conventional natural gas wells and oilrigs, the company was about to start producing miscellaneous parts and components for industrial utilization of green technologies for both domestic and export sales. Aging and sickly population are severe problems for the demography but come in handy for a pharmaceutical goods wholesaler (Informant 5). Survey ordered by the foreigner prime contractor of Informant 10 indicated not less but 83% of customers prefer the brand his company represents when one shall decide about one or the other logistics company's service. Informant 10 stated he only needs to keep the business running and enjoy the benefits of a constantly growing industry.

Conclusions

Present qualitative research study contributes to knowledge on perceived business environment, practice and length of planning, and attitude as well as access to external financing opportunities of MSMEs. As mentioned in the study, definition of business environment has become broader in previous decades. My paper focused other areas of business environment than its traditional elements such as suppliers, customers, employees etc. My findings are in line with those of Bos-Brouwers (2010) as I also found there are significant differences between size categories in researched fields. It is interesting to take a look at feedbacks of Informants as size categories vary. If we consider employee number of each company as decisive factor between size categories, we find Informants managing larger companies in terms of staff have basically different views and perspectives compared to their 'smaller colleagues' (Tajeddini & Trueman, 2008). My findings do not confirm those of Martínez-Román & Romero (2017) as in my sample, education level of Informants did not indicate interdependence with the level of their companies' innovativeness. Respondents in my empirical research tried to do their best when it came to innovations and as more of them stated, they rather made small steps and introduced tiny innovations – if could not do any better – than not focusing on innovations. However, most interviewees recognized innovations truly are the key to more effective technological operation and financial success (Martínez-Román & Romero, 2017). As Informant 9 declared, despite the fact they have no formal plans, they do always work on innovations and if not otherwise, they try to adapt those useful ones among globally occurrent innovations (Matinaro & Liu, 2017). Outcomes of the study demonstrated the value of face to face semi-structured interviews with Informants of confidential relationship as well as served well my additional objective with the research that is to better establish and design a future quantitative study (Tiu Wright, 1996). With the research, I also wanted to contribute to the SME/MSME research in Europe as this segment is under-researched in many fields of economics despite their significance in economies detailed above (Auer & Jarmai, 2017).

In my opinion, leaders of those companies praised business environment and therefore achieved some better performance compared to previous years who either had export sales or enjoyed an

indirect but significant increase in revenue due to whatsoever trend. I would like to emphasize one more aspect. Except for few of the Informants, these firms pay out a relatively substantial amount of dividend each year, yet the perspective of certain Informants was quite negative for a reason.

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