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REGIONAL CONNECTIONS AND EXPORT ORIENTATION OF SMES AFTER EU ACCESSION

GOAL OF THE RESEARCH

Our basic goal of research is to identify how small and medium sized enterprises are able to contribute to the competitiveness of regions. For this general question we expect answer from the empirical research survey carried out in the Northern Hungarian Region. The theoretical background of this research were previously made by different authors either in Hungary or abroad (BUZÁS-LENGYEL-KÁLLAY 2003, CHIKÁN-CZAKÓ-ZOLTAYNÉ 2002, G. FEKETE 2004, HORVÁTH 2001, KÁLLAY 2002, KOCZISZKY 2004, KRUGMAN 1994, LENGYEL 2000, 2003, LOSONCZ 2003, MAZUR 2006, PORTER 1998, 2002), we only refer to them in this paper. The survey is also based on research activities started some fifteen years ago at the Institut of Organization and Management in Budapest Tech (BORBÉLY 2007, CSISZÁRIK-KOCSIR 2007, KADOCSA 2004, TIBOR 1998). This particular research was started in 2006, a part of results concerning the strength of regional connections and the intensity of export orientation of SMEs are published now. We have to emphasize that the evaluation of all the data has already been finished, further overall results and conclusions will be published soon in articles and as a part of the author's PhD dissertation.

The survey is based on the questionnaire made by Professor MICHAEL PORTER and his colleagues at Harvard University and the U.S. Council of Competitiveness (PORTER 2001). We adopted the above mentioned questionnaire and added some own questions concerning the relations between enterprises and other bodies in the region. The addresses of firms were earned from the comprehensive list of Dun & Bradstreet Hungary. This list was filtered according to Hungarian SME's law and

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our needs with the exception that micro enterprises are excluded. This means that firms having more than 10 employees were put in our sample. This way we had all the names and addresses of small and medium sized enterprises in the Northern Hungarian Region. The total number of them is 2443, out of which we sent out questionnaire for 1015 mostly by e-mail and smaller amount by post. We got 103 pieces of valuable questionnaires.

The structure of the questionnaire gives us the opportunity to examine SMEs through their innovation potential and this way we are coming closer to their contribution to the competitiveness of the region. The survey is structured around the following areas: the business environment, collaborative business networks in the region, economic beliefs and attitudes, accessibility of services in the region and in smaller regions. We defined innovation, following PORTER's approach, in a broad sense. Innovation is the transformation of knowledge into new products, processes, and services. Innovation involves more than just science and technology. Improvements in marketing, distribution, and service can also be considered innovations (PORTER 2001).

EVALUATION OF ANSWERS

Business environment

The business environment can be understood in terms of four critical areas which can be affected by government through its policies:
- community infrastructure;
- local demand conditions;
- rules and incentives governing investment and competition;
- related and supporting industries.

In the first block of questions we were curious about the availability of infrastructure assets in the region. We asked the people to evaluate our statements on a seven grade scale according to the intensity of their agreement or disagreement. The cost of doing business (cost of real estate, wages and salaries, utilities etc) in comparison with other regions was estimated lower by only half of the people. To our surprise all the grades appeared, although it is considered to be one of the most backward regions in Hungary. The most frequently given mark for the overall quality of transportation (roads, air transport, railroads and ports) was two. Specialized facilities for research (science laboratories, university research institutions and technical laboratories) were considered as very limited. Almost one third gave mark one! The same proportion of answers stated that institutions in the region that perform basic research does not transfer knowledge to regional firms. In contrary to the above, but not surprisingly, the communications infrastructure, including internet access, satisfies the business needs of the companies at a high level. Most of the firms complained about the scarcity of qualified scientists and engineers in the region. The available pool of skilled workers in the region was considered heterogeniously. The average grade is a bit over three. The overall quality of the elementary and secondary school education got an average of four, but the advanced educational programs (e.g. vocational schools, colleges and universities) were said to provide regional business with relatively low quality workers. The regional access to risk capital (venture funds and private equity investments) seems to be really difficult. We suspect that for a part of the firms it is simply out of question.

Quality of life

The quality of life and cost of living were examined from the point of view of their contribution to easy recruitment and retention of employees. As almost all the seven marks were mentioned in the same proportion, we can not come to definite consequences.

Local demand conditions

Local demand conditions refer to the presence or emergence of sophisticated and demanding local customers who press firms to improve and provide insights into existing and future needs. One fourth of companies considered their regional customers for their products and services very sophisticated and demanding. On the other hand the same amount of answers evaluated customers as undemanding. We got more or less the same result for the question if regional customers have special need that impact the firm's product offering. Approximately from 40% of regional customers come relatively frequent feedback which reveals the need for new features or enhanced performance.

Rules and incentives governing investment and competition

The investment climate and policies towards competition set the context within which firm strategy and rivalry develop. The climate for investment refers to labour market policies affecting the incentives for workforce development, the structure of the tax system, intellectual property rules, and their enforcement. In the opinion of the majority of those who gave answers state and regional regulations affecting business are inappropriate and hinder their firm's ability to succeed. More than the half of companies regard state and regional environmental standards and safety regulations quite strict. Investment in R&D is considered to be neutral from the view point of state and local taxes by most of the firms, but considerable part of companies stated state and local taxes as discouraging for the investment in R&D. The support of state and local government for the investment in R&D (funding business incubators, creating consortia etc.) got 1 and 2 marks in nearly half of the cases. Perhaps the government's overall responsiveness and ability to work with the needs of business got the hardest critics. The most frequent grade is two, and four is the maximum! The number of regional competitors is estimated to be high by approximately 55%, and a bit less than 45% feels competition to be intense.

Related and supporting industries

Related and supporting industries refers to the local access to internationally competitive suppliers of materials, components, machinery, and services. It also involves local access to industries sharing technology, channels and customers. Only very few of the firms said that specialized suppliers of their business's materials, machinery, and services are mostly not available inside the region. Roughly the same group of firms stated that regional special suppliers' quality is rather law and more or less this group consider infrequent regional supplier's assist with new product and process development. Two thirds of companies share the opinion that businesses in the region hide information from other firms even when there is not a competitive reason to do so.

Clusters

A cluster is a geographic concentration of related companies and institutions in a particular industry field. A cluster also usually includes specialized suppliers, universities, trade associations, government institutions and other organizations that provide training, education, information, research and or technical support. Questions concerning clusters caused problems for the firms and for us to process data of answers. In most of the cases there are no clusters at all in the industry or service area of the firms, or if there is, it is at the starting point of its life cycle. This is why the most frequent mark for the relationship between firms and organizations in their cluster is one. The situation is almost the same in case of changing information inside the cluster and the willingness to accept new members into cluster activities. What's more only 5% of the firms has geographic preferences for their business partners. Very low number of the companies stated that firms in the cluster percieve new buyer trends more rapidly than their competitors who do not operate within a cluster. For the question, finally , considering all the significant factors, including government, industry and social factors, how good a location is your region as a place to innovate in your business, half of the firms gave mark one or two.

Overall evaluation of business environment

As a summary the last question in the first section of the questionnaire was as follows: Taking into account all the elements of the business environment that you have considered so far, which five currently have the greatest positive impact on your business's success? Which factors do you consider to be greatest future threats to your business if not addressed? Out of the five positive and negative factors we asked to give the ones which have the greatest impact.

Positive impact	Future threat		
		Cost of doing business (real estate, wages and utilities)	1
		Quality of transportation	2
		Specialized facilities for research	3
		Qualified scientists and engineers	4
		Transfer of knowledge from research institutions	5
		Communications infrastructure	6
		Available pool of skilled workforce	7
		Quality of K-12 education	8
		Sourcing of employees from advanced educational programs	9
		Access to capital	10
		Demanding regional customers that provide feedback	11
		Specialized needs of regional customers	12
		State/local regulations for production processes and products/services	13
		State and regional environmental /safety regulations	14
		State and regional tax and incentives for investment in R&D	15
		Predictability of government policies	16

		Government's overall responsiveness to the needs of business	17
		Level of competition in your industry	18
		Quality and in-region location of your suppliers	19
		Assistance from regional suppliers for new product and process development	20
		Relationships between firms and organizations in your cluster	21
		Participation with regional institutions in R&D efforts	22

Around 60% of the entrepreneurs are afraid of the raising costs of doing business, although only four percent considered it as the major threat. 45% of the firms anxious about the predictability of government policies and for half of them it is the most important threat. Available pool of skilled workforce is a potential problem for almost half of the enterprises, but only 8% puts it on the first place. Access to capital is one of the threats for forty percent, but very few of them considers it as the most serious threat for the future. Beyond the above mentioned factors, state and regional environmental / safety regulations got considerable amount of votes, approximately 30%. As far as the positive impacts are concerned, more then the half of the enterprises did not mention any as the most important one! That is why we did not find any positive factor with more then 10%. Communications infrastructure and demanding regional customers that provide feedback gave positive experience for equally 40% of the entrepreneurs. Approximately thirty percent of the companies appreciate the quality of in-region suppliers and the quality of transportation. It is interesting that level of competition is considered by 20-20% of the firms as positive impact and future threat.

Regional connections

One of the crucial aims of our research was to explore the regional and international connections of the SMEs located in the North Hungarian Region. First we examined the division of their income by different territorial levels. Less then forty percent of them has export activity, while the proportion of those who acquire more then 50% of their income from abroad is only a bit more then ten percent. Every fifth of the firms realizes the majority of its income from local sales. 57.7% of the companies does not have sales on subregional level at all. None of the firms reported subregional sales with more then 30% ratio. Fifteen percent of the SMEs did not have any sales on county level. 7% of the enterprises got the majority of their income from this level. As far as the strength of the regional connections are concerned, 69.3% firms reported income from the region. On the other hand, just like in case of the counties, a very small group of companies gets the majority of its income from the region. Approximately one third of the SMEs does not have any sales in Budapest. 90% of them earns less then 25% of their income from the capital city. Only half of the small and medium sized companies in the North Hungarian Region has business connections in other Hungarian regions. As we have already mentioned before, roughly 40% of these companies are involved in exports. But only ten percent earnes its living basically from this source. Most probably there is some kind of invisible, indirect export, very often regional producers do not even know that their components are built in a product exported by somebody else. As far as the territorial structure of the exports is concerned, it dominantly goes to EU member countries, but every fourth of the enterprises has exports to non EU members. Overseas exports is exceptional and the volume of it is very low.

An important indicator of territorial connections between firms is the origin of inputs used for products and services. 42% of the North Hungarian SMEs does not use any local input. Usage of inputs from imports can be found at half of the companies. In comparison with other territorial levels, the proportion of the firms using basically imported inputs is much higher. Almost half of the importing firms get more then 50% of their inputs from abroad. Naturally we wanted to also know where did our firms find their new partners in the last few years. A bit less then 30% of the SMEs succeeded in getting new partnerships abroad. In case of those who were able to find new international partners, the importance of these new connections is significantly bigger then in any other territorial levels. More then the half of new partnerships has at least sixty percent weight in the given enterprise's new connections. For our question if they had any cooperation with other companies in product development and in putting products on different markets, 15% of the SMEs reported local cooperation of both types. On regional level product development is stronger, 14.1% of the firms are involved. Budapest has outstanding role in both cases. 38.4% of Northern Hungarian SMEs cooperated in product development in the capital city, while 26,9% in introduction of new products to markets. As far as cooperation with international partners are concerned, a bit more then five percent cooperates in product development and slightly more then 10% in product introduction to markets. Experts with different professional background widely accept the notion that participation in networks contributes to the stability of enterprises. That is why we asked SMEs in the Northern Hungarian Region if they participate in networks. 46.3% of them said, yes. Out of those who participate, more then the half has connections in more territorial levels. Participation in Budapest based networks is dominant, but cooperation with networks in other Hungarian regions is also important. Accession to international networks is not relevant. Only a few percentage of the firms participate in these networks. We measured the intensity and importance of participation in networks by the income earned from sales to network partners. With a few exceptions this ratio is above 20%. One third of the participants earns more then 80% of their income from networks. The average 48.3% shows the dependence of SMEs on network activities.

Around twenty percent of the SMEs took part in tenders financed from EU budget. Those who got from these resources earned an average of 3.36% of their annual income. Out of ten applicants six was successful. Finally we wanted to see what kind of help do SMEs require from central, regional and local governments to improve their market position. We offered 18 possible answers. Out of them three has outstanding importance for the firms. The most powerful requirement is long term, predictable government rules. Similarly almost all of the enterprises would like to see reduced rate of old age pension and health care contributions. Reduced taxes based on research and development costs would also be appreciated by entrepreneurs. For other possible measures, mainly for those which would cause direct government intervention into market relations e.g. subventions, protectionist steps against foreign firms etc., the demand is very limited from the companies side. Organizing clusters by governments is at the bottom of the list. All in all SMEs seem to require a stable behaviour and ruling i.e. assurance of the general framework of market activities in the long term and any other tool is considered to be of secondary importance.

CONCLUSIONS

As we stated above, regional connections between Northern Hungarian SMEs are quite week. Basically their sales depend on other regions and Budapest. Their usage of inputs is also dependent on other sources outside the region. The most important possible forms of their cooperation, taking part in regional networks or clusters are not characteristic, they are at the beginning of this route. Most of them are not aware of the importance of these kind of connections. The amount of the firms that are able to export is not so much limited, but we could find only a very small group of SMEs whose sales and profitability depends basically on exports.

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