

Expectations and Strategies of Enterprises in the Period of Joining the European Union¹

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SUMMARY

The paper is based on a questionnaire survey conducted by the Competitiveness Research Centre at the Corvinus University of Budapest in 2004. The author analyses expectations of company managers concerning the possible consequences of joining the European Union. Managers perceived increasing level of uncertainty parallel with getting closer to the time of EU enlargement. They expected more severe competition especially by companies of the EU 15 countries. The overall expectation on consequences for the company's performance is positive. The last section of the paper provides an overview on the strategic preparation of companies for the competition within the European Union.

INTRODUCTION

Research work on transformation is still going on. At the same time the research projects in transition economies show signs of shifting focus. According to certain views transformation is over, transition from command economies to market economies has been done, and the so called transformation research should be the occupation of economic historians. Other authors formulate a bit more sophisticated argument saying that transition has been done in the economic and political systems of the former communist countries of Central and Eastern Europe (see: e.g.: Dobák, 2005; Chikán – Czakó – Zoltay-Paprika, 2002). The standpoint of the present author is that transformation at the system level, that is in the political and economic structures, has been finished in the countries which had joined the EU in year 2004, but transformation at the deeper levels of culture and individual performance is still in progress (Balaton 2005). We are not really convinced that the structural level changes have been finished in the countries just before the EU-accession.

The Hungarian economy – like many other economies in Central and Eastern Europe – has gone through systemic transformation during the 1990s. The economic transformation – parallel with radical changes in the political and social system resulted in conditions similar to market economies in Western European countries (Temesi – Zalai, 1999). At the beginning of the twenty-first century a new challenge has emerged in front of the

transformed economies and enterprises within them, that is joining the European Union.

For the Hungarian economy and for the companies it is a decisive question what conditions will be existing after joining the European Union, and to what extent will they be capable of adapting to the new situation.

RESEARCH BACKGROUND

The paper is based on the ongoing research work within the Competitiveness Research Centre at the Corvinus University of Budapest. The previous surveys were implemented in 1996 and in 1999. Following the research tradition of conducting large sample empirical surveys among enterprises operating in Hungary, the Research Centre has conducted a questionnaire survey among 301 enterprises located in Hungary. The survey was implemented between March and June 2004, that is just in the period of EU-accession (Chikán, Czakó and Paprika, 2004)

The sample includes 301 companies responding to the questionnaire (response rate was 23 per cent). The respondents mainly represent medium-sized manufacturing companies oriented toward the domestic market (50 per cent). Distribution of other branches is as follows: services – 12 per cent, trade – 10 per cent, extraction and energy services 7-7 per cent, construction – 6 per cent, public services – 5 per cent, agricultural production – 3 per cent. The questionnaire consisted of four parts, to be responded by CEOs, marketing, production and financial managers.

¹ The paper is based on the presentation at the 5th International Conference of University of Miskolc, Faculty of Economics, May 11-12, 2005.

Companies in the sample were mainly employing more than 50 persons. Companies with less than 50 employees represented only 5 per cent of the sample. Composition of the sample according to size measured by number of employees is as follows: between 51 and 99: 28 per cent; between 100 and 299: 35 per cent; between 300 and 499: 11 per cent; between 500 and 999: 10 per cent; above 1000: 11 per cent.

After analysing data collected by the questionnaires, the research work will be continued by qualitative methods. First, interviews with company top managers will be conducted. The rest of the year 2005 will be devoted to collecting information for developing case studies of selected companies belonging to the sample. Parallel with writing the case studies round-table discussions will be organized with managers of firms operating in Hungary. The methodological approach chosen by the research designers (Chikán – Czákó – Paprika, 2005) is that of triangulation favouring both quantitative and qualitative approaches (Jick, 1979; Van Maanen, 1979) to understand the complex issues of competitiveness of Hungarian enterprises in the period of joining the European Union. Further research evidence will be available and published in different journals by the end of 2006.

Bellow we present the first results of the survey related to the attitudes and expectations of Hungarian company managers concerning the consequences of joining the European Union, and the strategies developed for the competition within the Union.

COMPANY MANAGERS' OPINION ON POSSIBLE CONSEQUENCES OF JOINING THE EUROPEAN UNION²

In order to be able to understand the efforts company managers devoted to preparing for the conditions after being member of the European Union, we probably have to have a picture on how these managers perceived the possible consequences of the enlargement. In principle we may argue that in case executives do not foresee important changes in their conditions, it may be a rational course of action not to devote time and energy for preparation for the conditions after the accession. Led by the above considerations we asked the executive about

their opinion related to the following questions:

- What level of uncertainty was perceived by the company three-to-four years ago and recently?
- How do they evaluate changes connected to the EU-accession from the point of view of successful company activity?
- What are the consequences of EU-accession for the financial and marketing capabilities of the company?

PERCEIVED LEVEL OF UNCERTAINTY BY MANAGERS

Company managers perceived increased uncertainty in the environment of their company compared to the situation three-to-four years before. The major sources of uncertainty were the home market, the legal regulations and changes connected to joining the EU. It is noteworthy that perceived uncertainty due to EU-accession is larger during the period of the survey than three or four years before (see Table 1). Domestic and foreign suppliers, technological development, political and social changes in the country were regarded as relatively stable environmental segments.

Compared with the survey results in 1999, perceived uncertainty due to technological development and political changes within the county was at a lower rate. Compared to the findings of the 1996 survey, uncertainty connected to domestic sales market and financial market became much lower. Social changes contributed to lower level of uncertainty between 1996 and 1999, but it has increased since 1999, reaching a level similar to that of 1996. Foreign suppliers were regarded as the most stable environmental segment in each survey. In the surveys conducted in 1996 and 1999 we raised questions related to foreign and regional changes. In the 2004 survey we replaced this question with changes due to the EU-accession. Perceived uncertainty related to these questions was at the lowest level in 1999. We observed an increase in this measure between 1996 and 1999, and after 1999 as well. Further inquiries will be necessary to identify the reasons why did company managers perceive increased uncertainty parallel with coming closer to the accession.

Table 1. Perceived level of uncertainty related to EU-accession in 2000-2001 and in 2004.

<i>Perceived uncertainty</i>	<i>No. of companies 3-4 years before</i>	<i>% of companies 3-4 years before</i>	<i>No. of companies in 2004</i>	<i>% of companies in 2004</i>
No uncertainty	77	28.1	28	10.1
Limited level of uncertainty	76	27.6	51	18.4
Medium level uncertainty	78	28.5	69	24.9
High level uncertainty	31	11.3	86	31.1
Extremely high level uncertainty	12	4.4	43	15.5
Total	274	100.0	277	100.0

² Contributions made by the following researchers are acknowledged: Zoltán Buzády, Lilla Hortoványi, Emma Incze and Krisztina Tóth.

As negotiations on conditions of the accession progressed, more and more information was available on possible conditions of the EU-enlargement. One would expect the uncertainty decreases in this period, but our respondents expressed different opinion.

Environmental factor having most important influence on enterprise activity was the smooth relationship with customers. 84.8 per cent of the respondents regarded it to be the most relevant factor, which is 8 per cent higher than the figure in 1999. The second most important element of the environment was good relationship with suppliers (according to 61.9 per cent of the managers). Domestic and foreign competition were evaluated as relatively less influential, less than half of the companies shared the opinion that it is an important environmental segment. Government level economic policy was named as important by 35.2 per cent of the responses, while EU-accession was named by 34.1 per cent as relevant. Purchasing market and technological development was rated as the least influential element of company environment.

Ranking of environmental elements according to their relevance for the company was rather similar to the findings in 1996 and 1999. Domestic market was seen as more important than foreign competition in each surveys. Behind these responses we may identify a domestically oriented company behaviour, which is supported by the fact that relatively low per cent of the respondents regarded EU-accession as a factor having high relevance. Compared this finding with the opinion that firms perceived increased uncertainty parallel with getting closer to the date of accession, we may identify company behaviour tending to avoid uncertainty and concentrating on the domestic market which was perceived as more certain.

Regarding customer relationships as the number one priority of management is similar to findings in developed market economies. But regarding domestic and foreign competition as less relevant environmental factor is contradictory to the findings of Western economies (Hofmeister-Tóth, 2003).

The most hindering environmental elements were national economic policy (51.8 per cent of respondents), domestic economic situation (49.5 per cent) and functioning of the Government (40.5 per cent). We have to mention that in the survey of 1999 the same factors were mentioned as most hindering. Changes related to EU-accession, connections to ministry, domestic and foreign economic situation were named as mostly supportive elements of the environment. The survey results show that companies have diverse opinions on the domestic economic situation. This statement is supported by the fact that 29.4 per cent of respondents regarded it as a neutral factor. Changes connected to EU-enlargement were seen as supportive environmental factor. This is contradictory to the findings that EU-accession was evaluated as a factor resulting in increasing uncertainty and that relatively small per cent of the companies

regarded it as an element having high relevance. National economic policy, domestic economic situation and functioning of the Government were mentioned as the most hindering factors in the survey of 1996 as well. We may argue that company managers are steadily dissatisfied with the operation of the Hungarian Government.

HOW DO COMPANY EXECUTIVES EVALUATE CHANGES CONNECTED TO THE EU-ACCESSION FROM THE POINT OF VIEW OF SUCCESSFUL COMPANY ACTIVITY?

Part of the questions were raised for both general managers and financial managers. According to the answers given by general managers opinions forecasting positive consequences for the company have a narrow majority. The answers show strong diversity. Nearly forty per cent of the respondents regarded the consequences of EU-enlargement as neutral. Positive consequences were forecasted by 33.4 per cent, and negative outcomes by 22.1 per cent.

INFLUENCE OF EU-ACCESSION ON FINANCIAL AND MARKETING CAPABILITIES OF COMPANIES – QUESTIONS ANSWERED BY BOTH GENERAL AND FINANCIAL MANAGERS

The survey included the following questions:

- > Will the costs of entry to foreign markets be decreased?
- > Will economic connections with companies of non-EU countries be decreased?
- > Will the company be receiving relevant support from the EU?
- > Will the EU-support have unfavourable consequences for competitiveness of enterprises?

The above questions were answered by using a scale with five elements, ranging from fully disagree to fully agree.

Will the costs of entry to foreign markets be decreased?

Our data show basic similarities between the opinion of general managers and financial managers, which is understandable, as they formed opinion on the same issue. But contrasting views may also be seen as possible because perception of complex issues may be different by

individuals, so even large differences may be explained as well.

Neutral answers had larger frequency among financial managers (39.5 per cent), compared with the 35.0 per cent of general managers. Summing up the frequencies of mostly and fully agreeing answers the results are rather similar. General managers expressed disagreement more frequently (34.5 per cent) than financial managers (30.6 per cent).

Will economic connections with companies of non-EU countries be decreased?

Differences between the opinion of the two groups of managers are significant here. 59.8 per cent of general managers expressed disagreement (fully disagree and mostly disagree together), while in case of financial managers this figure is 51.0 per cent. Neutral opinions were formed by financial managers more frequently. Frequency of agreement (mostly agree and fully agree together) is similar (10.1 versus 11.8 per cent).

Will the company be receiving relevant support from the EU?

Looking at the data we may observe that financial managers were more optimistic concerning the possibilities of getting support from the EU. 34.5 per cent of the financial managers expressed agreement, while the ratio of agreeing general managers is 29.4 per cent. Neutral answers were more frequent among financial managers (34.3 versus 27.1 per cent). Non-agreement was more characteristic for general managers (43.5 versus 31.2 per cent).

Consequences of EU-support for competitiveness of enterprises

The question was formed in the following way: Will the EU-support have unfavourable consequences for competitiveness of enterprises?

Relatively small differences were observable between the opinions of general and financial managers. General managers expressed full disagreement more frequently (41.7 per cent) than financial managers (29.0 per cent). If we take into account partial disagreement as well, then the difference is less observable. Frequencies of the mostly disagreeing and fully disagreeing answers are similar in the two groups of managers. We may conclude that company managers do not count on unfavourable consequences for competitiveness due to support from EU.

INFLUENCE OF EU-ACCESSION ON FINANCIAL AND MARKETING CAPABILITIES OF COMPANIES – QUESTIONS ANSWERED BY GENERAL MANAGERS ONLY

Possible answers to the question were formed in the followings:

- Possibilities for sales will significantly be increased by the EU-accession;
- Our company will be faced with stronger competitors;
- Export will be more important and will increase;
- Market position of our company will not be changed significantly;
- We may count on a broader supplier base with improved quality of goods;
- Our major competitors will be the companies from the joining countries;
- Cooperation with other companies will have more significant role;
- We can hire cheaper and more qualified labour force;
- Significant measures will be necessary to keep highly qualified employees;
- Countries joining the EU recently will provide relevant market for our company;
- Countries of the EU-15 will provide relevant market for our company;

Answers to these questions were given by using the same scale as above.

Will our possibilities for sales be significantly increased by the EU-accession?

Looking at the results we may state that opinion of company managers show significant diversity concerning the possibilities for sales. Disagreeing answers are the most frequent (42.3 per cent), but neutral responses are also held (32.4 per cent). Agreement (partial and full together) was expressed by 25.3 per cent of the responding managers.

Will our company be faced with stronger competitors?

Data show that companies count on increased competition. 56.2 per cent expressed agreement, while the ratio of disagreement was only 20.8 per cent.

Will export be more important and increased?

We may state that companies do not count on relevant increase in their export activity. 44.5 per cent expressed disagreement, 34.1 per cent was neutral and only 21.4 per cent of general managers agreed.

Will market position of the company be changed significantly?

More than one third of the companies gave neutral answer to this question. 43.2 per cent expect unchanged market position, and only 21.1 per cent forecasted changes.

May we count on a broader supplier base with improved quality of goods?

41.8 per cent of respondents expressed neutral opinion. Total and partial disagreement together was shared by 31.1 per cent. Partial and full agreement was the opinion of 26.2 per cent of top managers. We may conclude that opinions are rather diffused in this question.

Will our major competitors be companies from the joining countries?

Our data show that most of the companies do not count on companies from the joining countries as their major competitors. 42.9 per cent of respondents disagreed and 30.5 per cent expresses agreement.

Will cooperation with other companies have more significant role?

Answers to this question show strong diversity of opinions. 34.9 per cent gave neutral answer. The frequency of agreement (37.4 per cent) is the same as the ratio of disagreement (37.7 per cent).

Can we hire cheaper and more qualified labour force?

Our respondents gave mainly negative answers to this question. 81.1 per cent expressed full or partial disagreement, while only 2.5 per cent gave positive answers. 16.4 per cent had neutral opinion.

Will significant measures be necessary to keep highly qualified employees?

About half of the companies (50.6 per cent) expressed agreement with the necessity of significant measures. Frequency of disagreement was 23.1 per cent. We may conclude that majority of top managers felt the necessity to take measure to keep qualified employees.

Will the counties joining the EU recently provide relevant market for the company?

Data show that majority of companies do not count on relevant market opportunities in newly joining countries. 52.7 per cent expressed disagreement and only 10.9 per cent gave positive answer.

Will the countries of EU-15 provide relevant market for the company?

More than half of the responding managers (53.7 per cent) do not count on increased market opportunities in EU-15. Enlarged market possibility was forecasted by 21.7 per cent of the top managers.

SUMMARY OF COMPANY MANAGERS OPINIONS CONCERNING THE EXPECTED CHANGES DUE TO EU-ACCESSION

Our survey shows that companies perceived high level of uncertainty concerning the possible consequences of EU-accession. The level of perceived uncertainty was higher than three or four years before. Uncertainty of opinion is also reflected by the diversity of opinions among top managers. We may observe differences in opinions expressed by general managers and financial managers as well. Financial managers were more optimistic regarding the possibility of getting financial support from EU.

At the same time companies have high expectations for the period after joining the EU. The expectations are mainly positive, although contradictions may be observed in the perceptions. Opinions are diverse concerning the possibilities for expanding sales. Company managers are mainly pessimistic about increasing demand for their products and services. Majority of respondents count on increased competition and difficulties in maintaining highly skilled labor force.

ENTERPRISE STRATEGIES IN RELATION TO EU-ACCESSION

The most important strategic goal of enterprises is to meet the expectations of their customers as much as possible. Profit maximization is at the second place among the strategic priorities. 92 per cent of the companies gave the answer that meeting customer expectations is the number one priority. In the survey of 1999 this ratio was 88.2 per cent, so we may recognize increasing customer orientation in the sample. Profit maximization was named the most important priority. 64 per cent of the companies regarded profit to be an outstanding strategic goal. It is noteworthy that 14 per

cent of the company do not regard profit as crucially important. The importance of profit has decreased compared to the findings in 1999. In the survey in 1996 86.9 per cent shared the opinion that meeting customer expectations is the major strategic priority. In that survey profit maximization was mentioned by 68.6 per cent as outstanding priority. We may see the tendency that customer satisfaction has been becoming more and more important, while the importance of profit has been slowly decreasing. Putting customer at the first place is a tendency observable in developed market economies as well (see: Wind – Main, 1998).

The most frequent way of adaptation to environmental changes is recognition of changes in time and preactive response, which is characteristic for 37.3 per cent of companies in our sample. Nearly as much companies gave the answer that recognize the changes and react to them after recognition. 11.6 per cent responded in the way that they forecasted the changes and tried to influence the direction of changes. Ratio of companies which recognize changes but incapable to give adequate answer was 11.2 per cent. Only 2.9 per cent was incapable of recognizing changes in time. These answers show high level adaptation capabilities of enterprises. Nearly half of the firms (48.9 per cent) was capable to forecast possible changes. 48.2 per cent recognized the changes and most of them was capable of giving reactions to them.

Adaptation to environmental changes shows strong similarity to our survey result from 1996 and 1999. Differences in frequencies of specific answers are not significant. The picture from 1999 is a bit more positive in the sense that ratio of companies forecasting changes and giving proactive response was the highest (41 per cent), and ratio of companies which recognized changes but was incapable to give answer was the lowest (9 per cent). Our surveys show that companies located in Hungary have successfully developed their adaptation capabilities after the changes in the system. Their operation show similarity to that of firms in developed market economies.

Company strategies have gone through relevant changes between 2000 and 2003. In year 2000 the most frequently used strategy was shrinking (32.6 per cent). In year 2001 the ratio of companies having shrinking strategy was only 8.7 per cent. At the same time the use of focus strategies was 25.7 per cent, and companies with stabilisation strategies represented 20.2 per cent of our sample. In 2002 defensive strategy was the most frequently used one (23.8 per cent), followed by growth oriented strategies (22.5 per cent). In 2003 increased use of offensive strategies was observable (45.2 per cent), while that frequency in 2000 was only 9.7 per cent. Lack of clearly defined strategy was mainly reported for 2001.

Typology of possible strategies was extended in the 2004 survey by the focused strategy, when a company concentrates its operation on a relatively narrower product-market segment. Our data show that this type of

strategy was mainly used in 2001, when neither growth nor shrinking strategies were not characteristic for companies in our sample. The answers show that before changing from a passive to an active strategy, companies tried to stabilise their position and concentrated on a narrower product-market segment.

We measured internationalization of companies by their exports and foreign direct investments as well. Only 10.4 per cent of companies had foreign direct investment, which show that Hungarian owned medium sized enterprises characteristic for our sample concentrate on the domestic market and are at lower level of internationalization. Foreign direct investment was mainly motivated by foreign market expansion strategies (75 per cent). The second most important factor was growth having strategic significance and preserving long term competitive position, which was characteristic for 56.3 per cent of the respondents. Getting access to resources was relatively less important, only 31.3 per cent regarded it as important. Improved efficiency of operations motivated only 12.5 per cent of firms toward FDI. This may be connected to the fact that companies were rather small to be able to realize economies of scale and scope through geographical diversification.

Changes in company strategies due to the coming EU-accession

Our survey shows that half of the companies (49.6 per cent) did not change their strategies, 41.5 per cent introduced moderate changes, and only 8.9 per cent of firms made basic changes in their strategies. We may argue that company managers probably underestimated the consequences of EU-accession and their strategic preparation was only moderate.

How did companies prepare for the period after the EU-enlargement?

Answers to this question are available only from 120 companies. The limited number of response is due to the structure of our questionnaire: only those companies answered the question which used formalized strategic planning systems. The answers show strong diversity. 35.8 per cent of firms started preparation years before the accession. 30.8 per cent gave the answer that they started to prepare in the previous year. 33.5 per cent shared the opinion that the EU-accession does not result in changes that need strategic preparation. That kind of response is probably connected to our previous finding that many of the firms in our sample had mainly domestic market orientation and internationalisation was not among their strategic considerations.

SUMMARY AND EVALUATION OF STRATEGIC PREPARATION FOR EU-MEMBERSHIP

Preparation for conditions after the EU-accession may not be regarded as a strategic aim having priority among the responding companies. This finding is probably connected to the fact that companies in our sample are mainly oriented toward the domestic market, their expansion on foreign markets is rather limited. Company strategies mainly favour meeting customer expectations. Profit maximization is a goal having lower

priority compared to customer orientation. Responding managers expressed relatively high level adaptation capabilities to environmental changes. Preactive adaptation was reported as the most frequent way of reaction to changes.

Type of company strategies went through relevant changes at the beginning of the new century. In the first years shrinking and stabilization strategies were mainly used. It was changed to defensive strategies in year 2002 followed by offensive and growth oriented strategies in 2003. The content of enterprise strategies shows stronger connection to international economic trends than to initiatives of the Hungarian Government.

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