

# **Small and Medium-sized Enterprises in Central Europe: An Overview**

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Small and Medium-sized Enterprises in  
Central Europe: *An Overview*

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## TABLE OF CONTENTS

### INTRODUCTION

An Overview of Situations and Problems -----	5
(Akihiro Ishikawa)	

### CHAPTER I

Small and Medium Enterprises in Poland -----	10
(Piotr Tobera)	

### CHAPTER II

Small and Medium Enterprises in the Czech Republic -----	21
(Danica Krause)	

### CHAPTER III

The Current State of Small Businesses in the Slovak Republic -----	38
(Zdenek Stastny)	

### CHAPTER IV

Historical Background and Present Development of Small Business in Hungary: Strong Presence in the Production and Weak Role in the Innovation -----	60
(Csaba Mako and Tibor Kuczi)	

## Introduction

### AN OVERVIEW OF SITUATIONS AND PROBLEMS

Akihiro Ishikawa

### BACKGROUND

The processes of system transformation, the large-scale redundancies, and the harsh inflation that took place in the de-socialist countries deteriorated the living conditions of people greatly. However, this did not lead to the serious social crisis that had been expected. Although socio-pathological phenomena such as criminalities significantly increased, the changes went through without any of the kinds of great conflicts that could have disintegrated society. The majority of people, above all in Central European countries, have accepted the transformation of political, economic and social life by adjusting themselves to the new living conditions.

One of the main reasons for this peaceful transition can be found in the economic and social functions of newly emerging small businesses. They absorbed the abundant supply of working people who had been unloaded from state and public enterprises, and provided them with different jobs for their survival. Besides providing job opportunities, they flexibly supplied the economic requirements which the existing state and public enterprises were unable to do. Small businesses played a major role as components suppliers for industry, as workforce organizers for construction, and as distributors of daily necessities for consumers, amongst others things. During the first stage of transition these businesses frequently rose and fell. Some of them disappeared very quickly, whilst others developed successfully to become medium-scale businesses. Without this diverse spread of business activity the soft-landing of the economy and society into the new system could not have been attained.

### EMERGENCE OF SMALL BUSINESSES IN TRANSITORY ECONOMIES

The present situation of small- and medium-scale businesses in four countries is observed in this book: Poland, Czech Republic, Slovakia, and Hungary. These countries underwent similar socialist practices for forty years, nevertheless, with regard to small businesses there were significant differences between them.

In Czechoslovakia, nationalization and collectivisation were so thoroughly carried out, that private business activities were officially liquidated. Private economic activities were permitted exclusively in only very peripheral branches and localities, and their

existence and functions in the national economy were absolutely negligible. Small-scale business meant only the activity of small units of large cooperatives or state enterprises. The emergence of private small businesses was noted just after the decay of the socialist system towards the end of the 1980's. Afterwards they spread at a tremendous pace to fill the vacuum in the economy.

In Poland and Hungary, a certain number of private small businesses continued to exist even in the 1950's, and increased in the 1960's and thereafter. Therefore, there has been an accumulation of experiences in private small business activities since that time.

In the Polish case the majority of peasants and farmers were private owners of businesses. This characterized Polish agriculture, in contrast to other socialist countries where collective ownership was dominant. Besides this, there were a number of other private businesses in Poland, mainly in the service industry.

In Hungary, the Government introduced the new economic regulation system in 1968, which officially allowed room for private small businesses. This was enlarged in 1982 and further in 1985. These businesses were encouraged by the Government to activate the national economy, not only in services but also in industry. The way for the development of small- and medium-scale businesses in Hungary had already been prepared under the Communist Government.

Small- and medium-scale businesses are now an indispensable part of the national economy of CEE countries. Though their situations within the socialist system were different from country to country and slight differences continue to exist between them, small- and medium-scale businesses share a large proportion of both the total number of enterprises and the number of employees in all of these countries. Their current contribution to the national economy in terms of production and sales is considerable.

#### PROBLEMS TO BE FOCUSED ON

In spite of the fact that small businesses played a major role in the peaceful transition of the economy and society and they are carrying out an important function in the present day economy in these countries, problems remain.

Their lack of business experience on the one hand, and a shortage of political and institutional support on the other, throws them into unstable and insecure situations, which creates a hotbed of collapse and hinders them from sound development. There is a scarcity not only of financial resources, technological and managerial knowledge

but also of market information. A way to overcome these problems could be addressed through State support and also through increased network formation so as to promote the exchange of experience amongst themselves. With respect to the latter, the following problems should be pointed out.

- (1) *Social isolation*: The majority of small enterprisers rarely have social relations with each other even when in the same branch of economic activity, and businesses are run without sharing common experiences or information. They are largely isolated, indifferent to others, and rather suspicious of one another. Hence their individual experiences and know-how cannot be accumulated collectively in an effective way.
- (2) *Underdevelopment of business moral*: Social isolation hampers the development of business moral. Furthermore there is a vacuum of legal and institutional arrangements. There is sometimes a hotbed of unsocial (sometimes criminal) commitments in the business world, and social mechanisms, which could control these commitments, are lacking.
- (3) *Lack of social respect*: The points above prevent small enterprisers from developing a sound awareness of trust on the one hand, and impedes the growth of their social respectably on the other. They are often regarded by society only as money-seekers, and their social status is poor. Sociological studies placed their social prestige as quite low. This leads to isolation not only in business activities but also in their social life.
- (4) *Mistrust between employers and employees*: There is a deep mistrust between employers and employees in small enterprises. Labour turnover is high, and the enterprises largely lack a culture of co-operation. This hinders effective management and the efficient utilization of human resources.

These situations produce high social costs not only for individual firms but also for the national economy. In order to overcome these problems, the importance of the development of sociability amongst enterprisers should be stressed. Although a market economy presupposes individual economic subjects, civil society assumes a certain level of sociability amongst business performers. Sociability in this sense is a basis for information sharing and the enhancement of effective learning by enterprisers. It is also the basis for the development of business ethics and social norms amongst themselves, which might raise their reputation and prestige in society.

For reference, the Chamber of Commerce in Germany and Austria has a legal competence for self-regulation that maintains collectively their business ethics and the

skill formation and which contributes to a higher level of social prestige for business people. In contrast, in Central European countries any collective mechanism for improving the social and economic status of small enterprisers has been rarely developed under the political and ideological orientation to Liberalism. Although in these societies the term “Collective” or “Social” is associated negatively with “Communism” or “Socialism”, for those who have an interest in maturing their sociability the concept is strategically indispensable when developing a collective mechanism for the further social and economic promotion of business in CEE in a natural manner.

## AIM OF THE PROJECT AND THIS BOOK

“Promotion of small Enterprises: Sharing Experiences between Japan and Central Europe” was launched in April 2002. This project has started from the viewpoint mentioned above and it aims at supporting and encouraging small enterprisers in forming networks in terms of mutual experience exchange and collective problem solving. Furthermore, it promotes cooperation and joint action for economic, social and cultural development at a regional and local level. We meet note-worthy cases in CEE countries, and are carrying out intensive studies in these cases so as to reveal the conditions and factors of their success.

At the preliminary stage of this project we conducted a general overview of the present situation of small- and medium-scale enterprises in CEE countries. There is great diversity amongst these enterprises in terms of business activities and performance. Their regional characteristics are different. They regenerate themselves very frequently. They are stratified at a market and technological level. Their professional skills and qualification levels are also varying. Some of them belong to the new economy, whilst others are alive in traditional branches. It is quite difficult to create a stereotype. Therefore, to begin with, we have collected existing data on the structure and dynamism of small- and medium-scale businesses in each of Central-European countries.

In parallel we collected information on the associations of small- and medium-scale enterprisers to figure out a map of their organizations and activities. These associations are of a formal institutional character, but with the help of this map we could access specific cases of networking practices by enterprisers in a certain region.

This book is the outcome of this preliminary work. It displays a general picture of the

small- and medium-scale businesses and their associations in Central-European countries. Authors are project partners from each country. The data collected here is the basis for the following stage of our project in particular, yet at the same time it is assumed that it will provide useful information for those readers who are concerned with CEE economies in general.

## Chapter I

### SMALL AND MEDIUM ENTERPRISES IN POLAND

Piotr Tobera

#### POLISH CONTEXT OF SMEs

Polish people in time of central planned economy had quite a good deal experience in private or individual undertakings. Let's remind that nearly whole agriculture was in hands of peasantry - relative independent social class small and medium holders of land and real estate. In the 80-ties polish regime tried to liberate our economy and give some freedom in the sphere of civil rights. As a result, hundred thousand of people were going abroad to take up so called tourist commerce, immigrate to work and gain money and them to invest it in Poland, in the sphere of small business. But decade of 80 was first of all the decade of political conflicts and fights against communist system. After its downfall solidarity government started to reform, among other things, national economy (restructuring, privatizations and liquidation of state's ownership). Our specialty was "shock therapy i.e. L. Balcerowicz reforms. They were directed to rapid changes in macro- and macro-institutional structures in economy. I will not refer here to these changes because there are large and separate topics.

Let's begin with the most general remarks about present state of our economy. It has been in stable recession since 1998 and consequently one can notice falling down growth GNP to about 1% in 2001 and rising employment to 19%. But there are also positive aspects. I would like to mention only 3 matters:

- Gradual lessening inflation, which now stands between 3-4%.
- Lessening but still high level of foreign direct investment – in 2001 to about 6.8 billions dollars.
- Preparing by government new economic strategy called "Enterprise – Development – Work", in which there are special legal instruments grasped in slogan "Enterprise first of all" that should animated business, mainly SMEs.

Next year according to governmental economic forecast GNP will grow to 3% and for two years to 5%. But forecast of European Commission proclaims that Poland will be the country with the highest unemployment and the lowest economic growth among candidates to EU. Some economic analysts claim that high rate of growth of GMP in "globe" period 1994-1997 which was pretext to call Poland "the tiger of Europe" were rather connected with favorable circumstances. They assert that in order to animate our economy it is necessary to develop entrepreneurship (Kuczynski 2002). Polish

government goes in this direction. The aims of the legislation, as I have mentioned above, is as following:

- Simplification of tax system
- Diminution of labour cost and enlarging elastic industrial relations: among other things
- Radical change of labour code; by the way, trade, trade unions strongly protested against it.
- New regulation of law aim to overcome barriers in relation between state's control agency and the entrepreneurs (Przedewszystkimprzedsiębiorczosc 2002).

However, all these solutions are not sufficient to move forward our economy. Governmental coalition should continue first of all privatization of public sector, because it is the source of great deal perturbations in economy and society / subsidies, corruption, doing private interests by managers and members of boards/.

## DEFINITIONS OF SME

In Poland there is not any generally accepted definition of SME. In governmental documents we may find the statement that small firms are those ones in which no fewer than 50 workers work and middle one from 51-250 people. Central statistical office defines it in a different way. As small enterprises it considers units employing not more than 5 people, and middle one from 6-50 people in industry, construction and mining as well as these which employ 6-20 people in the remaining types of activities. In accountancy there is also another definition. Three criteria of classification for SME are used here: the one which employs to 50 people; the one which the sum of assets account amount 1 million euro yearly; the one which receipts net from sale commodities or financial operation amount 2 million euro yearly. We can also find somewhere the definition based on qualitative criteria. For example in U.K. for main traits of small business are regarded that which have relative small participation on a given market; direct management by owners or partners; independent meaning the ones which have not outward control and can take strategic decision themselves. It is a constructive idea to cite in this place the recommendation of U.E. in question how to conceive sector of SME. It distinguished the following categories:

- Self-employed units
- Micro-firms employing 1-9 people
- Small firms employing 10-49 people and getting yearly turnover to 7 million euro or sum of assets account to 5 million euro

-Medium firms it defines as employing to 50-249 people or getting turnover to 40 million euro or sum of assets account to 27 million euro. / Gorgolewsko- Nowak, 2002; Piasecki, Rogut, Smallbone, 1999/

## BARRIERS TO DEVELOPMENT OF SME

Sociological and economic researchers concerning SME which have been recently published show that entrepreneurs meet such barriers as:

- High labour dues /for instance labour insurance/
- Tax burden
- Unfair competition / cheap import, often illegal “hidden economy – unregistered firms an employees /
- Unstable law and taxes
- Unprofitable a difficult to receive credits
- Grave reduction of domestic demands / impoverishment of people by reason of high unemployment /
- Strong competition domestic and foreign
- Red tape

Owners of SME are reluctant to accession Poland to UE because they will have to compete with strong businessmen from the West. However they are rather content with such organizational traits of their firms as:

- Qualification of employees
  - Technological equipment
  - Condition of work
  - Products quality
  - Ability to adaptation to market
  - Management of the firm
- / Matsuzak, 2001, Sitkok-Lutck, 2001, Survey report: The Situation of the Small and Medium Seized Enterprises, 2001 /

## THE STRUCTURE OF PRIVATE SECTOR IN POLAND

Let us look at figures dealing with employment in Poland / in thousands people /:

At the end of 2000 total employment was	15480.0
of which in public sector	4309.3
of which in private	11170.7
of which employees hired on the basis	

of employment contacts	9504.7
employers and own-account workers	5578.6
of which on private farms	4073.6
outworkers	4.5
agents	193

/ Rocznik Statystyczny, 2001: 134 /

I will glance now at employed people by ownership sector (on the end of 2000 in thousands).

	No	%
Total	15159.7	100
A. Public sector	3988.5	26.3
of which state ownership	2216.3	14.6
local self-government entities ownership	1592.7	10.5
B. Privates	11170.7	73.7
of which private domestic ownership	9979.8	65.8
foreign ownership	602.0	4.0

Source: Rocznik Statystyczny, 2001; 135

Now I will try to present private in more detailed figures. According to the newest data /January 2002/ in the period 1998-2000 the process of ownership transformation referred to 5037 state's enterprises and 1654 state's farms. Among first categories transformation was finished in 2849 cases. At the end of 2000 reminded still to transform 1148 state's firms. /Sektor prywatny i publiczny w gospodarce w latach 1992-2000/ at the end of 1998 in register Regon were registered 2412 thousands private firms. More detailed structure of this sector looks as following / in thousands /:

I. Group: to 5 employed people	2269
in which nobody is employed	37
1 person employed	1574
2 people employed	380
3 people employed	149
4 people employed	75
5 people employed	54

II. Group: over 5 employed people	126
in which 6-14 employed people	82
15-20 employed people	17
21-50 employed people	18
51-250 employed people	9
III. Group: bigger private enterprises employed over 250 people	2
/ Gardawski, 2001: 71 /	

As we can see the first group constitutes 94 % registered private firms, and with one only employed –65.2%. I have to draw attention to the fact that about 10 of 3 registered firms in reality are inactive on the market, that it gives circa 800 firms.

Central Statistical Office inform us that in the first-half 1999 Polish enterprises employed on the average 3.9 persons; but in the private sector- 1.7 persons and in the state sector- 76,9 persons. The average employment in the Polish firms is markedly lower than in the UE states and also in Hungary and Czech Republic. / *Zmiany strukturalne...1999* /. We know on the basis of research carried out in 1999 by Gardawski in private firms employing from 15 to 250 people that majority of present firms were founded by rather older men /average 46 years old /, by graduates of universities /64%/, who in the past worked in state's /80% companies /, and who occupied there managerial positions /62%/, and who were mainly engineers /52%/. Gardawski underlines that nowadays the owners and managers surveyed do not see any support from the state, moreover they feel themselves exploited by the state / I think they here exaggerate a little this exploitations / and therefore they behave unfairly in relation to the state; so they swindle on taxation and develop “hidden economy”. For the author it signifies rather process of anomie than simple phenomenon of social pathology / i.e. economic delinquency// Gardawski, 2002/.

## BUSINESS ENVIRONMENT

Business environment is composed with institutions, which are necessary to the existence and development of market economy. There are public and non-public, profit and non-profit institutions; among them essential are financial institutions – banks, exchange, foundations – insurance companies, consulting firms, educational and promotional organizations. All these institutions have to respect existed regulations and norms, therefore law and legal institutions are significant elements of business environment. / Olesinski, Predygier, 2002/. Beside mentioned yet The Foundation of

SMEs it is worth to single out *Agency of Regional Development* which has as its goal development and promotion of given region, render services, trainings, brokerage, legal and tax-consulting, stimulations of creation new places of work, social integration SMEs environment. *Development Foundation*. It aims to giving help the unemployed in seeking new jobs, restructure their qualifications, financial consulting, development local democracy, getting the capital for realization her functions. *Chamber of Craftsmen*. It is professional association of craftsmen. Chamber represents their interests in relation to governmental administration and local self-government. It carries on instruction, trainings and exams for journeyman and master craftsman and also runs tax- and finance consulting finance. Chamber integrates community of tradesmen. In the majority of districts and some communes there are the institution or office supporting local entrepreneurship. One of them is *Business Centers*. They fulfil the same functions like Agency of Regional Development, and above this they give opinion and recommendations to investment projects for banks; they help small firms in their process of restructure and gaining international quality certification.

Besides there is multitude of associations, societies, unities and organizations which work for stimulations economic activities of people, particular granting SMEs, seeking contacts with national and foreign firms and institutions, tend to diminution economic discrepancy between regions, to build infrastructure / water- and gas supplies, roads, purification plants /. When we are reviewing organizations of business we can draw conclusion that there is plenty of them but they act in a great dispersion and fail to cooperate mutually to integrate their forces in achieving common goal that is sustainable development of the country. In a condition of great budgetary deficit of the state / above 40 billions Zl. / and a permanent low finance obtained by local government there were little chance for greater undertakings that could be realized by non government organizations. Nevertheless sociological researchers show that institutions of business environment contribute to the development of entrepreneurship and competition of the region. L. Pasieczny confirmed in his research that a long-range and effective development of region is connected first of all with the level of education and the ability of people to creation non-government organizations, political parties and the pressure groups /Pasieczny 2002 /. We can then formulate hypothesis that exists strong relationship between development of SMEs – measured by their number or employment- and a network of social organizations. Thus in Poland the most institutions supporting business are located in the central region, where dominates mazowieckie voivodeship /22.8% of all institutions / and where Warsaw has a great part in it. But quite another picture we get when we look on a territorial distribution non-profit organization supporting immediately business. Their density is more equalize in the country. This time leading place belongs to the voivodeship on the north-east Poland /9.8% of all organizations.

## GOVERNMENTAL MEASURES FOR SMEs

In the decade of nine cites Polish government prepared a program “Small and Medium Enterprises in the National Economy. Politics dealing with SMEs and the International competition of Polish Industry”. These programs were treated as important element of state strategy in a creation well-being and employment inhabitants. The main goal of that program was implantation a new system of law and institutional base for development of SMEs / tax regulations, bank law, act of guarantees, etc /. Significant event was creation Polish Foundation of Promotion and Development SMEs, governmental agency for supporting that sector of economy. The Foundation intends to:

- Formulation advisory, instructional and educational infrastructure for SMEs
- Foundation friendly environment for development system of economic information
- Creation of solution for international promotion SMEs
- Activity in the sphere of local and regional development and restructure of economy profitable for SMEs.
- Perception of Poland to integration with United Europe.

The Polish Foundation is reinforced by budgeting means of the state and the program PHARE. In the past decade they accomplished together many programs of entrepreneurship in Poland. The Foundation fulfilled above 100 expert reports dealing with running economic activity, public orders, law of work, harmonization of Polish law with law of UE etc, the Foundation is one of the most important source of data base and edition of publication concerning SMEs. For example in 1999 she published ten books and many reports partly financed by Foundation. She cooperates with many international organizations as well. The Foundation organized about hundred conferences, seminars and meetings in which took part 4200 participants as with European Commission. It is worth to underline that she edits a bulletin “Buduj swoja firme” / “Build own firm” /. The Foundation has own Internet page / [www.msp.org.pl](http://www.msp.org.pl) / which presents large information on this sector. Experts working in the Foundation are also authors of opinion on statue projects influencing condition and economic activity in Poland. Board of the Foundation is composed with representatives of government, businessmen and organizations promoting SMEs.

## EXPANSION OF SMEs IN POLISH ECONOMY

The years 1993-1998 were very favourable for the funding and functioning SMEs. The yearly increase reached 150-200 thousands units. Afterwards it followed time of

stagnation and in the last year even diminution of numbers of SMEs and the employment in that sector. According to non-representative survey report carried out by GFK Polonius. The Situation of Small and Medium-Sized Enterprises, 2001/territorial business activities of SMEs is as following:

-International-14%

-National-21%

-Regional-21%

-Local-44%

As we see polish SMEs in the small degree develop activities in the international scale. They have not yet sufficient experience in the foreign exchange. But sometimes they fear to call common organization representing their interests in relations with big foreign firms. This particularism is good illustrated by fruit-farmers, who can export unlimited number of fruits to East Europe, in particular to Russia, Ukraine and Belarus under condition unifying their economic efforts. On the other hand they rarely dispose modern technology and in consequence very attractive products. It appears that there is not any simple relation between the number registered firms in a given region / let us call it entrepreneurship/ and level of unemployment, wages, purchasing power, rate of urbanization and industrialization. In the extreme cases – a rich and poor regions- this relations is clearly evident. Apart economic factors there are here important social conditions like tradition, social values, pattern of the individual careers and so on. They roles in the process of entrepreneurship in to-day societies is less known. From the beginning of 1990 we can observe gradual growth of the role of private sector. As a result its part in the add value increased to 75.1% in 2000 and, as it was mentioned above, in working people to 73%. In 2000 its sold production in industry carried out 72% of total sale. In the same year private firms worked out financial effect net on the level 7258.2 million zł, while public sector finished the year with loss of 738.6 million zł. Rate of profitability of public sector carried out minus 0.2, but in private sector it was plus 0.2. In respect to effectiveness every comparison is difficult because they operate in quite different economic sections and conditions. As we all know public sector dominates in mining, metallurgy, energetic, chemical industry, arms industry, railways that means large scale and very complicated problem with restructuring /privatizing/ them. On the other hand small business is concentrated in detailed commerce, constructions, garment industry, services and so on.

In commerce and repair share of employed in private sector in 2000 year amounted to 97.2%, in construction – 91.4 and in industry – 71.6%. Growth of investment outlays value was 65.2%. On the contrary in public sector investment outlays value in 2000 was lower than year ago by 4.2%. The share of private sector in foreign turnover for many years has been very high. Its share in import carried out to 84.2% and in export- 83.6%. It is curious that in spite of higher effectiveness and performance in

private sector the level of wages is lower than in public sector / 85.2% of public one/ /Sektor prywatny i sektor publiczny.../. There are many explanation of this fact. It may mean that small business manages better human resources. It pays more to manager and qualified workers and much less to unqualified workers. Second interpretations is that they disguise the truth in order to pay less taxation. Last but not least SME in general hires younger personnel so it pays less because of seniority. David Smallbone carried out interesting research on “Internalization and SME development in Poland: an international comparison”. To compare he included Bulgaria, Baltic Slations, Greece and UK. The surveyed managers from five countries were among other things asked about the main sources of competition that they face in their domestic markets.

TABLE1: MANAGER’S ASSESSMENT OF THE MAIN SOURCE OF COMPETITION IN DOMESTIC MARKETS

Sources of competition	Food						Clothing					
	CEEC %	B u %	BS %	Pol %	UK %	G r %	CEEC %	B u %	BS %	Pol %	UK %	G r %
Small firms	72	78	75	64	44	32	64	58	82	58	63	42
Large firms	56	41	64	61	60	68	45	42	43	54	41	58
New entrants	17	16	3	31	2	0	8	9	9	6	2	5
Unregistered firms	14	6	24	13	0	0	29	21	25	48	0	5
State owned firms	15	33	9	8	0	0	13	18	7	8	0	0
Imports	46	22	70	41	21	36	62	52	80	62	45	90
Other	2	10	0	0	21	0	1	1	0	0	14	0
Total no. of respondents	169	49	59	61	48	22	170	77	44	48	49	19

Notes:

(i) Managers were asked to identify up to three main sources of competition

(ii) Gr---Greece; CEEC---Central and East European Countries;

Bu---Bulgaria; BS---Baltic States; Pol---Poland

Source: Smallbone D, 1999, Internationalization and SME Development in Poland

As we can see the structure of sources of competition in home market is generally very similar in all mentioned countries and sectors. But in Poland two main sources of competition are domestic firms and specially importers of cheap clothing from some Asiatic countries. It is worth adding in foreign markets competitive advantages differ sensibly in transition countries and in stable market economies of Greece and UK.

TABLE 2:MANAGER’SASSESSMENT OF THE MOST IMPORTANT COMPETITIVE ADVANTAGE OF THEIR PRODUCTS IN FOREIGN MARKETS

Competitive advantage	Food						Clothing					
	CEEC %	B u %	BS %	Pol %	UK %	G r %	CEEC %	B u %	BS %	Pol %	UK %	G r %
Lower price	44	46	40	45	0	25	49	48	55	35	10	22
Unique product	7	5	10	5	9	13	4	0	4	7	0	0
Superior product	2	0	7	0	0	6	8	10	13	0	5	0
Reliable quality	24	36	23	17	46	44	22	29	17	20	34	33
Speed of delivery	7	0	0	15	5	0	3	0	2	5	12	33
Quality of service	4	0	3	7	0	0	4	0	0	12	17	11
Customer relationships	7	0	10	7	5	13	4	0	8	2	0	0
Specific market segment	2	2	7	0	14	0	1	0	2	0	5	0
Effective advertising	0	0	0	0	0	0	2	0	0	5	0	0
Packaging	1	5	0	0	0	0	0	0	0	0	0	0
Other	2	9	0	2	23	0	3	0	0	0	16	0
Total number of Respondents	92	22	30	40	22	16	119	13	53	40	41	9

Notes:

(i) This table shows the competitive advantage which managers rated as the most important

(ii) Gr---Greece; CEEC---Central and East European Countries;  
Bu---Bulgaria; BS---Baltic States; Pol---Poland

Source: Smallbone D, 1999, Internationalization and SME Development in Poland

As table 2 demonstrates in the both sector Greece and U.K. emphasized mainly the reliable quality of their products while in transition countries lower price was the most frequently mentioned advantage over competitors. It is worth stressing that the period in which Smallbone, Piasecki and Rogut carried out their survey was very prosperous for Polish economy. Perhaps today this international comparisons would give another pictures, I think rather inferior for Poland.

## CONCLUSIONS

I think we are running up to the end of the first phase of transformation of post communist systems. In two years we will probably be the member of U.E. and this event will open new opportunities to our society and economy – a second phase, but of course not last one, of transformation. This time it will concern the whole Europe.

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## CHAPTER II

### SMALL AND MEDIUM ENTERPRISES IN THE CZECH REPUBLIC

Danica Krause

#### INTRODUCTION

At the end of the 1980s, after forty-five years of a centrally managed economy in socialist Czechoslovakia, there comes the essential transformation of its highly monopolised economy. In response to socio-economic changes, a rational structure is formed which respects developments in supply and demand on the market. As the European Charter for Small Enterprises, approved in mid-2000, states, small enterprises are the backbone of the European economy. With their innovative and flexible potential, their lower capital and their lion's share of job creation, small and medium enterprises are the motor behind rising employment in advanced and developing economies.

The revival of small and medium enterprises in the Czech Republic comes practically right at the start of those sweeping changes. A civic initiative called the Czechoslovak Entrepreneurs Association is set up as early as December 1989. The first legislation regulating business, Act No. 105/1990 Coll., on private enterprise, is passed a little later, and is followed by other modifications to the existing system to bring small and medium enterprises into the reality of everyday life. In 1993, small and medium enterprises (SMEs) accounted for 31% of all enterprises in the Czech Republic, and 57% in 1994. The number of small and medium enterprises in the Czech Republic rose dramatically, and by the year 2000 they accounted for 99.8% of all enterprises. Of a total of 3,915,428 employees in the year 2000, 58.4% (2,286,382) were in small and medium enterprises.

#### 1. FUNDAMENTAL INDICATORS FOR SMALL AND MEDIUM ENTERPRISES IN THE NATIONAL ECONOMY

According to European Union regulations, the category of small and medium enterprises includes all enterprises with less than 25 employees whose annual balance sheet total is not in excess of EUR 27 million, or whose annual turnover is no greater than EUR 40 million, and which fulfil the criterion of independence (an enterprise in which no one company, or

several companies acting in unison and not meeting the definition of small and medium enterprises, own 25% or more of its capital or voting rights).

Before moving on to basic information on small and medium enterprises, it is useful at least to outline the basic organisational structure of the Czech economy, in terms of selected legislation. Data on the economy's organisational structure is compiled from data kept in the Economic Units Register (EUR). In addition to data on the economy's organisational structure, the Czech Statistical Office (CZSO) also publishes the results of specific surveys focusing on the basic characteristics of enterprises and entrepreneurs in the Czech Republic in terms of actual economic activity. To date, it has published the results of surveys conducted from 1995 to the year 2000, under the name PANEL.

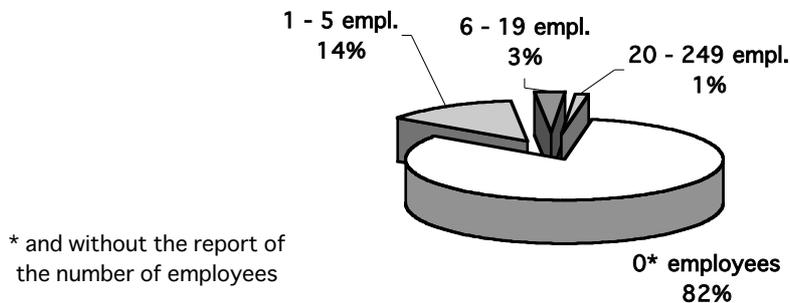
## 1.1 ECONOMIC UNITS REGISTER

According to CZSO data, the number of units registered in the Economic Units Register in the year 2000 was 2 050 770, 269 436 more than in 1998. Of that figure, 1,471,291 were entrepreneurs coming under the Licensed Trades Act, 101,626 were independent farmers, 204,075 were trading companies, 11,007 were cooperatives and 1,117 were state-owned corporations. In total there were 2,048,757 small and medium enterprises in the year 2000.

### 1.1.2 SIZE GROUP

If we break down units by the number of employees, we find that the largest groups are units with no employees and units which do not reveal the number of employees. That category accounted for 82% (1,680,188) of the small and medium enterprises group in the year 2000, followed by enterprises with 1 - 5 employees, accounting for 14% (278,255) of the total number of SMEs, enterprises with 6 - 19 employees 3 % (60,471), and enterprises with 20 - 249 employees 1% (29,843). Enterprises with 250 or more employees comprise the smallest group, with a total of 2,013 in the year 2000.

**The Units of SMEs in the EUR by the number of employees, 2000**

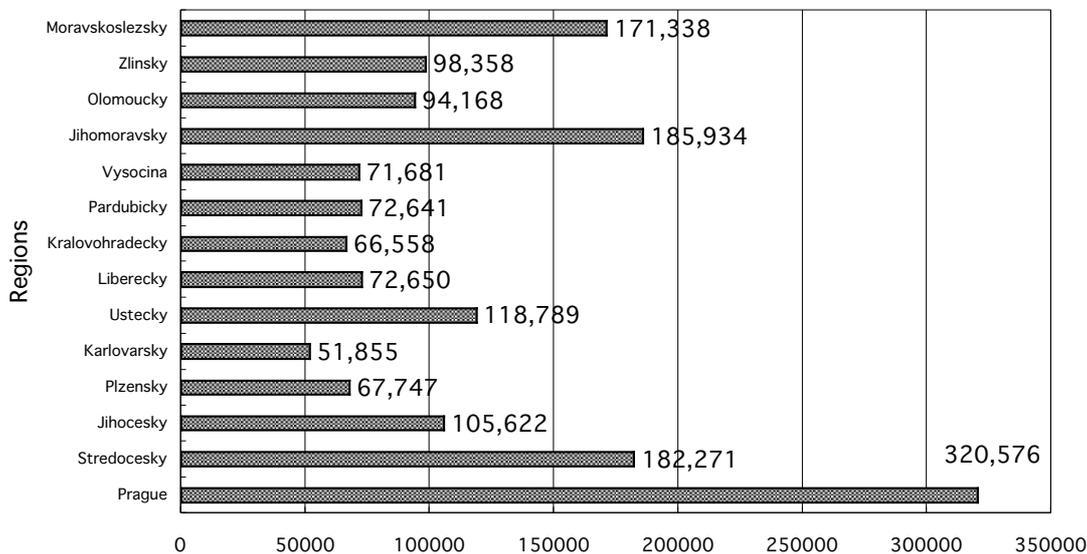


In the period in question (1998 - 2000), the only increase in the number of units was in the "no employees" category, which may however also be due to the fact that the category also features enterprises which did not report the number of employees. In all other categories there was a reduction in the number of units, which was greatest in the category of enterprises with 1 - 5 employees.

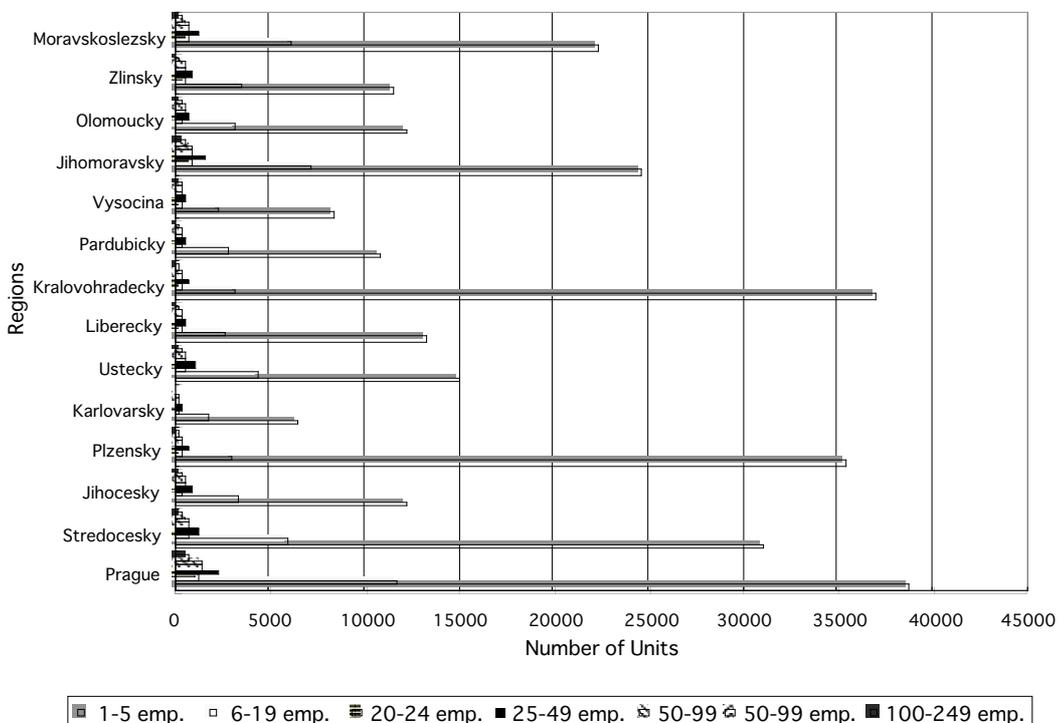
Small and medium enterprises comprise a strong majority in the national company, both in terms of their number, and the number of people they employ. Among small and medium enterprises, those with 20 - 249 employees employed the most people in the year 2000, 1,399,974 in total. Enterprises with 0 - 19 employees employed a total of 886,435 people.

Regional distribution of SMEs:

The Number of SMEs without employees and without the report of the number of employees, 2000



The Number of SMEs by the number of employees, 2000

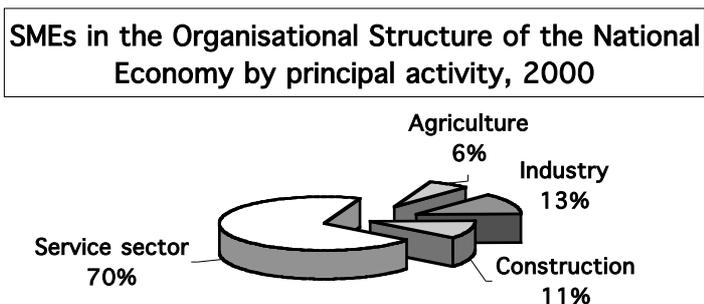


### 1.1.3 WAGE DIFFERENTIATION

The average wage in small enterprises (0 - 19 employees) is significantly lower than that in large enterprises. In the year 2000 the average gross monthly wage in the Czech Republic was CZK 13,490<sup>1</sup>, compared with CZK 9,966 in small enterprises, CZK 2,905 less than in medium-sized enterprises. The average monthly wage in medium enterprises in the year 2000 was CZK 12,871. On the basis of this wage differentiation by enterprise size, in the year 2000 the highest wages were in large enterprises with over 5,000 employees, who had an average gross monthly wage of CZK 18,132. It emerges from statistical data on wage differentiation by enterprise size that wages are lower in small and medium enterprises than in large enterprises. However, that very general "rule" on wage differentiation in small, medium and large enterprises does not hold when we look at wages in individual sectors of the economy.

### 1.1.4 SECTORS OF THE ECONOMY

According to the main activity listed in the Economic Units Register, most small and medium enterprises (70%) operate in the services sector, followed by industry (13%) and construction (11%), with the lowest number in agriculture (6%).



Small and medium enterprises with no employees, or which do not provide data on their employees, comprise the largest groups in the individual sectors.

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<sup>1</sup> preliminary data

## 2. SMALL AND MEDIUM ENTERPRISES

Small and medium enterprises do have certain objective deficiencies. The forty-year gap in small and medium enterprises, combined with exaggerated expectations, limited funds and technical, financial and administrative problems, has had a large impact on the nature of the small business structure which has emerged. Surveys of Czech small and medium enterprises have only yielded limited information. During the renaissance of small and medium enterprises in the Czech Republic, a number of stereotypes became established in people's minds. Participants at the II. National Conference on Small and Medium Enterprises (Prague, April 2000) responded to that less than positive view of the business sector, setting one of its objectives to prove that small and medium enterprises are decent and honest, not buccaneers.

### 2.1 SMEs, EMPLOYMENT AND LABOUR LAW

In small and medium enterprises, as in other groups of enterprises, business ethics have been infringed by improper conduct by entrepreneurs themselves, e.g. failure to abide by supplier-customer agreements, failure to meet social security and health insurance obligations, tax evasion and breaches of labour law. However, illegal employment is not confined to small and medium enterprises. In the year 2000, the Labour and Social Affairs Research Institute undertook an empirical survey at the Labour Offices to map out illegal employment in the Czech Republic. Employers often reject the standard price on the labour market for particular professions in particular sectors, and hire workers at lower wages. They also try to avoid paying tax on wages for their workers. Workers are sometimes only paid part of their wages, with the remainder provided tax-free, off payroll records. Employment is often terminated irregularly, there is excessive overtime, and employment contracts are agreed for a fixed period (M. Horáková, M. Polívka, D. Èeròanská, V. Rudolf, 2001). Recently a number of regions have displayed an increasing tendency to conclude repeated short-term employment contracts. According to Labour Office experts, employers do so owing to the ease with which such employment can be terminated, with no obligation to pay redundancy payments (D. Bruthansová, 2001).

Although small and medium enterprises have made a significant contribution to greater employment, jobs in small and medium enterprises are less attractive, primarily due to wages, additional payments, job security, and career management and development

mechanisms, shortcomings which chiefly apply to micro and small enterprises.

Under the transformation process there was a decline in the number of large organisations, and largely associated with that is a drop in the number of trade union members. For some time now, working conditions in small enterprises in the Czech Republic have been an unknown quantity. We do hear the opinion that while Czech trade unions are the most influential of all the candidate countries, trade union membership in small, and in medium to large enterprises, is almost zero. For lawyers, labour law comes almost last in terms of its attractiveness, which has played a role in the Czech population's low awareness of labour law.

## 2.2 SMEs AND COOPERATION

Another serious factor is inflexibility, indifference and mutual distrust between small and medium enterprises concerning cooperation, which would give them an advantage when competing with large enterprises. The concept of cooperation between small and medium enterprises is a crucial theme for their development. The arrival of large international retail chains, and the poor economic and legislative environment, have prompted many small and medium enterprises to ask themselves how they can continue. The first international "Regional Business Networks" conference, held in Prague in November 2000, covered cooperation, information, development, consultancy and training for small and medium enterprises. The question of human resources management in small and medium enterprises is becoming more pressing. At present, small and medium enterprises are characterised by relatively frequent fluctuations and the lack of any overall conception for human resources development.

The fundamental precondition for creating functional networks of small and medium enterprises is information. It is essential to move from the theoretical level to case studies of business organisation. Small enterprises in particular need pragmatic information on how to divide up responsibilities, manage staff and the circulation of goods, and forge relationships with the community.

## 2.3 SMEs AND DISCRIMINATION

Small and medium enterprises in the Czech Republic have to compete with large enterprises on unequal terms. Thanks to their size and financial backing (especially when there are foreign investors), large enterprises are able to make use of most investment incentives, which take the following forms: subsidies for job creation, subsidies for training and retraining, leasing industrial land for low prices, support for infrastructure investment, and income tax relief for legal entities. Another problem affecting the competitiveness of small and medium enterprises is that according to banking statistics, small enterprises tend to be offered credit at very high interest rates (J. Schwarz, 2002).

The Czech government has therefore put together a special programme to support small and medium enterprises, and has set up institutions to implement it. The main remedies are very important: reducing tax for businesses, more effective law enforcement in business, and cutting red tape (J. Schwarz, 2002).

## 3. POLICY TO SUPPORT SMALL AND MEDIUM ENTERPRISES

The purpose of policy to support small and medium enterprises is to define the state's approach to that part of the economy up to 2004, along with the role of small and medium enterprises in the economy, and the scope and form of regulation and state intervention required to achieve economic policy objectives for that area, including defining the institutional framework and financing.

### 3.1 POLICY OBJECTIVES

The long-term policy objective is to facilitate the functioning of the small and medium enterprises sector so that it can contribute to improving national economic performance, technological standards and competitiveness, help bring down unemployment, and play a role in regional, social and economic differentiation.

Medium-term policy objectives:

- Increase the role of small and medium enterprises in restoring economic growth, improving exports, bringing down unemployment, and the economic recovery of regions with structural and economic problems
- Support collaboration between small innovative companies and research units at universities, the Czech Academy of Sciences, state and private sector research institutes, large manufacturers, etc.
- Facilitate business start-ups
- Apply instruments and mechanisms to support small and medium enterprises in line with European Union regulations
- Improve the technological level and competitiveness of small and medium enterprises

### 3.2 POLICY FOCUS

Small and medium enterprises are a large part of the economy, making it necessary to differentiate instruments and the intensity of support in line with the enterprises concerned: start-ups, young enterprises (in existence for up to 2 years), and small and medium enterprises able to apply for commercial financing.

### 3.3 OVERCOMING BARRIERS TO ENTERING THE MARKET

Small and medium enterprises have a complicated position in the economy. The objectives and instruments of policy to support small and medium enterprises are therefore aimed at overcoming barriers to entering markets (the capital market, information and information technology market, training market and labour market).

### 3.4 LEGISLATION

The rules for supporting small and medium enterprises using state budget funds are set out

in Act No. 299/192 Coll., on state support for small and medium enterprises, Act No. 218/2000 Coll., on budget regulations, and Act No. 59/2000 Coll., on public support.

Since the year 2000, European Union regulations on support for small and medium enterprises have been worked into government programmes to support that sector.

#### 4. SERVICES FOR SMALL AND MEDIUM ENTERPRISES

Small and medium enterprises come under the Ministry of Industry and Trade. The exception is regional support for enterprise, which comes under the Ministry for Regional Development. Institutions have been set up in many countries to provide specialised services for small and medium enterprises. In the Czech Republic, the support system is implemented using a system of institutions with various powers.

Commercial banks offer small and medium enterprises support programmes, and provide products and services for small and medium enterprises which meet their conditions. The state is active here through subsidies, which result in lower interest rates on loans aimed at supporting small and medium enterprises.

Instruments to support access to capital are largely provided through the Czech and Moravian Guarantee and Development Bank.

##### 4.1 ENTERPRISE DEVELOPMENT AGENCY

A number of institutions in the Czech Republic work on small and medium enterprises, one of them being the Enterprise Development Agency (EDA). EDA was set up in 1995 as a grant-aided organisation under the Ministry of Industry and Trade, in line with CNC Act No. 229/1992 Coll., on state support for small and medium enterprises. The agency focuses on the following areas: the availability of quality consultancy, information and professional training for SMEs, the development of innovation enterprise and incubators, the administration of alternative sources of financing SME development plans, the provision of loans under programmes for SMEs, SME participation in European Union programmes, and

collaboration on designing of SME support policy.

EDA has a range of programmes to support small and medium enterprises. It operates throughout the Czech Republic and coordinates the setting up and operation of the regional advisory and information centres and the business innovation centres.

#### 4.1.1 REGIONAL ADVISORY AND INFORMATION CENTRES

On the basis of a European Union model, regional advisory and information centres (RAICs) were set up in the Czech Republic in 1992, and implement a programme-providing consultancy for small and medium enterprises. They are consultancy companies selected on the basis of recommendations by regional bodies (district authorities, town halls, labour offices, etc.). 22 regional advisory and information centres and 5 business innovation centres (BICs) operate in the Czech Republic. The business innovation centres provide business, technical and technological consultancy. New and innovative companies are offered production space at a preferential rent, along with other services. The business innovation centres have links to universities and large industrial companies. Advisory and information services for small and medium enterprises are subsidised by the state budget and the Phare programme. RAICs and BICs provide their services either free of charge or at reduced rates.

The regional advisory and information centres (RAICs) provide free initial consultation for small and medium enterprises, followed by consultancy services at preferential prices and assistance in drawing up business plans and implementing projects. They can help with bank loans and job creation, and provide information on other business and regional support programmes, as well as organising training seminars for entrepreneurs, etc. Many RAICs, especially in border regions, are involved in organising cross-border cooperation between SMEs under the Phare CBC (Cross-Border Cooperation) programme.

#### 4.1.2 BUSINESS INNOVATION CENTRES

Business innovation centres (BICs) are mainly focused on supporting innovative businesses, technology transfer and implementing research and development results, using the options

offered by the European Network of Business and Innovation Centres (EBN), which manages and monitors their work. They also provide basic consultancy services. A specific activity is support for enterprises in business incubators.

## 4.2 PHARE

In 1992 financial support for small and medium enterprises was launched under the Phare small and medium enterprises programme, mainly owing to insufficient capital for enterprise in the Czech Republic. Several support programmes were implemented between 1992 and 1998. EDA set up the Small Loans project, which was implemented in collaboration with commercial banks; the loans were intended to finance business development projects for small manufacturing companies and companies providing services for manufacturing. The Guarantee programme was intended to provide preferential guarantees, and was implemented by the Czech and Moravian Guarantee and Development Bank. The Technos-Phare programme was aimed at supporting applied research and development, and at introducing new technologies.

EDA also manages the Revolving Fund, consisting of funds returned from Phare-financed programmes.

### 4.2.1 STRUCTURAL FUNDS

At present, much work by Phare and SME support institutions is focused on supporting the Czech Republic's preparations for EU accession, primarily through the Structural Funds, the Social Fund, and the Regional Development Fund.

The Social Fund is for active employment policy. EDA is working with the Ministry of Labour and Social Affairs to design and implement projects to train entrepreneurs.

The Regional Development Fund is the most important fund for financing support for small and medium enterprises. Room has been created for collaboration between EDA and the Regional Development Centre, which comes under the Ministry for Regional Development.

The basis of this collaboration is involvement in cross-border cooperation (CBC) programmes.

#### 4.3 NATIONAL DISCUSSION GROUP

The National Discussion Group was set up in response to a recommendation by the European Commission for the Phare '99 programme. It works to support the drafting and implementation of government policy for small and medium enterprises in the Czech Republic. The Group aims to discuss current issues concerning small and medium enterprises and formulate recommendations and proposals to improve the business culture. The Group's main tasks include regular monitoring of the business environment and keeping up to date with developments in the European Union. In its work, it makes use of recommendations from the European Commission's Business Environment Simplification Taskforce (BEST).

Members of the Group, including its Chairman, are appointed by the Minister for Industry and Trade, on the basis of the Ministry's powers by law in matters concerning small and medium enterprises.

#### 4.4 SUPPORT PROGRAMMES FOR SMALL AND MEDIUM ENTERPRISES

Government Resolution No. 1257 of December 2000 approved the terms for providing state support for small and medium enterprises in the Czech Republic for 2001 - 2004. State support will be implemented under support programmes<sup>2</sup> for small and medium enterprises. Programme implementation has been entrusted to the Czech and Moravian Guarantee and Development Bank, Czech Trade (an enterprise support agency), the Enterprise Development Agency and the Czech Design Centre. Programme implementation is limited by the level of funds allocated from the state budget for the year in question.

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<sup>2</sup> Support programmes for small and medium enterprises: GUARANTEE, CREDIT, MARKET, COOPERATION, START, SPECIAL, MARKETING, CONSULTANCY, SMALL LOANS, DESIGN, REGION, VILLAGE, REGENERATION, PREFERENCE, OPERATION, BORDER (until the end of 2001), REGIOGUARANTEE.

Support programmes are aimed at industry, construction, trades, services (including health care), retail and regional passenger transport (excluding taxis).

Loans are provided to purchase long-term tangible or intangible assets, especially buildings, machinery, equipment, vehicles and know-how.

In advanced economies, there are industrial areas, business alliances and local manufacturing systems working under regional cooperation networks, which often go beyond just one region. This is something of a new feature for the transformation economies of central and Eastern Europe. Support programmes are therefore also aimed at transferring experience and the possibility of establishing practical cooperation under regional and business networks and new management systems.

## 5. EMPLOYER'S ORGANISATIONS

Employers' organisations have been set up on the basis of sector, profession and ownership. Over the last few years, the membership of those associations has remained practically unchanged. Employers' organisations and associations cover an estimated 10 - 12 000 enterprises and self-employed people.<sup>3</sup>

The role of those organisations is to represent, coordinate and promote members' common interests, in collaboration with state authorities, trade unions, the legislature and other employers' organisations. They also represent their members' interests at international employers' organisations and professional organisations.

Employers' organisations work to ensure equal terms for enterprise, to harmonise conditions with those of the European Union, to provide services and consultancy for members and facilitate business contacts, and they also run training activities. They help their members succeed on the domestic and foreign markets, and try to ensure they have the same conditions as the competition.

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<sup>3</sup> According to data from individual employers' organizations and associations

## 5.1 CONFEDERATION OF EMPLOYERS AND BUSINESS ASSOCIATIONS (CEBA)

CEBA was originally founded in 1990 as the Coordination Council for Business Associations (CCBA). It represented business interests in the Council for Social Agreement. It adopted its current name in 1993. There were a number of organisational changes in the course of economic and social transformation, and the Czech Industry and Transport Association left CEBA. At present CEBA has the following members: the Textile-Clothing-Leather Industry Association (TCLA), the Czech Association of Construction Entrepreneurs, the Czech Retail Association, the Cooperative Association, the Czech Entrepreneurs Association, the Agricultural Cooperatives and Companies Association, and the Czech Union of Employers Associations.

The Confederation of Employers and Business Associations is represented in the Council for Economic and Social Agreement.

## 5.2 CZECH INDUSTRY AND TRANSPORT ASSOCIATION (CITA)

The Czech Industry and Transport Association was founded in 1990, with individual and collective members joining on the basis of sector, trade union and regional links. Along with large companies, CITA also represents small and medium enterprises.

CITA members are: The Czech Management Association, the Mechanical Engineers Association, the Czech Personnel Managers Club, the Czech Jewellers and Watchmakers Association, the Czech Innovative Enterprise Association, the Czech Pension Funds Association, the Czech Glass and Ceramics Industry Association, the Research Organisations Association, the Czech Insurance Companies Association, the Czech-Moravian Electro technical Association, the Czech Association of Employers in Energy, ÈKD Praha holding a.s., the Steel Sector Union, R.D.P. Group a.s., the Automobile Industry Association, the Association for the Information Society, the Compressed Air Technology Manufacturers and Suppliers Association, the Association of Manufactures and Retailers of Agricultural and Forestry Technology, the Association of Moravian and Silesian Industrial Companies, the Association of Czech and Moravian Manufacturing Cooperatives, the Czech Chemical Industry Association, the Paper and Cellulose Industry Association, the Czech Foundry Association, the Association of Manufacturers and Suppliers of Engineering Technology, the Textile Machinery Manufacturers Association, the Czech Association of

Transport Employers and Entrepreneurs, the Czech Association of Plastic Processors, Skoda holding a.s., and the Employers Association for the Mining and Oil Industry. CITA is a member of the Council for Economic and Social Agreement.

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## Chapter III

### THE CURRENT STATE OF SMALL BUSINESSES IN THE SLOVAK REPUBLIC

Zdenek Stastny

#### 1. THE DEVELOPMENT, STRUCTURE AND THE CURRENT STATE OF SMALL BUSINESS IN SLOVAKIA

##### 1.1. SMEs IN 2000: THE DEVELOPMENT AND THE CURRENT STATE

As of the end of December 2000, there were 60,920 businesses (organisations oriented towards profit making), and 296,520 natural persons registered with the Register of Organisations of the Statistical Office of the Slovak Republic. Figure 3.1 and 3.2 show the number of SME.

##### 1.2. Natural persons

The total number of 296,520 registered natural persons included 269,323 small trade licensees, i.e. natural persons doing business under the Small Trade Act and being registered with the Small Trade Register; 11,647 persons doing business as freelancers; and 15,550 individual farmers. Long-term data suggest a stabilised count of small trade licensees. The numbers of individual farmers has continued to decrease.

By the end of 2000, there were 296,520 economically active natural persons doing business independently, representing 12% of the economically active population in Slovakia.

In the sectoral structure of small trade licensees domestic trade dominates, with 103,421 (38,4%) small trade licensees, followed by services with 80,653 (27,2%) and industrial production with 48,358 (18,0 %) and building industry with 37, 140 (13,8%) small trade licensees. See figure 3.3 and 3.4.

Most licensees do business in 3 districts of Bratislava (28,645), and in Zilina (10,240) and Nitra districts (9,407). The smallest numbers of licensees are in the districts of Medzilaborce (397), Sobrance (505), and Poltár (567).

### 1.3 LEGAL ENTITIES

At the end of the year 2000, there were 60,920 profit-oriented organisations - legal entities registered, which is up 5.6% over the year 1999. Limited liability companies take the biggest share in all for-profit organisations, notably 47, 810, or 78.5 %, followed by 7,195 state enterprises, which make up 11,8%, 1,747 co-operatives, which is 2,9%, and 4,208 joint stock companies, which is 6,9%. Figure 3.5 shows SMEs by their legal status. There were 98.1% for-profit organisations in private ownership. Figure 3.6 and 3.7 show the development of SMEs and their changes. Small enterprises (0-49) made up the prevailing portion of the 60,920 for-profit organisations, namely 57,247 or 91.0 %; of that 42,631, or 76.9 % were micro-enterprises with 0 - 9 employees, 3,063, i.e. 5.0% were medium-size enterprises, and 610, or 1.1 % were large enterprises. There were 57,247 small private enterprises of up to 49 employees, and 3,063 medium-size privately owned enterprises with 50 to 249 employees. Figure 3.8 shows the sectoral structure. Most small and medium-sized enterprises were doing business in the sectors of trade (26,262), commercial services and finances (11,458), production of goods (8,877), and the building industry (4,699).

### 1.4 SME'S CONTRIBUTION TO EMPLOYMENT

There were on average 2,101,700 persons working in Slovakia's economy in 2000, which is 1.4% down from the year 1999. Reductions in labour continued in agriculture (by 11%), building industry (by 11.6%) and industry as a whole (by 2.4%). Employment continued to grow in the sectors of other public, social and personal services (by 18.8%), real estate, leasing, commercial services, research and development (by 13.5%). See figure 3.9.

Of the overall number of workers, there were 1,931,000 employees, 164,500 entrepreneurs, and 3,000 assisting household members. There were 452,500 people employed within the category of small trade licensees, 333,500 in small enterprises, and 355,000 individuals in medium-size enterprises. See figure 3.10. SMEs provided jobs for 59.4% of the employed population. See figure 3.11.

## 1.5. WAGES AND WORKING CONDITIONS ACCORDING TO SIZE OF ENTERPRISE

Size of enterprise according to number of employees	Number of employees in the given enterprise category	Number of researched Enterprises	Average number of employees for one enterprise unit in the given enterprise category	Average hourly wage in Sk/hour (US\$ /hour)
Total enterprises in SR	343,425	941	365.0	90.23 = US\$ 2,00
1/ less than 25	2,271	174	13.1	91.98 = US\$ 2.01
2/ 25 to 99	13,916	269	51.7	83.68=US\$ 1.86
3/ 100 to 499	76,646	340	225.4	82.55= US\$ 1.83
4/ 500 to 999	63,093	88	717.0	87.08=US\$ 1.94
5/ 1000 to 2 999	91,413	57	1603.7	86.19=US\$ 1.92
6/ 3000 to 4999	38,323	10	3832.3	88.30=US\$ 1.96
7/ 5000 and more	57,763	7	8251.9	113.91=US\$ 2.53

*Average exchange rate in June - July 2002 - 1US\$ = 45.00 Sk 1EUR = 43.00 Sk*

- *The data has been obtained from a representative sample of 1,160 enterprises from all sectors of the Slovak national economy. The sample contains approx. 40% of employees from entrepreneurial sphere.*

The table shows that wages are smallest in both categories of “bigger medium-size” enterprises, while in small enterprises - of up to 25 employees wages are relatively high.

This difference cannot be explained easily as the reasons are not only due to size of enterprise.

The statistics shows that the operating sector of the enterprise has the deciding differential influence here – the highest wages are in banking and insurance sector (148.68 Sk/h) and real estate, renting and business services (111.46 Sk/h); the legal form of business is another differential characteristic - the highest wages are in limited companies (101.99 Sk/h), with 78.5% of SMEs functioning already as limited companies. The other markers include the nature of job, the level of qualification, age,

sex, etc.

The highest wages are in the 50 – 59 age bracket, the salary of women reaching only 60 – 80% of that of men. Wages also rise with the level of education and qualification achieved.

More comparisons are needed of wages in SMEs and in the “big businesses” to account for all these aspects.

Working conditions in SME as compared with those in large enterprises

The existing difference in the working conditions depends mostly on the sectoral structure, size, and the ownership of enterprise. The main general difference is that within strong regulation of working conditions by legislation – many working conditions in SMEs are subject to negotiation and agreement (e.g. the working time, working breaks, labour protection, holidays, etc.), and in many cases legal regulations and rules are breached or circumvented.

The workers in SME often accept this, particularly in smaller businesses, where they are often family members, or they get bigger salary on account of work in unfavourable working conditions, risk to health or higher intensity of labour.

In order to reduce costs related to paying taxes, obligatory social insurance contributions, working clothes, etc. these aspects in many cases get into the contract of employment between the employer and employee - the employment relationship is formed as a business relationship between two businessmen, which naturally tends to be disadvantageous for employees and the state, too. In many SMEs there are no trade unions (often they are actually forbidden) to represent workers and breaches of the law and infringement of the rights of employees occur.

Very high standard of working conditions is found in the enterprises owned by foreign investors or in enterprises with foreign participation. Workers tend to have higher salaries because of high labour intensity; the work discipline is also high. However, both the participation of foreign capital and the foreign ownership are very rare in SMEs.

## 1.6. SME’s CONTRIBUTION TO PRODUCTION BY SELECTED SECTORS

Gross domestic product in industry witnessed a year-on-year increase by 2.5% reaching SKK 233.1 bn. The rising production with a parallel reduction of employment projected into

a growth of the productivity of labour: it has grown 12.6% for the industrial sector as a whole. Figure 3.13 shows the share of SME revenues in the sectors.

Building industry in 2000 generated a gross domestic product worth SKK 42.3 bn. Small enterprises and small trade licensees realised the largest proportion of the overall production of the building industry (28.5% and 26.9%, respectively). The share of medium-size enterprises was 21.8%, and that of large enterprises, 22.8%, respectively.

In 2000, the gross domestic product worth SKK 388.2 bn. was generated by commercial services with a year-on-year growth by 5.1%. The development was influenced by the growth in trade, hotels and restaurants (by 11.7 %) and in other services (by 4.9 %). The levels of the preceding years could not be achieved in transport (by 1.7%) and posts and telecommunications (by 6.3 %). Small enterprises and small trade licensees realised the largest portion of revenues (41.3 % and 27.5 %, respectively). Medium-size enterprises contributed 19.8 % and large enterprises 11.4 % to the overall revenues.

When compared to 1999, retail sale revenues increased 2.3% to reach SKK 481.1 bn. Small trade licensees and small enterprises accounted for the largest portions of the overall revenues made by commercial entities (42.9 % and 26.5 %, respectively). The shares of medium and large enterprises reached 15.6 % and 15 %, respectively.

Revenues of transport of goods and passengers have increased 18.4% as compared to 1999 (in current prices) to reach SKK 4.9 bn, with the revenues from haulage increasing 18.5% and those for passenger transport 17.9%. In the road transport, small trade licensees accounted for more than half of the revenues (56.5%). Small, medium and large enterprises contributed 22.4 %, 20 % and 1.1 %, respectively. The development of revenues was mainly influenced by marked increases of the latter in small trade licensees and small enterprises (by 40.1 % and 33.7 %, respectively). The year-on-year volumes of revenues dropped only for large enterprises (by 61.6 %).

Revenues from sales of services of posts and telecommunications reached SKK 40.5 bn. The private sector accounted for 46% of services. Of the overall volume of revenues, small enterprises accounted for 47.8 % and small trade licensees for 26.4 %. Medium-size enterprises contributed 16.5 % and large enterprises 9.3 %. The year-on-year growth of revenues was influenced by larger revenues generated by medium (by 14.5 %) and small enterprises (6.1 %). The most pronounced drops in revenues from services concerned small trade licensees (12.1%).

## 1.7 SHARES OF SMEs IN EXPORTS AND IMPORTS

For the second year in a row, the negative balance of the foreign trade has been reduced in 2000. The improved balance was mainly due to rapid growth of exports (by 29.4%). The generally passive balance was achieved in the presence of much higher rates of imports than in 1999.

Exports in 2000 were worth SKK 548.4 bn, and imports represented SKK 590.7 bn. The share of SMEs in overall exports was 27.8%. The exports by small trade licensees were 0.2%, by small enterprises (0-49 employees) 12.0%, medium-size (50-249 employees) 15.7%, and big enterprises (250+ empl.) 72.3%, respectively. See Figure 3.14 and 3.15.

## 1.8 DYNAMICS OF SME's DEVELOPMENT

In 2000, 32,171 small trade licensees and 2,158 small and medium enterprises were registered. Not all SME start business, or in case of legal entities, are not registered with the courts. The long-term growing trend has turned around in 1998. In 2000, a total of 27,239 small trade licensees were cancelled.

## 1.9 MOTIVATION FOR STARTING BUSINESS AND THE CAPITAL

With the exception of private farmers, who to some extent had family farmers' tradition and own land which they have been given back – the new entrepreneurs did not have a chance to inherit the entrepreneurial tradition, or entrepreneurial ethics and culture. Some studies bring evidence that the majority of them began their private businesses only after privatisation of former state enterprises, in which they worked and they did so in the fear to lose job. Some of them, mainly craftsmen, did the same job before, under the socialistic regime, as semi-legal “private craftsmen“ along with their employment. Now they took up those activities as fulltime jobs. In these persons the aspiration to become independent and do the job just for himself or herself was a major motivation. On the whole, they are enterprising and active people, beginning their new careers in independent activities, though frequently in the same type of work as before. They do not have their own capital, taking loans from relatives of the extended family, or at times from the banks as well. This “shortage of capital” has been characteristic of SMEs to date and the “sub-capitalisation” of the majority of enterprises in the sector of SME is common.

For the majority of insolvent people unemployment is currently very weak motivation for independent business. However, recently there have been training programmes run by NGOs, which were targeting these people with a view to involving them in independent small business activities. The unemployed people often prefer to do nothing, or work in illegal jobs either in Slovakia, or abroad. It is the consequence, on one hand, of the small difference between the unemployment benefit or social assistance benefit and the minimum wage, and on the other, of the inability of the state administration and the law enforcement bodies to penalise illegal work.

#### 1.10 THE REGIONAL ASPECT

Figure 3.17 shows the structure of small trade licensees by regions. Most licensees do business in the districts of Bratislava V (11,209), Zilina (10,240), Nitra (9,407), Bratislava II (9,253), and Bratislava IV (8,183). The smallest numbers of licensees are in the districts of Medzilaborce (397), Sobrance (505), and Poltár (567).

As for the economic activities of regions, the meaningful aspect is the ratio of the number of enterprises to the numbers of economically active population, which is markedly high for the region of Bratislava, with 31.5 % of SME legal entities and 18.9 % small trade licensees. See figure 3.12 and 3.18.

#### 1.11 THE FUNCTIONING OF THE NETWORK FORMATION AND MUTUAL CO-OPERATION AMONG SMEs

In the sphere of SME several formal and institutionalised networks and numerous associations exist which operate at regional or nation-wide level, according to the type of business and sectors. (For example SCIF, RAIC, BIC, supporting foundations and agencies, Taxi Drivers Guild, Slovak Stonecutters Guild etc.).

However, the reality shows that the formal institutions and the institutionalised networks – mainly the ministries and state agencies:

- Have inadequate resources to fund several projects
- They show “big activities” mainly outwardly
- Often they do not or cannot help in solving the essential problems of SME.

Where there is some common interest, demand or problem or some common “enemy” and the competent formal institutions and authorities fail to address these problems,

informal networks are necessarily formed.

The existence of informal networks can be very beneficial for the economy, entrepreneurship or social life, but it can also be harmful and damaging.

Informal networks in SME have a very rational reason for their existence and are found mainly at local level. According to several studies they associate “useful friends” that were once fellow workers in the former state enterprises. These people generate the base of chiefs and managers of SME. In the former state enterprises they would hold positions of foremen, heads of small working groups or skilled workers, with higher academic skills, or even positions of top management staff. The co-operation on the basis of informal network helps mainly the leaders or owners of SME to “achieve the impossible“ and to solve many serious problems.

The following are the major notorious problems for SME in Slovakia:

a) Raising financial resources

NADSME and SCF develop some activities in the area of raising financial resources, but these mostly focus on legislation and “big policy”. They are not of much help to particular entrepreneur who is left alone in dealing with his problem. Although banks are abundant they do not genuinely compete, offering the same very “expensive” interests on their credits. In order to get a convenient or even sometimes any credit, one has to engage in illegal practices, corrupting people and resorting to different types of cronyism and “using connections”.

b) Poor legislation and low execution of justice

Even if NADSME and SCF engage in commenting economic laws and advantageous taxes for SMEs, their activities remain mostly without much of an effect.

Tax laws and codes are poorly prepared, they require to be amended on permanent basis, which results in increased doubts among entrepreneurs, and erodes their business ethics. On the other hand, it makes it possible for a dishonest businessman to become rich and go unpunished.

There is a widely held belief that all successful entrepreneurs evade the law, act in illegal ways, deal without ethics and corrupt top officials. The law courts act very slowly, in a conflicting manner, not consistently, the actual execution of law is minimal and it is possible to flee punishment.

c) The bribery and corruption

This problem, which the Government has been dealing with for a long time, concerns

the whole state. In case of SME the bribery and corruption concentrate mainly around getting state subsidies, credits, grants, etc.

### 1.12 OBSTACLES IN THE MANAGEMENT OF SME

Many entrepreneurs in their statements claim that there is no lack of management skills in SME, even if the reverse is often true.

In their statements they would say: “...We struggle with fundamental issues - how to finance our enterprises, how to survive. We have neither time, nor money for some “schooling”.

Few of them are aware of management being also about financing and about how to survive. Several commercial education and training agencies and programs have been put in place to enhance management skills of SME, with NADSME and SCIF and some ministries also contributing in these efforts and the involvement of international cooperation partners and foreign NGOs.

### 1.13 IT COVERAGE OF SME

91 % of enterprises are equipped with PCs, and 42.8% have Internet coverage. Small and medium-size enterprises use information technologies, primarily for keeping their economic agenda (85 %) including wages, accounting, stock management, to a lesser extent also for electronic mail (36%). The small and medium-size enterprises that utilise information technologies also for the purposes of e-business focus extensively on monitoring their bank accounts (72 %) and electronic payments and 52 % use their own web sites to advertise their products.

### 1.14 SMEs IN THE PROCESS OF SLOVAKIA’S ACCESSION TO THE EU

More than 35 % of the companies assumed the expected accession of Slovakia to the EU to mean increased opportunities to cooperate with EU firms, while 34% believed the expected integration would not affect activities of their firms.

Most frequent expectations with respect to Slovakia's joining the EU and the advantages associated with the accession were: the expansion and improvement of conditions for the purchase of inputs (40 %), the development of cooperation with partner companies

in the EU (33 %) and facilitated access to financial funds (32 %). Most frequently expected disadvantages and problems following the accession to the EU included stiffer competition in the domestic market (47 %), increased demands for quality of production (34 %), and the brain drain of qualified labour (30 %). They expect government institutions and NGOs in Slovakia mainly to provide financial assistance (58 %) or legislative and legal assistance (50%).

80% of SMEs require harmonisation of financial conditions in the Slovak Republic with the European Union, mainly the accessibility of bank credits

## 2 THE INSTITUTIONAL SETTING OF SME

### 2.1. THE SLOVAK CRAFT INDUSTRY FEDERATION (SCIF)

The SCIF was founded on 5 August 1992 and registered as a citizens association associating professional associations of entrepreneurs. The main mission of SCIF is to put forward and defend the interests and rights of tradesmen, support the establishment and development of all forms of licensed trade and the integration in the national and international structures of licensed trade.

Membership in the SCIF enables the entrepreneur or the trade licensee to influence the government policy and to get support and help. Currently SCIF has around 5,000 members unified in 27 licensed trade associations or guilds, of which 10 operate at regional level. The minimum of 3 persons are required in any one member unit. All member units must pay annual membership fees, consisting of two parts. The first part derives from the economical turnover (ranging from SKK 3,000 to SKK 14,000) while the second part depends on the number of employees  $\text{€}$  members in any particular member unit (ranging from SKK 280 to SKK 500). (The average exchange rate for June - July 20021 is approx. 1US\$ = 45.00 SKK 1EUR = 43.00 SKK)

Major member associations of the Slovak Craft Industry Federation

The Association of the Buildings Assessors, the Slovak Stonecutters Guild, the Slovak Tinsmiths and Plumbers Guild, West Slovakian Bakers and Confectioners Guild, the Slovak Roof Builders Guild, the Taxi Drivers Guild, the Welders Guild, the National Association of Real Estate Agencies of Slovakia, the Heating Industry and Thermal Engineers Guild, the Board of Wholesalers and Retailers of the SR, the Slovak Guild of IT Technicians, Accountants and Managers, the Association of Laundries, Chemical

Clearing and Fabric Dyeing Shops of the SR, the Slovak Freight Carriers and Transporters Association (CESMAD Slovakia), the Association of Entrepreneurs in the Fire-Protection Industry, and others.

Local and Regional Associations:

The Licensed Trade Association Zvolen, the Licensed Trade Association Jelka, the Licensed Trade Association Banská Bystrica, the Licensed Trade Association Hlohovec, the Licensed Trade Association Detva, and others.

## 2.2. THE NATIONAL AGENCY FOR DEVELOPMENT OF SMALL AND MEDIUM-SIZE ENTERPRISES (NADSME)

The Agency provides for co-ordination of all activities for the support of SME in Slovakia, including financing and educational support at international, national and local levels. It was founded in 1992 as a joint initiative of the European Union (EU), the Slovakian Government and the interest – based associations of the entrepreneurial class in Slovakia.

## 2.3 GOVERNMENT DRIVEN AND NON-GOVERNMENTAL MEASURES FOR SMEs

The Slovak Ministry of Economy - through the National Agency for Development of Small and Medium-size Enterprises (NADSME) - guides the development and functioning of 12 Regional Advisory and Information Centres (RAIC) and 4 Business and Innovation Centres (BIC) for the whole territory of Slovakia. The objective of the activities of both these organisations is to set up a network of SMEs in the regions, provision of counselling, information and education in business skills. BICs offer training services as well, processing of business plans, mediation of domestic and international business contacts. In 2000, the programme of training and education of entrepreneurs consisted in 21 workshops that focused on business plans drafting, accounting, management, and uses of computer technologies in business, etc. In the same year, RAIC organised 39 workshops for training in business skills, preparation of business plans, which were targeted at special groups of unemployed people, namely young people, young school leavers, unemployed women, etc. The Ministry of Labour, Social Affairs and Family of SR also offers support to SME with its active labour market policy. Further financial resources came from the Ministry of Soil Management, which has been implementing two state support programmes for SME in

agriculture, amounting to SKK 68.2 million.

Several NGOs run activities tailored to develop SME, particularly in rural areas.

#### 2.4 THE FEDERATION OF EMPLOYERS' UNIONS AND ASSOCIATIONS OF THE SLOVAK REPUBLIC (FEUASR)

It is the top employer organisation in Slovakia founded with a view to creating good conditions for dynamic development of business undertaking and protecting and putting forward of common employers', entrepreneurial and business interests of its members. The FEUASR is, together with the Confederation of the Trade Unions, the partner to the Government of SR in the frame of social dialogue in tripartite negotiations.

#### 2.5 THE ENTREPRENEURS ASSOCIATION OF SLOVAKIA (EAS)

EAS is the first organisation of private entrepreneurs after November 1989 with a membership of 290 legal and natural persons and 700 collective members. The declared long-term priorities in the activity of EAS include:

1. Effective fight against the growth and corruption of state bureaucracy
2. Elimination of criminal conduct
3. Elimination of improvisation in legislative efforts
4. Comprehensive reform of the tax system
5. Activities to assist the integration of Slovakia to the EU, OECD and NATO.

### 3 CONCLUSIONS AND RECOMMENDATIONS – SMEs POSITION IN THE SLOVAKIA'S ECONOMY – A SUMMARY

The share in the gross production dropped for small and medium-size enterprises and increased for large enterprises, with SMEs showing an absolute increase. With respect to the generation of the added value, the share of small enterprises increased, while that of medium-size enterprises dropped, and the share of large enterprises increased.

Employment has decreased markedly for large and medium-size enterprises, while it slightly increased for small trade licensees and small enterprises.

When compared with the preceding year, profits before tax showed increases for all groups of enterprises. The development in investment into small and medium-size

enterprises recorded a stagnating trend, failing to reflect the need for restructuring and transition to new technologies.

On the whole, based on evaluation of parameters available, it may be stated that for the period under consideration, the SME sector showed signs of stability and a gradual quality improvement. The insufficient growth of employment in the sector may be considered unsatisfactory; however, it has been due to the intricate and unfavourable conditions for employment. An overall more positive and rapid development of this sector is prevented by the general framework of the business environment that so far does not compare favourably with that prevailing in developed EU or OECD Member States.

The situation in small and medium size business in Slovakia (with a population of 5.4 m) can also be characterised, comparing it with other V4 countries (the Czech Republic, 10.3 m; Hungary, 10.0 m; and Poland, 38.6 m) that were going through a similar development, as actually lagging. The most pronounced differences concern the category of small enterprises of up to 50 employees and enterprises with no employees, which is certainly one of important factors that influence the high unemployment levels in Slovakia, 18.6 % (Czech Republic 8.7 %; Hungary 6.4% Poland 16.1 %). The following tables show the data expressed in terms of 1,000 economically active persons.

Type of Enterprise by employees	SK	PL	HU	CZ
0 - 49	138,8	178,0	248,4	367,6
59 - 249	1,4	1,6	1,0	1,9
250 +	0,3	0,3	0,2	0,4

Type of Enterprise by employees	SK	PL	HU	CZ
0	93.7	10.1	178.8	302.7
1-9	39.5	161.5	62.9	56.2
10-49	5.7	6.4	6.6	8.7

The situation of small and medium-size enterprises in Slovakia, when compared with the V4 countries is generally not very encouraging, which is certainly an important factor influencing higher unemployment levels in Slovakia relative to other countries and also the relatively poorer situation of the Slovak economy as a whole.

4. ANNEX – THE NUMBER AND THE STRUCTURE OF SMEs AND THEIR SHARE IN THE NATIONAL ECONOMY (Figure 3.1. – 3.18) : Annual Report of the National Agency for Development of Small and Medium-size Enterprises „The State of Small and Medium Enterprises in the Slovak Republic“ NARMSP Bratislava 2001

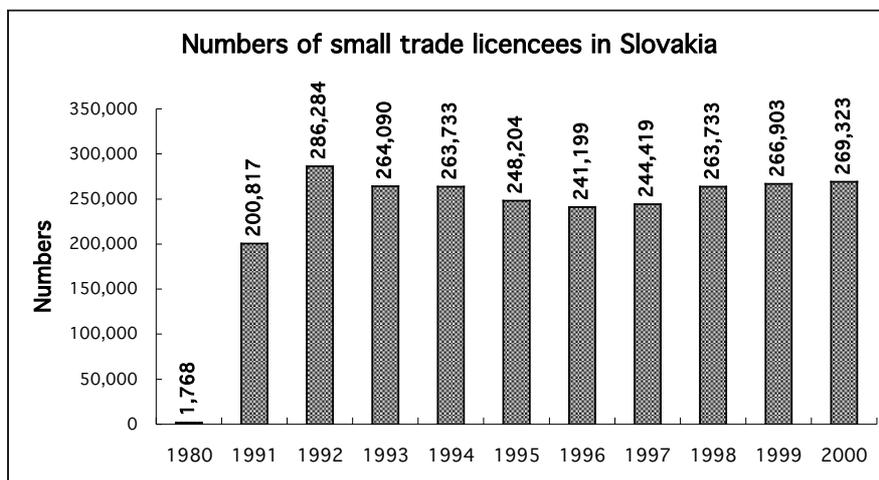


Figure 3.1

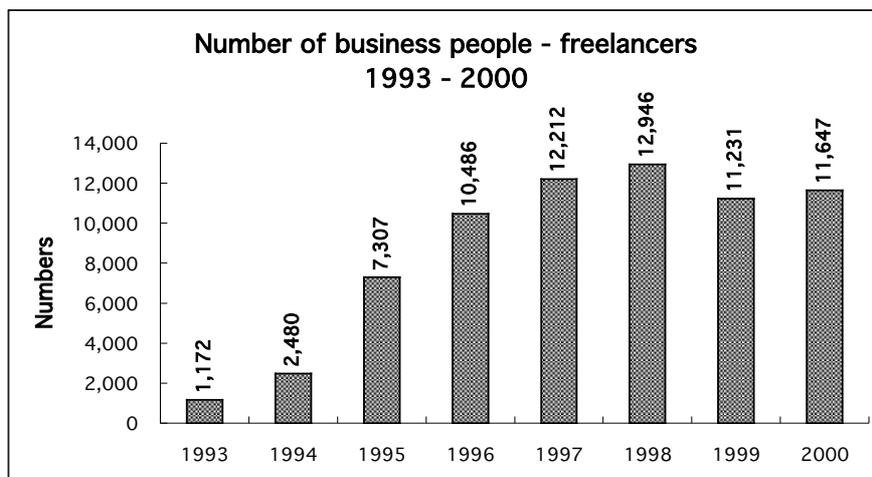


Figure 3.2

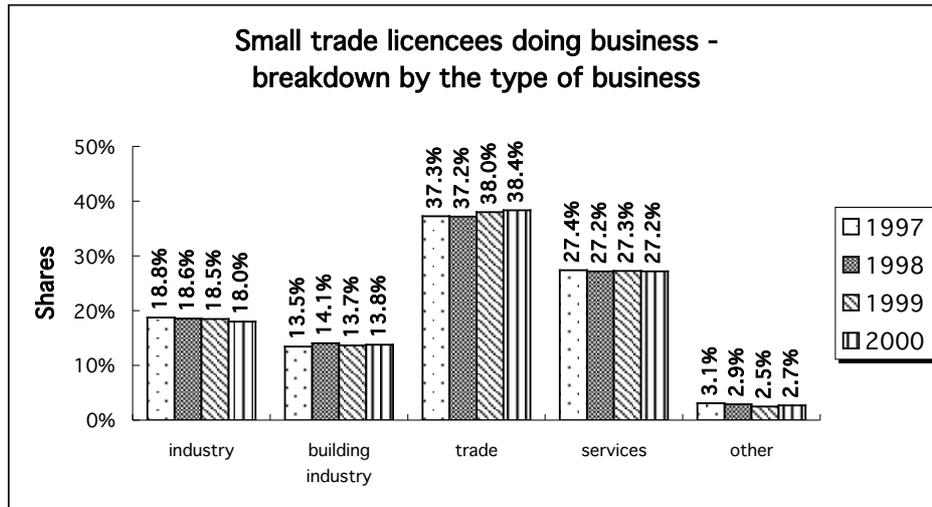


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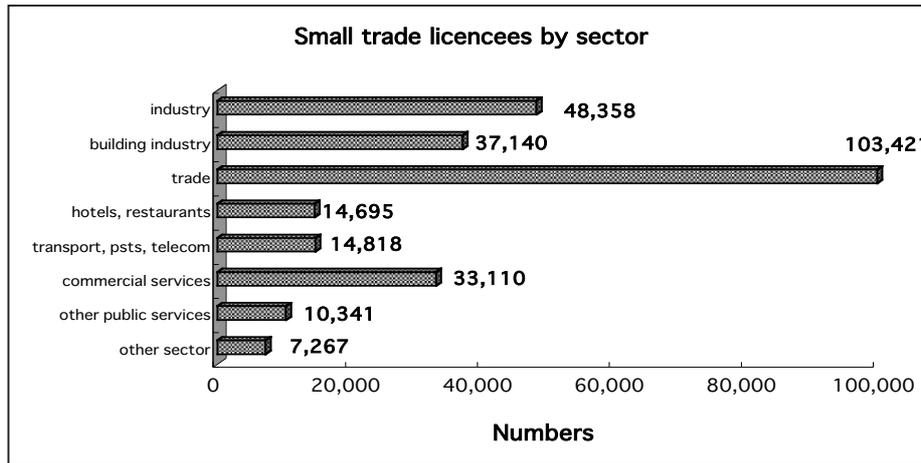


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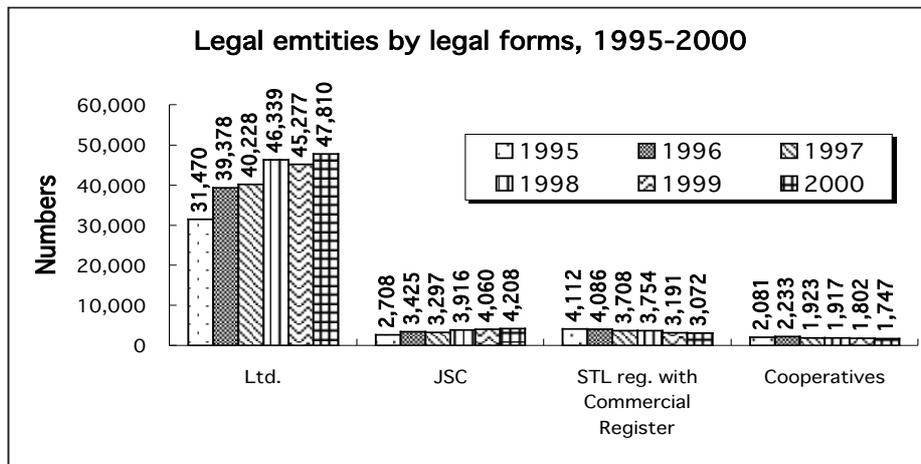


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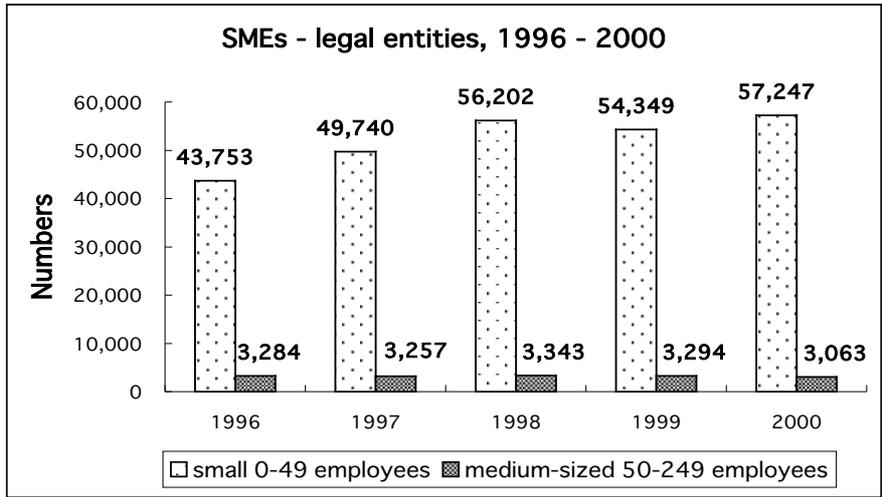


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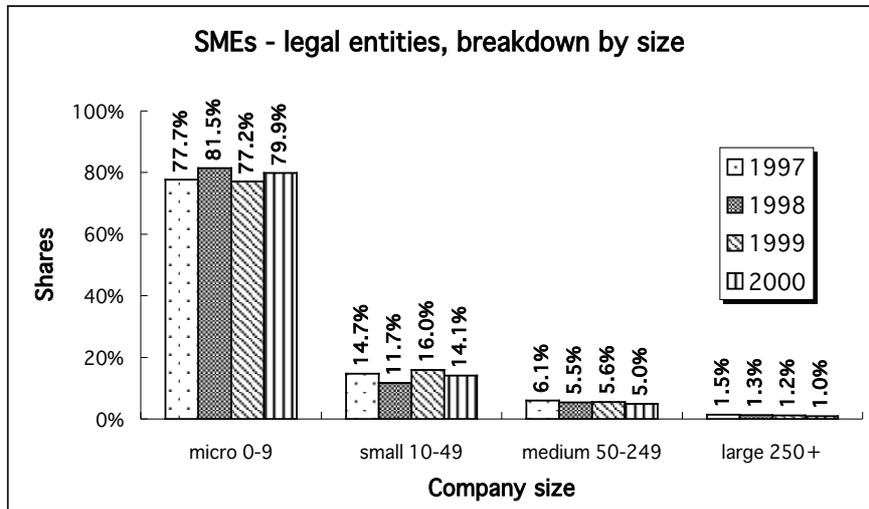


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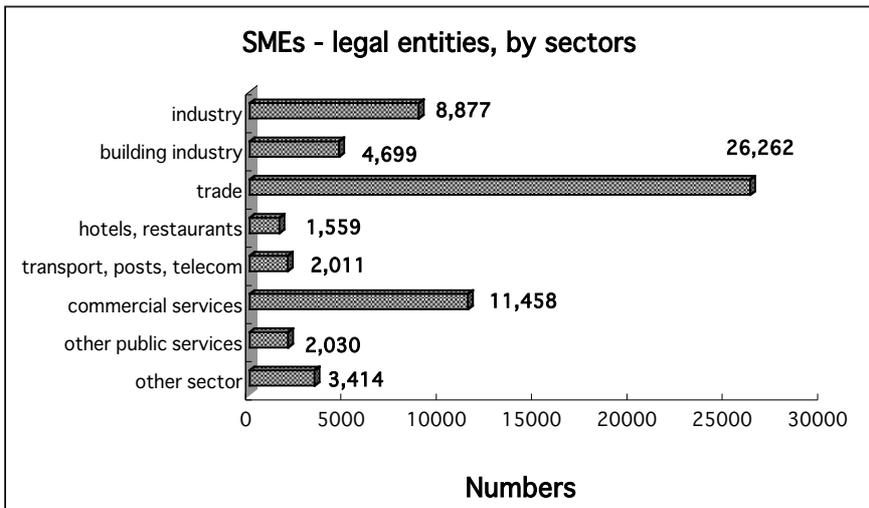
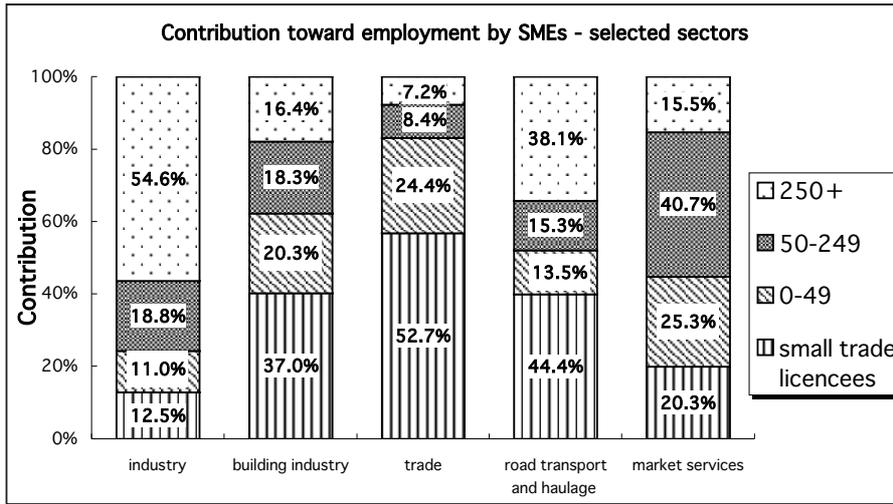
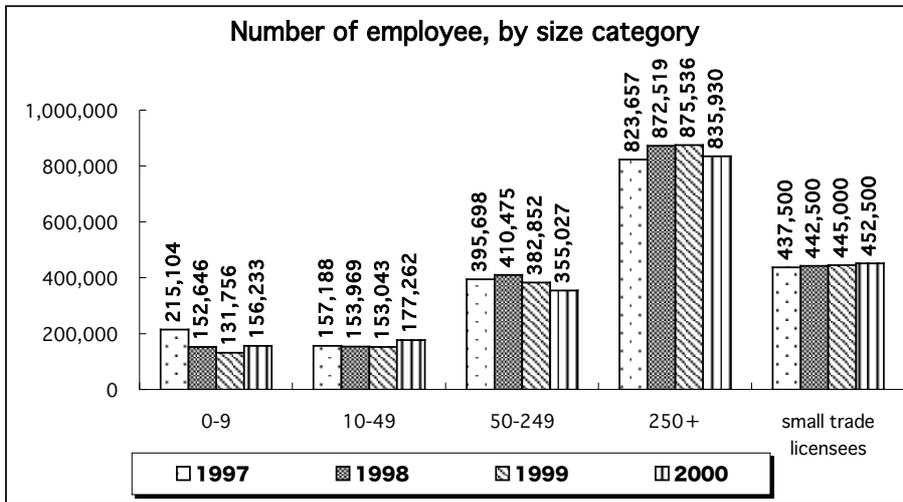


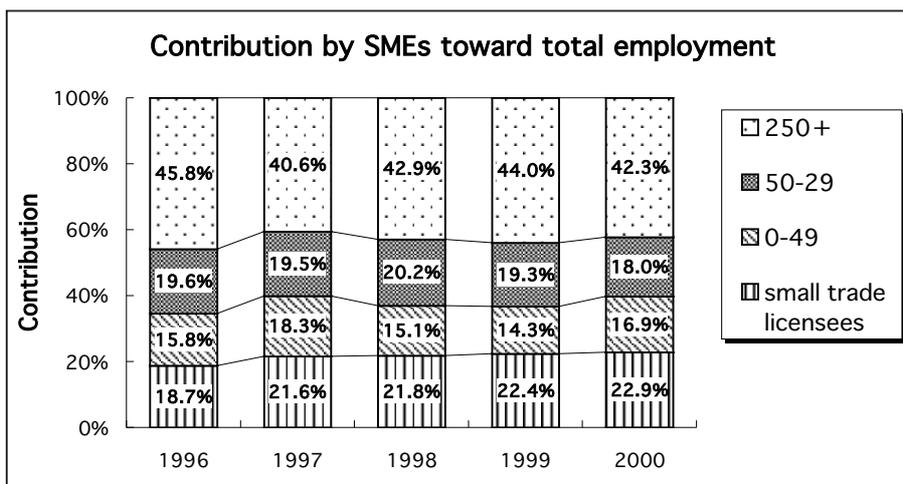
Figure 3.8



**Graphics 3.9**



**Figure 3.10**



**Figure 3.11**

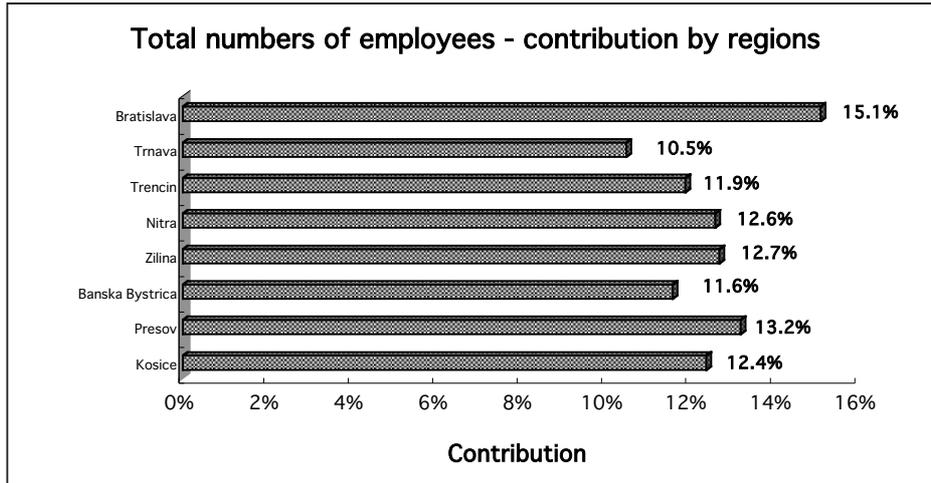


Figure 3.12

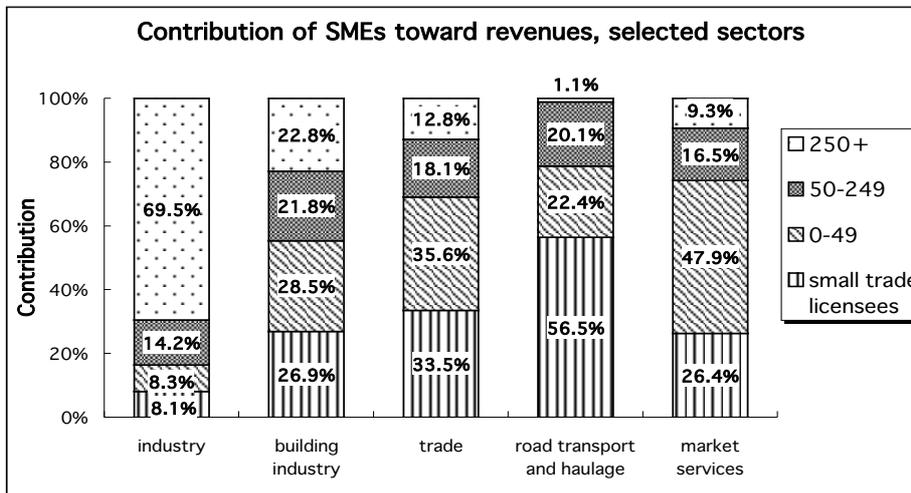


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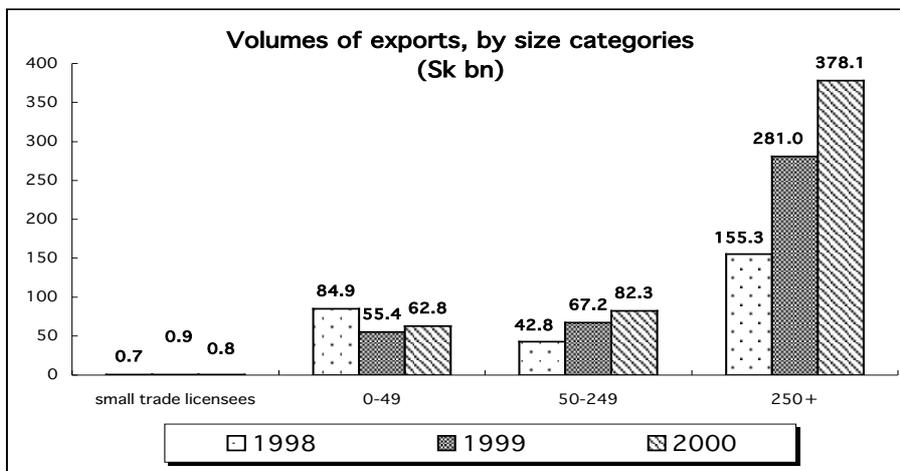


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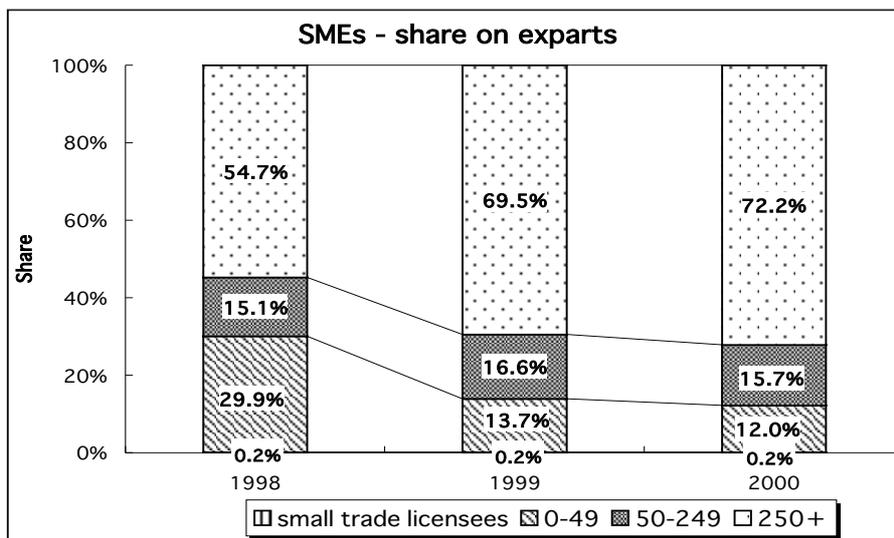


Figure 3.15

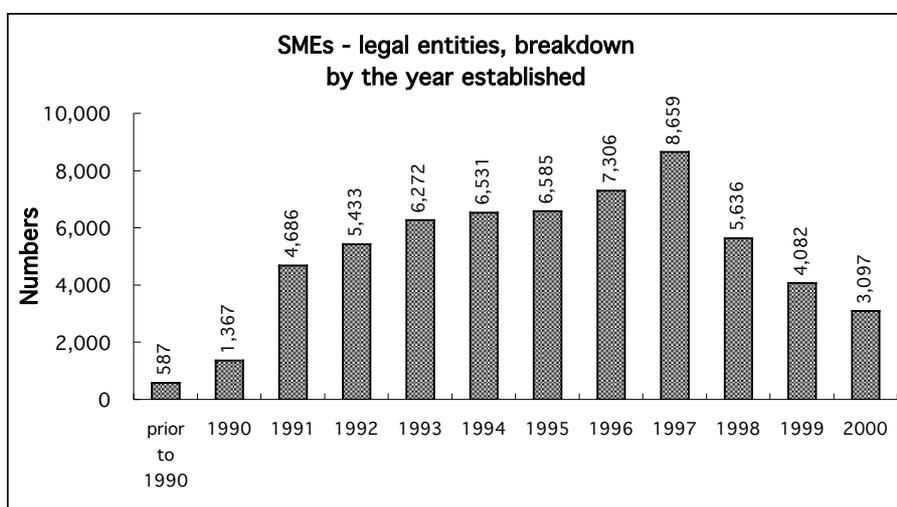
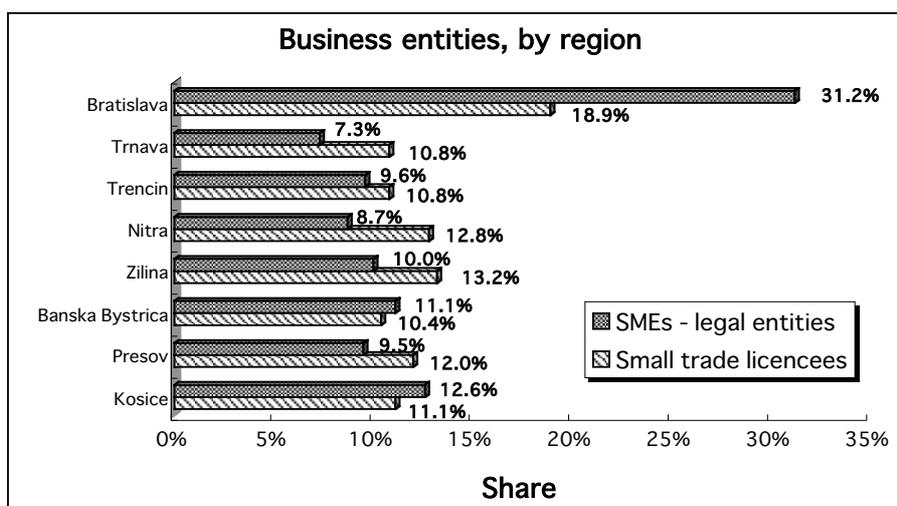
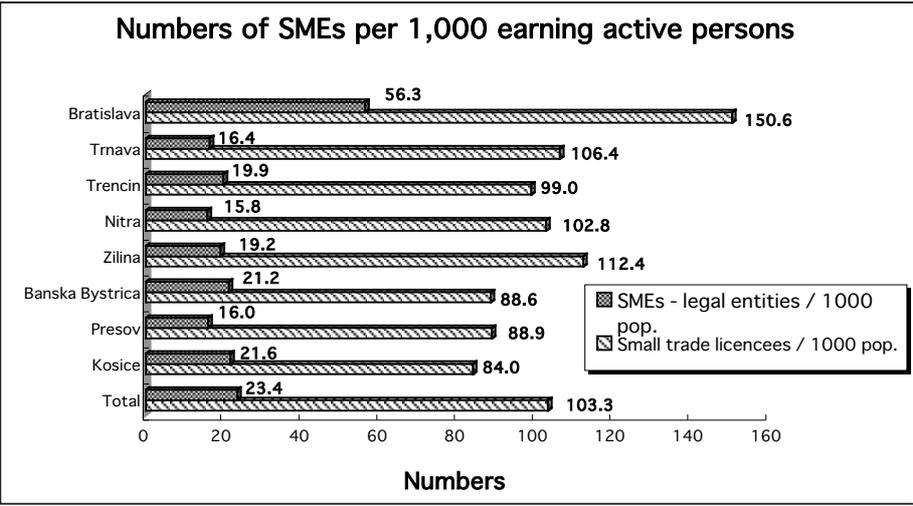


Figure 3.16



Graphics 3.17



**Figure 3.18**

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All user data has been based on:

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## Chapter IV

# HISTORICAL BACKGROUND AND PRESENT DEVELOPMENT OF SMALL BUSINESS IN HUNGARY: STRONG PRESENCE IN THE PRODUCTION AND WEAK ROLE IN THE INNOVATION

Csaba Mako and Tibor Kuczi

## 1. INTRODUCTION

The legal conditions of free enterprise in Hungary were created in 1989. As legal and political restrictions were lifted, small businesses sprang up spontaneously. In only four to six years the stratum of small business owners was almost fully established, bringing economic transition in this sphere to conclusion. As a consequence that the transformation of this sector was virtually over by the mid-nineties. All subsequent events in the small business sector, for instance, numerical growth, changes in ratio among the various groups, etc., were influenced by market economy and national economic policy regulations (e.g. taxation, financial support system etc.).

Róna-Tas and József Böröcz (1997) examined three possible explanations for this unprecedented, rapid development of the small business sector in Hungary. The first is the so-called neo-institutionalist approach, which essentially means that after careful consideration of their future prospects people will decide to start their own business if the expected profit exceeds what they can make in their present situation. Consequently, the same number of people will decide to start a business as find it to their advantage. The authors call the second explanation cultural-historical. It means that the values and behavioural forms of the past determine how people decide under the present circumstances. According to the third explanation, with which the authors agree, the cultural and social capitals and cultural-historical experiences together shape the decision to become self-employed. Social and cultural capital among other things is referring to use various networks (e.g. family, former colleagues, friends etc.) to mobilise the necessary resource to launch and maintain business activity.

Szelényi and Kostello (1997) offer a more concrete interpretation, which also takes into consideration the characteristics of state-socialist economy. They start out from the same view as the cultural-historical approach, namely, that the appearance of small business owners, who represent the most populous group of players in the market economy, after the political change in 1989 was not without antecedents. After reviewing the huge range of literature on economic transition, they came to the conclusion that the transformation of the planned economy into a market economy may be divided different phases. They define the boundaries of the phases according to the

extent that the market penetrates the re-distributive economy. They stress that the post-socialist countries differ according to the extent of market penetration at the given time. For example, in China market penetration into the planned economy more or less corresponds to the situation that characterized Hungary in the 1980s, but the speed of the economic development in this Asian country is extremely high.

In the following, the development and the present situation of the small business sector will be discussed on the basis of Szelényi's and Costello's view. Its advantage is partly that taking past events into consideration makes it easier to understand the present situation (unless we prefer the neo-institutionalist approach and analyze small businesses simply in terms of expected gains), and partly that it allows for a comparison with the other post-socialist countries.

## 2. PHASES OF MARKET PENETRATION IN THE STATE-SOCIALIST ECONOMY IN HUNGARY

The authors describe three phases of market penetration: local market, socialist mixed economy, and market-oriented economy. (Here we shall discuss only the Hungarian situation, since it is the development of the Hungarian small business sector we want to understand.)

### 2.1 ROLE OF THE LOCAL MARKET

The characteristic of local markets is that the authorities permit the organization of the economy activities according to supply and demand regulations. In this case, entrepreneurs are only marginal players, while household farmers and small producers constitute the majority who sell their own and their families' work. The extra work involved in tending plants and animals around the house meant a chance to get ahead financially mostly in the case of the poor peasantry. They were prepared to undertake hard labour in order to save their children from having to do manual agricultural work, and, if possible, help them leave village life behind (Márkus 1979; 1980). Another approach stressed the role of the better-off peasant strata, which traditionally continue on independent farming (Szelényi 1988).

The period is characterized by a peculiar symbiosis that developed between the big companies' activities regulated by state-planning and the participants in the "second

economy” (Kertesi - Sziráczki 1989). The big companies realized that the performance of those who also carry on household farming and small-scale production is limited since they go on paid vacation and sick leave whenever the farm requires their attention, and the work they do on the farm determines the intensity of their work at the factory. This was advantageous for the companies probably because the members of this group were willing to work for very low wages as they supplemented it with the income from their farms. Under the conditions of the central wage-level control, the companies were able to use the money thus saved to pay for the specialists they that needed. Household farming and agricultural small-scale production--both considerably limited by the authorities--did not attract the better educated social groups whose members preferred to make a career at state-owned companies.

Entrepreneurship also appeared in other areas of the economy during this period. Following the economic reform introduced in 1968, the scope of activity of agricultural cooperatives increased, and a quasi-entrepreneurial activity started at their subsidiaries (Rupp 1983). Artisans and small retailers should also be mentioned most of them made a modest living and had low social prestige (Kuczi 1984). They comprised less than 4% of the working population in 1982.

The entrepreneurs of this period may be described as people whose behaviour was conditioned by the frequent changes in, and peculiar tides of, political tolerance. In spite of the insecurity, the participants of the second economy were characterized by pronounced entrepreneurial skills (Gábor - Galasi 1981), by a rational management of their work and any property they owned as a means to attaining prosperity (e.g. household farms, leased vacation houses, etc.), in addition to which they worked hard to keep their employee status. But due to the restrictions, instead of investing their gains, they spent it on consumer goods (Laky 1989).

## 2.2 HYBRIDIZATION OF THE STATE-SOCIALIST ECONOMY

The socialist mixed or hybrid economy\* may be clearly distinguished from the local market, the first phase of market penetration. It is characterized by a deeper penetration of the market into the economy, and by the replacement of the earlier isolated centres by more contiguous economic regions organized according to supply and demand. As of 1982, the setting up of various work organizations promoting

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\* In the following, we use simultaneously the term mixed or hybrid economy. This national indicates the combination of regulation by central planning and elements of market coordination.

entrepreneurial spirit was also permitted, and these organisations (e.g. Economic Working Associations) were better adjusted to the market conditions. According to some researchers, the appearance of the new forms of business set off enormous changes in the economy that ultimately led to the change in regime. Nevertheless, it would be better advised to be cautious in the interpretation of the figures, since, notwithstanding the new opportunities, the expected spectacular development of the small business sphere failed to come about. In the eighties, the number of one-man businesses and partnerships remained below even the expectations of economic policy framers. In 1982, there were 94,000 units, which increased by 35 000 new, small organizations just prior to the time preceding the change in regime (12,000 were the new type of businesses, or partnerships, and 23,000 were conventional businesses).

Teréz Laky (1989) gave a graphic description of how the number of members or employees of small business changed and the extent to which it remained below the number specified by law. For instance, the laws in force at the time stated that small cooperatives could have a maximum of 150 members, but on average they had 45 members each in 1986. Even the very popular Economic Working Associations had far fewer members than the top limit allowed by the law, which in this case was 30, while the actual average number was 6 (the situation was similar in case of the other business forms).

At the time it seemed that the expected economic growth failed to take place because the participants in the second economy had no confidence in the honesty of policy makers, and, therefore, did not take advantage of the opportunity to legalize their activity.

The other explanation for the lack of national economic performance was the basically unchanged character of the macro-institutions of the country (e.g. ownership structure, role of the political party in the macro-economic decisions, lack of basic changes in the structure and mechanisms in the dominant large-state firms etc.)

Although large-scale economic improvement did not come about, the social composition of the small business owners changed profoundly and became basically what it is today.

While in the sixties and seventies it was mostly the less educated who entered into the small-business activities in the form of second economy, in the eighties running a small business became an attractive prospect for skilled workers as well. In fact, according to a 1988 survey (Kuczi and Vajda 1991), most of the small business owners with an elementary school education (eight grades or less) were forced out of business (their

ratio was 9%, though they comprised 37% of the active earners).

Small business owners with higher education were a new phenomenon in the eighties. Previously, only a few eccentric college or university graduates tried independent entrepreneurship. The results of the above-mentioned 1988 survey show that 20% of the non - agricultural entrepreneurs (compared with 14% of the active earners living in cities) had higher education. The distribution according to educational level within the various business forms shows an even more characteristic picture. It was no longer unusual to find college and university graduates working in small-scale industry, an already conventional business form, but their ratio among the directors of Economic Working Associations was a surprisingly high (40 %). This figure indicates that in the eighties there appeared a new group of entrepreneurs, who believed that independence offered better opportunities for realizing their professional ambitions than working for a big company. However, their connections at their former workplaces remained, which made possible the organization of certain small business groups into networks that exist to date. It is a good indicator of the change that the number of Hungarian Socialist Workers Party (CP) members among the independent entrepreneurs was higher than average (Róna-Tas 1997). The new type of businessman of the eighties combined his above the average professional knowledge, his contacts at his former workplace and political loyalty in building up his business, or, in poor years, in ensuring its survival. (As a reminder, in the seventies it was typically the less educated, occupying a peripheral position at their workplace, who entered the second economy.) This special combination of knowledge, connections, and political loyalty proved exceptionally profitable for some, a few of whom became owners of privatised state firms in the 1990s.

Similar processes took place in agriculture. Already at the end of the seventies there appeared among the household farmers and agricultural small producers a more ambitious group of producers who were mostly skilled workers and who, usually via the cooperative, moved beyond the boundaries of the local market. Its members came to play a prominent role in the eighties (Kovách 1988). Greenhouse gardening, poultry farms, pig farms accommodating 30-150 animals became the model for household farms. After the collapse of the state socialist political and economic system, the managers of cooperatives and the members of this group became agricultural entrepreneurs (Andor - Kuczi 1997).

In addition to the development of the stratum of full and part-time businessmen and “would be” entrepreneurs also emerged in large numbers during this period. Economic Working Associations were formed in big state-owned companies; their members were allowed greater freedom and they carried out a more rational management of company

resources, their own working time and spare time, which often proved preparation to real entrepreneurship. But this was not typical. These associations represented mainly a new organizational framework for the redistribution of overtime work and pay within the company (Stark 1989). Even so, their influence should not be underrated, since it involved a clearer definition of the interest-based relations within the company. It is easy to see the significance of this if we consider that before the eighties the formal organizational structure, the trade union, the party organization, and informal networks of relationships formed separate, uncoordinated divisions within big state companies often obscuring the differences in interest and power relations (Héthy - Makó 1972).

It helped the organization and operation of Economic Working Associations that the company elite was characteristically pro-market, though in concrete instances it may have had to confront the interest-based operation of the Associations. The fact that the elite was pro-market did not prevent it from maintaining good relations with the power centre, which was important in secure extra financial resources for the company (Szalai 1989).

The gap between the economic elite and small business owners began to close in the eighties. Earlier, a significant social distance separated the directors of big companies and the “self-employed” who tended animals or the garden or worked in the fields from morning till late in the evening in the hope of making a better life for their children. By the time immediately preceding the change in regime there developed a group of business owners (mostly the directors of small organizations) who made frequent trips abroad, were highly qualified and prospered (Kuczi - Vajda 1991). The social distance between this group and the economic elite was no longer unbridgeable. This notwithstanding, they did not come to form an alliance on the eve of the change in regime, and in time the political elite’s interest turned increasingly toward the big foreign investors.

### 2.3 FAST DEVELOPMENT OF SMALL BUSINESS IN THE EMERGING MARKET ECONOMY

Due to the fundamental changes both in the ownership and the size structure of the Hungarian economy from the end of 1980s, the number of registered businesses significantly increased. For example, the number of registered firms between 1990-1995 doubled and in 1995 reached one million. From this time their speed of growth slowed down significantly. Table 1 indicates the forms and growth of the business organizations by their legal-status.

**Table 1 Changes in the number of businesses organization by their legal-status (1990-97)**

<b>Year</b>	<b>Self employed</b>	<b>Business partnership</b>	<b>Co. Ltd.</b>	<b>Joint Stock Co.</b>	<b>Cooperative</b>	<b>Total</b>
1990	387 340	n.d.	12 159	519	7 134	407 152
1991	510 459	n.d.	41 206	1 072	27 232	559 152
1992	606 207	n.d.	57 262	1 712	7 694	672 875
1993	688 843	67 301	72 897	2 375	8 175	842 083
1994	778 036	89 001	87 957	2 896	8 252	969 429
1995	791 496	102 560	102 697	3 186	8 321	1 011 945
1996	745 247	127 725	122 044	3 536	8 362	1 049 590
1997	659 690	140 043	143 109	3 929	8 330	998 264

The number of registered enterprises, total approximately 400,000 in 1990, grew more than two and a half-fold in a decade. The overwhelming majority (95%) were self-employed businesses, the number of which doubled by the mid-nineties, then fell back somewhat due to recession and unfavourable regulations. By the end of the decade it exceeded the 1990 level by just more than 70%. By 2000, more than one third of the registered businesses were partnerships.

Research findings show that in the mid-nineties approximately two thirds of the registered companies were actually in business (since 1995, the researchers' findings are used in statistical records). Today, 75.5% of the 1.1 million registered companies are actually in operation. Of course, the ratio of actual and nominal companies differs according to company size. The fact that big companies operate can be taken for granted. But it is also a fact that 30% of the small companies without employees do not carry on any activity; they exist only to enable the owners to pay less tax on income earned in other areas.

### 3. SIZE STRUCTURE OF BUSINESS ORGANIZATIONS IN COMPARATIVE PERSPECTIVE

Comparing the size of Hungarian companies with international data, we find that the average number of employees in micro, small, and medium-size businesses and the ratio of employees in the individual groups do not considerably differ from EU averages.

*The Table 2 compares the size structure of the Hungarian firms with the EU (15) countries (1998)s.*

Country	Micro-firm (< 9 person)	Small firm (10-49 person)	Medium-sized firm (50-249 person)	Large firm (>250person)	Average firms' Size (in number)
	Share of the firms in per cent				
Austria	87	10	2	0	11
Belgium	95	4	1	0	5
Denmark	88	10	2	0	8
United Kingdom	95	4	1	0	5
Finland	94	5	1	0	5
France	93	6	1	0	7
Greece	97	3	0	0	3
Netherlands	88	10	2	1	12
Ireland	90	8	2	1	10
Luxemburg	84	12	3	0	13
Germany	88	10	1	0	8
Italy	95	4	0	0	4
Portugal	93	6	1	0	4
pain	95	4	1	0	5
Sweden	93	6	1	0	7
EU (15)	93	6	1	0	6
Hungary (1999)	96	3	1	0	4

Source: Zoltan Roman (2002) Small and medium-sized enterprises in the Hungarian Economy (State affairs and international comparison), Budapest: *Central Statistical Office*, p. 41

According to the latest EU Report (The European, 2000), the overwhelming majority (99.8 per cent) of business organisations belong to the category of small and medium sized firms. Hungary belongs to the category of countries in which micro-firms are dominant. An average-size firm has 6 employees in the EU and 4 in Hungary, and the size structure of the business organisations in Hungary is similar to the Greece and Italian firms. Averages below the EU average are shown below in Table 3.

**Table 3** *Countries below the EU average firms' size structure*

Country	Average size of the firm (number of person employed)
Greece, Island	3
Italy, Portugal, <i>Hungary</i>	4
Belgium, UK, Finland, Spain	5
Norway	6
Denmark, France, Germany, Sweden	7-8
Ireland, Switzerland	10
Austria	11
Netherlands	12
Luxemburg	13

*Source:* Zoltán, Román (2002) Op.cit.: 43

In the light of this data, the mainstream view on the Hungarian situation is the following: “The employment size structure in Hungary resembles the EU average, that is, the graph shows an almost perfect sandglass form. What distinguishes the Hungarian structure from the structure found in EU countries is the difference in the ratio of small and medium-size businesses: in Hungary much fewer people work in small than in medium-size businesses, while in most EU countries the situation is the reverse” (Fülöp-Gyetvai-Juhász, 1999).

However, contrary to above opinion, according to the latest comparative research on small businesses, the performance of the medium sized firms is rather strong and similar to the EU. For example, Hungarian firms employing less than 50 persons are producing 42 per cent of the value-added, medium sized firms (50-250 person) are producing 15 per cent and the large firms (over 250 persons) 43 per cent of the value-

added produced in the country. The average performance of these size-category of firms in the EU (15) countries is as follows: 29 – 19 – 52 per cent (Hámor, 2002:16).

There are significant differences not only between the Hungary and the EU members states are significant, but we may find visible differences between the post-socialist economies too. For example, the rate of micro-firms (employing less than 10 persons) is higher than 90 % in each country except Estonia. (In Estonia: 82.1 %, in Slovenia and Poland: 94 – 95 %, in Czech Republic and Hungary 97 %.

#### 4. RESOURCES NECESSARY TO SET UP BUSINESS: KEY ROLE OF SOCIAL CAPITAL

Typically, the founders of small businesses rely almost exclusively on their own resources. By resources we do not mean primarily financial or property capital, since these played a rather small part (perhaps because at the beginning of the decade people had an excessive fear of taking risks in a market they knew very little about), but the person's own work and the work of acquaintances, the family car and garage or in other word "social capital" paid an extremely important role. This, among others, explains why only an extremely small group of people was capable to create big firms. It also explains the very low ratio of medium-size companies, their very limited capital and employment potential compared with the group of big companies based mostly on multinational or foreign ownership. The foreign affiliates generate the more than 70 per cent of the manufacturing export. The share of foreign affiliates in the industrial R and D is over 70 per cent in Hungary and over 30 per cent in the Czech Republic (OECD, 2001: 112).

As we have seen, at the beginning in Hungary the overwhelming majority of the business was represented by "companies" without employees. The nineties were characterized by a slow growth in size, due partly to the increase in the ratio of micro-firms at the expense of "companies" without employees.

(In view of the small size of the business, the owners rely mostly on family resources in carrying out their activity. This means primarily the use of labour and expertise "on hand." According to a survey (Czakó et al. 1994), in 60% of the cases, the owner's spouse also takes part in some form in the business.)

As we have seen, the money accumulated over the past decades had little part to play in starting the business, but it has considerable weight in preserving liquidity. The savings of family members are also an important source of cash. At the beginning of the nineties, one fourth of the small business owners borrowed from their relatives or

friends, but as the loan conditions of bank credits became harsher the number of those who borrowed from people in their immediate environment doubled.

The family plays an important role in starting and running the business, though people who have no other means of support may easily get into trouble. Owners who can utilize, in addition to (or instead of) their family connections, their connections in the market or in their former jobs have a better chance of avoiding failure.

The other group of self-employed comprises those who, under duress, started a “business partnership” or took out an entrepreneurial permit. They carry on the work they did as employees, but formally they are self-employed businessmen.

Finally, it is important to mention that there is a “micro-loan” system designed for the small and medium size business sector. Under this initiative until 6 million bank-loan is available with a favourable interest rate. There is a new taxation package under preparation by the new socialist-liberal coalition to simplify the present taxation practice by introducing a “unified taxation bracket” (e.g. firms have to pay 15 or 20 % tax on their turnover and they are free to use the remaining resource)

##### 5. WEAK NETWORKING DOMINATES RELATIONS AMONG SMALL BUSINESS OWNERS. STRONG NETWORK SHAPED BY REGULATION BASED ON RECIPROCAL RELATIONS IS EXCEPTIONAL

One of the main characteristics of socialist mixed economy mentioned was the preponderance among business owners of better educated groups who had worked at one or more big companies and, therefore, had business experience and, more importantly, connections. Given their knowledge of how big companies operate (Whitley 1991) and their connections, they were able to join a production network through their former employer. (But past employment may also have an opposite effect. Magdolna Leveleki (Leveleki 1999) reported that a part of those who became self-employed by necessity-- i.e. because of layoffs --gave up their business as the chances of getting a job improved, preferring to start to work as employees.)

Although the supplier program launched in the second half of the nineties was not successful in every respect, there are definite signs of network formation. Specifically, the share of Hungarian companies as suppliers in the production of multinational firms operating in Hungary rose from 16% to 21% by the end of the 1990s.

After reviewing the data on suppliers, several authors concluded that the level of

integration of the Hungarian economy is still low( Fülöp – Gyetvai - Juhász (1999). An international survey on the regional innovation system at the Székesfehérvár-region – where the activity of the foreign affiliates extremely intensive - shows the same thing, namely, that multinational firms use the services of their own, earlier established network, and only rarely turn to small companies that operate in the region (Makó – Ellingstad, 1999.)

According to other research, the fact that the networks of multinational companies are closed does not, by itself, explain the weak integration of small business owners. It is not yet verified that the Hungarian small business owners are incapable of performance according to the required standard, and they often fail to observe delivery deadlines. Instead of that, the main problem is that Hungarian small businesses do not document their activity, which makes the determination of responsibility in case of default a lengthy procedure or even impossible (Szalavetz 2001).

There is another possible development path for network creation. Case study based investigation in special - various ethnic groups dominated - micro-region demonstrated well the important regulatory function of the local community. Research findings showed that those business owners were able to join a group of suppliers (for instance, subcontract to a big hotel construction), whom the local professional community rated high. It was not the commissioning party that determined which of the potential partners would be suitable and examined their professional and organizational competence. The decision was left to the local community. What happened was that the big company commissioned the representative of the local business elite who, relying on local public opinion as to who the trustworthy professionals are, organized the “network” of suppliers. Regardless of how they are organized, networks are the most important condition of entry of small businesses into the EU market. This market is not open insofar as small businesses cannot directly appear, since competition is between networks. For this reason the crucial question concerns the ability of Hungarian small business owners to form networks. Today there are dozens of businesses that deal with network organization (accountants, law offices, quality supervisors and “network-brokers”, technical advisors, IT service suppliers etc.), but very little is known about the cultural conditions that would make the cooperation of small business owners possible.

In relation to this networking, it is necessary to call attention to the regionally unequal distribution of small-business in the Hungarian economy. The density of entrepreneurship is measured the following way: by the number of small business per 1000 inhabitants. In the New Associate States (NAS), the density of enterprises is listed below (March 31st 2001)\*:

(1) Czech Republic:	189
(2) Hungary:	105
(3) Poland:	80
(4) Slovenia:	70
(5) Estonia:	40

In Hungary, the indicator of business organization per 1000 inhabitants is showing the following pattern: the highest concentration is found in the Central Hungarian Region (and in Budapest): 40.7% (Budapest: 30.9%). Table 4 summarizes the regional distribution of business organizations by size.

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\* Román, (2002) Op.cit.: 45

Table 4 Regional distribution of firms by size category in Hungary (June 30<sup>th</sup> 2001) (%)

Regions	Micro-firms		Small firms	Medium sized firms	Large firms	Total
	0 employee	1-9 person	10-49 person	50-249 person	>250 person	
Central Hungary, within this region: Budapest:	37.8 27.7	40.9 29.6	38.3 28.6	34.7 26.8	35.4 25.6	38.8 28.0
Central Trans-Danubia	10.8	9.4	10.0	10.1	12.9	10.4
Western Trans-Danubia	10.2	9.5	9.9	10.3	14.0	9.9
Western Trans Danubia	10.2	9.5	9.9	10.3	14.0	9.9
Southern Trans-Danubia	9.4	8.5	8.4	9.6	7.6	9.1
Northern Hungary	9.2	8.5	9.1	8.9	9.6	9.0
Northern Great Plain	10.9	11.5	11.5	12.5	10.5	11.1
Southern Great Plain	11.6	11.7	12.8	14.0	10.5	11.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Roman, Op.cit.: 53

## 6. INTEREST REPRESENTATION OF SMALL FIRMS IN THE HUNGARIAN LABOUR RELATIONS SYSTEM

In the process of network creation of small businesses, the interest representative organisations may play important role. In this respect, it is worth mentioning the role of the main employers' associations in the labour relations system.

Before presenting the composition of employers associations of the country, it is necessary to present the brief history of the Hungarian labour relations system.

Pluralization and segmentation of the interest representative associations characterised the of the country's labour relations system from the end of 1980s until the present. From the employees' side, six major trade unions are participating in the activity of the Interest Reconciliation Council (IRC), which is a national level tri-partite forum of the main labour relations partners. This institution has various roles, one being to set of the most important one being to set up the level of the annual minimum wage. On the employer's side the following organisations are playing key roles in the work of IRC.(Héthy, 2000:17):

*-Union of Agrarian Employers*, this organisation represents major agricultural corporations, state farms, the National Association of Farmers and agricultural research and education (500-600 organisations with legal entity and several thousand private farmers).

*-National Federation of General Consumer Cooperatives (AFEOSZ in Hungarian abbreviation)*, this organisation primarily represents the area of those operating in agricultural product purchasing and retail trade (285 cooperatives with 800 000 members and 45 000 employees).

*-National Association of Industrial Corporations (IPOSZ in Hungarian abbreviation)*, this association represents the interests of nearly 120 000 small craftsmen engaged in about 300 types of activities. Currently, the number of its member organisations is 300.

-*National Confederation of Traders and Caterers (KISOSZ in Hungarian abbreviation)*, this federation is the employers' organisation of private retailers and caterers (its membership comprises private entrepreneurs, some 20 000 people).

-*Hungarian Industrial Association (OKISZ –Magyar Iparszövetség, in Hungarian abbreviation)*, this association is the employers organisation of medium-sized, and, in part, smaller and larger business (approximately 3 000 companies and 300 000 employees). It is a member of the International Cooperatives' Association and the European Medium and Small Enterprise Union.

-*National Federation of Agricultural Cooperatives and Producers (MOSZ, in Hungarian abbreviation)*, this is an employers' association of 1 5000 cooperatives and about 300 companies operating in agriculture and related activities (4000 000 active and 570 000 retired members of the cooperatives).

-*National Association of Entrepreneurs (VOSZ in Hungarian abbreviation)*, this association represents business based on private capital (100 000 entrepreneurs). In 1991, as the representative of Hungarian employers, it was accepted as the first eastern European member of the International Organisations of Employers.

-*National Association of Strategic and Public Utility Companies (STRATOSZ in Hungarian abbreviation)*, this association is not a member of the employers' side of the National Labour Council (formerly the Interest Reconciliation Council). In 1996 it was accepted as a member of Centre Européen des Entreprises á Participation Public (CEEP), the EU level employers' organisation representing public sector organisations.

-*Federation of Hungarian Industrialists (MGYOSZ, in Hungarian abbreviation)*, this organisation represents, primarily, large private enterprises (it has some 2 200 member companies).

-*Hungarian Employers' Association (MMSZ\* in Hungarian abbreviation)*, this

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\* These two organizations united in 1998.

organisation represents, via branch (trade) and territorial member associations, 5-6 000 business organisations which employ a total of nearly 1.1 million people.

In relation to the above list of employers' interest representative associations, it is necessary to note the following. Firstly, among 10 associations organisations are dealing with the interest representation of small and medium sized business such as:

- Union of Agrarian Employers,
- National Association of Industrial Corporations (IPOSZ),
- Hungarian Industrial Association (OKISZ),
- National Association of Entrepreneurs (VOSZ)

Secondly, the statistics on membership – according to labour relations experts – is unreliable: the heads of various associations have a vested interest in reporting higher membership to demonstrate the strength of their organisations. We have to note, that in spite of the significant development of these associations, they still are seeking their appropriate role in helping their members. The ambiguous definition of their roles is summarized by the a well-know expert of the Hungarian labour relations: “During the period of political change in the late 1980s due to the lack of legislation on, and legal definition of, employers' organisations, almost all business associations were acknowledged as employers' organisations once they declared themselves as such. However, the extent to which craftsmen, retail traders, agricultural small-scale farmers or cooperatives can be qualified as employers is rather doubtful. Another issue is the extent to which these organisations uniting Hungarian entrepreneurs and companies act as employer representative bodies and the extent to which they function as representatives of economic interest groups. Even though there is a lack of more profound information about the Hungarian employers' associations currently in existence, it can be said that only some appear to meet the general, internationally accepted criteria of such associations – these are the Hungarian Employers' Association, MMSZ, MGYOSZ and VOSZ” (Héthy, 2000:17-18).

7. SMALL BUSINESS AND THE e-ECONOMY IN THE CENTRAL EUROPEAN REGION: DIFFERENCES BETWEEN EU (15) AND NAS (3)

In the last decade there has been a growing interest in Europe in understanding and locating the position of SME in the fast developing e-economy, in which the work or service are created and delivered by the use of Information and Communication Technologies (ICT). Recent experiences of one of the largest employer survey carried out in the EU (15) countries and the Czech Republic, Hungary and Poland are the followings: the larger the size of the firm, the more intensive the diffusion of e-work can be. Results concerning the Eastern Central European countries participating in the survey in comparison with the EU (15) and within this group of countries are summarized in table 5.

**Table 5 Differences in e-Work Diffusion (%) of Firms by Size**  
*(“More than 200 employees” category minus “50-200 employees”)*

Region/count ries	Sectors of Economy				
	Manufacturing	Trade/transport/ telecommunication	Business services	Public administration/ education/health	Total
<b>Central- Eastern- Europe</b>					
Czech Republic	-9.7	17.9	--	--	2.7
Hungary	20.0	24.7	13.8	7.6	13.6
Poland	6.3	-7.1	-17.1	14.1	5.0
<b>EU (15) and NAS (3) average</b>	<b>4.4</b>	<b>6.4</b>	<b>1.1.</b>	<b>-0.8</b>	<b>2.1</b>

Source: Altieri, Giovanna-Birindelli-Bracaglia Pietro-Tartaglione Clemente (2002) Southern Europe Report, Rome: IRES, (Emergence Partners Meeting, April 18, 2002.) Leuven, p. 11.

Evaluating the diffusion of e-work by company size, the following interesting contrast was found between the EU (15) and the New Associate States (NAS)\*: the diffusion of e-work within the EU (15) countries is rather balanced between the firms employing 50-200 (41.7%) and more than 200 persons (44.4%). At the same time, in the NAS (3) the larger companies have stronger e-work diffusion (71.9%) in comparison to the smaller ones (64.5%). On the whole, the dominant pattern shows that the larger of the size of the firm, the greater the use of e-work will be, but among the former socialist economies, we can find significant differences: due to the low share of micro-firms in the Polish sample, the slightest differences in the diffusion of e-work by company size were found in this country: 3.6 % in favour of the larger firms (employing more than 200 employees). In the Czech Republic the difference was 8.5%, while in the case of the Hungarian firms it was 21.1 % in favour of the large firms. (Makó-Keszi, 2002) In the case of Hungary, other surveys support the validity of the finding of the EMERGENCE project. According to a survey conducted in the last quarter of 2001, almost 100% of the large firms are connected to the global net and only 71% of the small firms have internet access. This survey explains the significant differences in internet use by the relatively weak “e-orientation” of small business owners and the low priority of training. It is interesting to note that even in the category of medium-sized and large firms, only 4% have “internet-related strategy”, while about one fifth (18.5%) of them have a plan to develop an internet based strategy. Also one fifth of them is planning to survey the opportunities of “e-commerce” in the near future.

## CONCLUSIONS

It is difficult to make conclusions on multidimensional (e.g. social-economic historical, resources, regional aspects, labour relations and emerging e-economy) development of the small and medium size business in Hungary. However, it is worth calling attention to particular features of this development. Firstly, it is necessary calling attention to

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\* The NAS countries participating in the survey entitled “Estimatin and Mapping of Emploment Relocation in a Global Economy in the New Communication Environment” (EMERGENCE), are as follows: Czech Republic, Hungary and Poland.

cumulative and evolutionary character of entrepreneurship. The so-called “second economy” in agriculture, construction and service sector was one and the “Economic Working Associations” a second antecedent to the formation of entrepreneurial skill and value in Hungary. Secondly, the privatisation and the re-structuring of the large state-owned firms under the pressure of high unemployment at the early nineties created a “boom” in small businesses, which peaked in the middle of 1990s. Thirdly, in the last decade of the 20th century, the development of small and medium size businesses followed the pattern of the mature capitalist countries but they are still visible differences identifiable both with EU (15) and the New Associate States in Central Eastern European (CEE) region. In this respect, it is necessary to call attention to the relatively weak position of micro and small firms in the fast growing e-economy. However, even in this case, we may expect both similar and different patterns of development among business organisations operating in the CEE region. It would be one of the most interesting issues for further studies to identify the opportunities opened by the new information and communication technologies to broaden networking activities of the small business firms. In this respect, it is an extremely challenging task to find answer on the following question: which social-cultural regulations of economic behaviour (e.g. trust, business moral, community, professional values etc.) may facilitate or constrain the developing of the combination of competition and cooperation among the actors in this significant sector of the economy.

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