

## MAIN ELEMENTS OF STRATEGIC COOPERATION AND ALLIANCES IN HUNGARY

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### **ABSTRACT**

*Nowadays enterprises face many economical challenges and problems. Demanding consumers, sustainability issues, and financial crises are just a few of the most important ones. Because of this, staying competitive in the market is becoming more difficult for companies. One of the solutions to this problem could be collaboration between corporations. This strategy is popular world-wide. However, Hungarian enterprises have only been implementing it since the early-mid nineties. In 1989 a political transformation took place in Hungary, and real market processes and strategies could only really develop after that. The aim of this paper is to describe the main elements of successful cooperation, mainly based on Hungarian competitiveness research. To ensure comparability, distinctions must be made regarding basic characteristics like company profile, number of employees, annual turnover, etc.*

Keywords: alliance, strategic, element, cooperation

### **INTRODUCTION**

What typical characteristics and elements are necessary for a successful cooperates in Hungary? What is the participant companies' legal form; what sector they operate in; how are their activity diversified; are they work on international level, etc.? This paper will summarize these characteristics based on a Hungarian competitiveness research that focused on SMEs.

In 1989 a political transformation was taken place in the country and many opportunities were given for companies to develop their business. On the other hand the number of multinational enterprises (MNEs) has increased and caused more intensive competition on the Hungarian market. This process is still lasting, and after the EU accession in 2004 it continued even more intensively. The Hungarian owned enterprises did not have so much business experience due to the regulated social markets until 1989. In this last twelve years Hungarian companies had to close up nearly the same level as it is in the developed countries. In consequence of this lag corporate culture and strategy is generally underdeveloped.

In developed industrial countries like USA and Western Europe strategic cooperatives has developed from 1960s as Hungarian enterprises are using it from the early-mid nineties. Traditional joint ventures (JV) were one of the first forms of cooperatives at that time, where the local partner was in a subordinate position (Tari, 2010). During the years partnership in JVs were developed and partners have more determinant role nowadays. According to the main Hungarian researchers of

strategic alliances, JVs are classified as strategic alliances or cooperatives. Therefore the main definitions accepted by us are the followings:

*Strategic alliance:* Long term cooperation, based on mutually advantages and each partner stay strategically, organizationally and legally independent. At the same time a certain degree of activity integration is realized due to the given resources (*Chikán and Czakó, 2009*).

*Integration:* At least one year long, but often medium or long term collaboration, controlled by a contract. The integrator ensures the market or production safety to the integrated party; furthermore it helps in financing or provides services (*Széles, 2004*).

These definitions are very similar and they often use it as a synonym. Scientific literature has not yet made a homogenous definition and during the years it developed and expanded according to the current business situation. It is important to emphasize as well that short term contractual agreements, fusions and acquisitions are not come within the definition of strategic alliances.

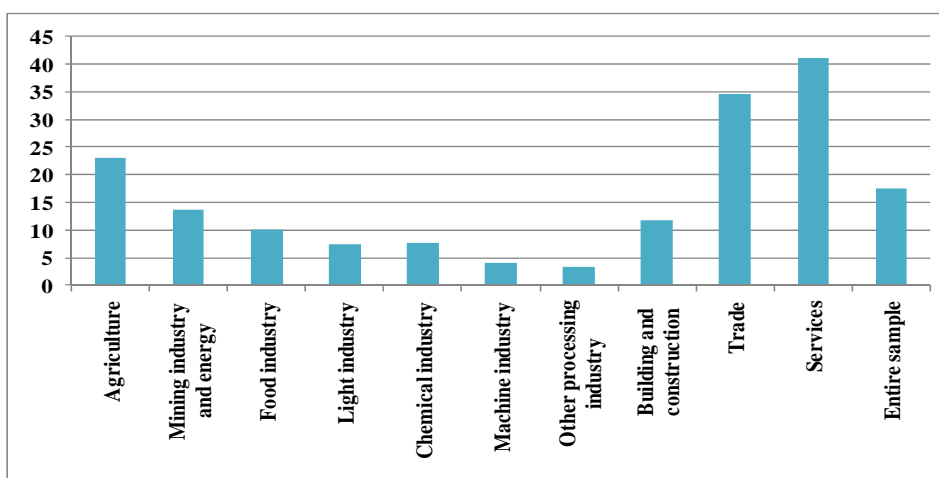
## DISCUSSION

The reasons of emerge strategic cooperatives are considerably various. Both or all parties join to gain financial or non-financial advantages like economic of scale, acquire new markets, develop and apply new technologies, etc. In Hungary this competitiveness encouraging business opportunity is still just in the elementary stage since it was used from the mid nineties (*Tari, 1998*). Therefore the “system” has problems and obstacles that need to be solved however positive effects are perceptible.

Despite that agriculture is one of the most determinant *sector* in Hungary (*Figure 1*), strategic cooperatives are less typical there compare to services or trade.

**Figure 1**

**Strategic alliances by sectors (%)**



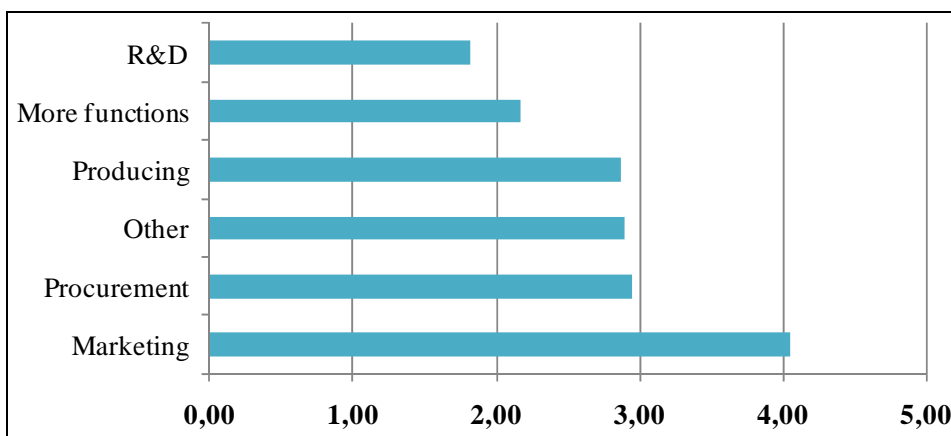
Source: *Agárdi, 2005*

During the history a pejorative meaning of traditional agricultural cooperatives in Hungary had developed. Agricultural cooperative system declined from the late 1980s due to the political and economical situation and it cannot play a proper role even nowadays. Experts are emphasizing the importance of agricultural cooperatives, but they still working ineffectively. Services in Hungary are developing powerfully and generating workplaces. Energy, telecommunication and financial service providers are the most important from the service sectors. They are mainly foreign owed enterprises just a few have Hungarian interest. As regards alliances in the trade sector food retailers are one of the determinant market participants (see case study of CBA below). Mainly procurement conditions are improving between collaborated retail companies, causing higher price gap for the retailers. Furthermore own brand products usually indicate higher revenue as well (Agárdi and Bauer, 2007). This assumes a long term relationship among domestic agricultural producers.

Cooperates between enterprises have many *functional fields* concerning the value chain (Figure 2). According to the competitiveness research, marketing is the most important field to develop cooperatives. Referring to the previous statements about food retailers, this result is not surprising. Besides activities in product manufacturing are considerably significant.

Figure 2

Field of strategic alliances concerning value chain (average 1-5)



Source: Agárdi, 2005

In my opinion applying more functional fields at the same time to cooperate could give more opportunities for business development. Tari (2010) also emphasizes this in his study as a new tendency in strategic alliances.

Shortage of capital could cause the low value of R&D, because long term technical and strategic improvements are remaining often in background at domestic owned enterprises.

It is important to distinguish alliances between *rival and non-rival companies*.

*Horizontal* strategic alliances are bound between rival enterprises. Their activities are similar, they produce replacement products and work in similar sectors. According to *Tari* (2010) rival companies' alliances have 3 different types: quasi-concentration alliances, shared-supply alliances and complementary alliances. The first two types materialized with similar resources and professional skills, whereas in complementary alliances different resources are used. The author demonstrated many practical examples however none of them were Hungarian owned enterprise, only companies attending also in Hungary. This also shows the immaturity of Hungarian strategic alliances.

Non-rival enterprises create *vertical*, *diagonal* alliances and long-term agreements (*Chikán and Czákó*, 2009). Their activities are dissimilar from each other and affect different sectors. In Hungary vertical cooperatives are typically a supplier-producer relationship while horizontal cooperatives represent more complex partnership. After all horizontal is becoming more typical for the analyzed Hungarian companies, particularly true for direct competitors (*Agárdi*, 2005).

*Legal forms* of the alliances are mainly divided into "formal" and "informal" clusters (*Table 1*).

**Table 1**

**Legal form of strategic alliances (%)**

Legal form	Characteristic	1999	2004
Informal	"Unwritten" agreement	12	20
Formal	Written agreement	75	49
	Joint venture	7	24
	Minority capital share	6	7
Altogether (%)		100	100

Source: *Chikán and Czákó*, 2009

Similarly to the developed countries written contractual agreements are the most common in Hungary. Joint ventures (JV) are becoming more popular compared to the last years. "Unwritten" agreements are most of the time used to evade competition law or indicate careful market behaviour.

Concerning *activity diversification* it is common that the more diversified the activity, the more partners are involved in the cooperation (*Agárdi and Kolos*, 2005). The *organizational structure* must be adjusted to the new business situation in order to handle the diversification and "multi-partnership". Essential problem for Hungarian enterprises is to develop an efficient functioning organization with a proper process control. Generally administrative processes are working inefficiently causing delays, additive costs and so on. It results interruptions in the partnership and this could be one of the main weakness of the Hungarian interested cooperates. This leads to the question of the intern *transaction cost* by R. H. Coase. No aim for this paper to enter into the details of transaction costs, but it is certain that both

external and internal transaction costs are necessary to consider as an element. To measure these costs are quite difficult, but technological innovations can make it possible to reduce these costs. There is no research for the real costs of the Hungarian strategic alliances but since the domestic owned enterprises have a lag, it assumes higher transaction costs than in the developed countries.

In Hungary most of the alliances are working on national level, mostly due to the geographical closeness. *Table 2* shows the main *nationalities*.

**Table 2**

**Nationality of partner enterprise**

Nationality of partners	Distribution (%)
Hungarian interest	69
EU member	22
Non-EU member, Eastern-Europe	1
Non-EU member, developed countries (USA, Canada, Japan, Switzerland)	8
Altogether	100

Source: *Buzády and Tari*, 2005

According to *Buzády and Tari* (2005) low volume of international partners shows the lack of initiation with international corporate. They also empathize that domestic partners have approximately the same market and financial situation while international partners probably have stronger position causing inequality and fear of later acquisition. I agree with it partially, however if the partners are staying strategically independent the chance for fusion or acquisition is quite low. If the criterion of independency is damaged we can call nothing but strategic alliance. *Tari* (2010) emphasizes in his research, that horizontal alliances have higher chance for elimination or fusion because of competition.

Positive *corporate performance changes* are expected by the participant partners when they join to an alliance. According to *Agárdi* (2005) in Hungary despite of the late adaptation of cooperatives, strategic positions are positively changed (*Table 3*). This could indicate further relations.

**Table 3**

**Effects of strategic alliances to strategic position**

Change	Distribution (%)
No change	16
Positive	79
Negative	5
Altogether	100

Source: *Agárdi*, 2005

At Hungarian enterprises the *joining mood* is not declining, most of the companies are willingly joining to new alliances. But considering companies have never developed any cooperate only 30 percent thought about joining and 70 percent did not plan any at all (*Agárdi and Kolos, 2005*).

### **Case study: CBA – The Hungarian trading company**

In 1992, ten Hungarian private traders are founded CBA Commercial Ltd., a food retailer chain strategic alliance. The participants associated to put a fight against the dying Hungarian food retailer market. Multinational enterprises (MNEs) began the penetration into the Hungarian markets therefore small food stores lost most of their costumers. New market demands were arise and CBA recognised the new way of commercial activity. The main goal was to increase the number of participating stores during the years, and give help for procurement and sales. In 1998 CBA purchased an 18 000 m<sup>2</sup> storage to ensure the smooth service of expanding demands. Regional centres were established in order to cover the national market and operational and management issues became more easy to handle. In 2000 and 2001 CBA corresponded with the German EDEKA Commercial Association and expanded the business to Croatia. A logistic centre was finished in 2005 in Alsónémedi and CBA became a franchise system. The joined enterprises get a uniform policy and appearance regardless of business size. During the years the number of joined stores was increased above 3300. It is still a 100% Hungarian owned strategic alliance which is a unique phenomenon in the Hungarian food retail market. The main principles of CBA are the followings:

- Strategic autonomy for partners
- Common discount system
- Common interest against individual interests
- Steady expanding
- Common invest of resources (marketing, organization, employee education, logistics)

CBA collaborates with local producers to ensure Hungarian product availability and they created a high quality, own brand called the “Hungarian Quality”.

Regardless of shop size participants shops have various types. The owners’ shops could differ in size, internal appearance, product range and opening hours. Joined stores are connected to the regional centres and they have to comply with the entire requirements and get purchase benefits in return. Stores of “CÉL” were founded in 2001. They include small size shops without the conditions to join. Thus CBA ensures different conditions (logo, marketing and assistance) for them but purchasing conditions remains favourable. More than 1700 stores are using this possibility without entry fees. CBA “Príma” is a new shop type from 2009. High quality appearance and product range are the main distinctive features besides favourable prices. In year of 2009 CBA “Cent” discount stores were established as well. The product range is the widest among CBA shop types with the most favourable prices.

The CBA’s logistic system ensures the effective supply of the partners. They use high technological quality system that can serve the next 15 year activity. There are

15 regional centres which coordinate partners and increase the number of participant shops with 5-6 per week on national level.

CBA is strengthening their domestic market position and besides from 2001 it begun the international expansion. CBA is attending in 9 countries with almost 3900 stores: Slovakia, Slovenia, Romania, Poland, Serbia-Montenegro, Lithuania, Bulgaria, Croatia and Czech Republic. They have common marketing and procurement activity that give benefits to local suppliers and defend against MNEs.

Due to this cooperation CBA became one of the biggest food retailers in Hungary. Both the joined partners and owners have mutual benefits while partners have their own independency. The competitiveness of small food stores were considerably bad especially in settlements where MNEs were attending like Tesco, Spar, and so on. CBA partners can keep their market position successfully and activate the local economy helping the localization process.

## **CONCLUSION**

From the first appearance of strategic cooperatives and alliances in the early mid nineties it is becoming a more and more popular strategy among SMEs. However the definitions are not clean and confusing, it can be laid down, that this strategy is an application to reach goals, not a goal itself. The procedure is still developing however the role of traditional contractual agreements is declining for the good of mutual benefit based long-term partnerships. Tertiary (service) sector and trade sector are the determinant in strategic alliances in Hungary. Marketing and procurement are the main fields of cooperate regarding value chain. Appling more fields at the same time to cooperate could give the opportunity for more effective business activity. This could be a new way for enterprises. Reliance in foreign partners is particularly low due to the dominant situation of foreign companies. Alliances among competitors could strengthen their market position against „not-joined” companies. The improving trend is obvious however Hungarian enterprises need to adopt rapidly to reach the level of developed countries. Despite this “pressure” I suggest slower development, because management and organizational deformations could be avoided. On long-term period disadvantages will be more significant compare to benefits with faster extension. For further and deeper research, sectors like services, trade and agriculture should be analysed to discover the nature of this alliances.

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**Online source:**

<http://www.cba.hu/en/index.php?categ=cba&id=3&ss=8795>