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**The Internationalisation
(Transnationalisation) of the SME
Sector as a Factor of Competitiveness**

Tibor Palánkai – Sándor Gyula Nagy

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Vysoká škola ekonomická v Praze, Fakulta mezinárodních vztahů
Náměstí Winstona Churchilla 4, 130 67 Praha 3
+420 224 095 270, +420 224 095 248, +420 224 095 230
<http://vz.fmv.vse.cz/>

Studie procházejí recenzním řízením.



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The Internationalisation (Transnationalisation) of the SME Sector as a Factor of Competitiveness

Tibor Palánkai (tibor.palankai@uni-corvinus.hu)

Sándor Gyula Nagy (sandorgyula.nagy@uni-corvinus.hu)

Summary:

As part of a wider research program we analysed the theoretical frameworks and the developments of the process of internationalisation (transnationalisation) of small- and medium-sized enterprises in the European Union and specifically in Hungary and Spain. We tried to highlight the barriers and trends of internationalisation. We consider internationalisation of the SME sector as a crucial factor in increasing competitiveness and as an important condition for sustainable and dynamic growth and improving employment (Europe 2020). We made policy recommendation mostly for the government in terms of how to promote the process. We carried out analyses of documents and databases, interviews, and online data collection.

Keywords: internationalisation, SME, competitiveness.

Internacionalizace (transnacionalizace) sektoru SME jako faktor konkurenceschopnosti

Tibor Palánkai (tibor.palankai@uni-corvinus.hu)

Sándor Gyula Nagy (sandorgyula.nagy@uni-corvinus.hu)

Abstrakt:

V rámci širšího výzkumného programu jsme analyzovali teoretický rámec a vývoj procesu internacionalizace (transnacionalizace) malých a středních podniků v Evropské unii, konkrétně v Maďarsku a ve Španělsku. Pokusili jsme se zdůraznit překážky a trendy internacionalizace malých a středních podniků, kterou považujeme za klíčový faktor zvyšující se konkurenceschopnosti a za důležitou podmínku pro udržitelný a dynamický rozvoj a zvyšující se zaměstnanost (Europe 2020). Na základě provedených analýz dokumentů, databází, rozhovorů a informací na internetu jsme vytvořili politická doporučení, většinou určená vládám, týkající se toho, jak podporovat proces internacionalizace.

Klíčová slova: internacionalizace, SME, konkurenceschopnost.

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Introduction¹

The emerging global integration in the last decades has been marked by the rapid and intensive internationalisation of company sectors. The main product of this process was the appearance of Transnational Companies (TNCs).

We define transnational companies in a broad and general sense, multinational or “international concerns” are considered as their special forms. There are contradictory and varying definitions of TNCs, but according to some UN terminologies, those companies can be considered “transnational,” which operate in more than one country with more than 25% of their activity (production, capital, turn over or employment) taking place abroad. Besides, the existence of a global business strategy, centralised decision making and economic power (market influence and size) are often stressed. Their transnationality extends to production activities, ownership relations and management. The TNC integrates and optimizes its activities on a global scale. Their novelty lies in all of these features.

The TNCs are often connected with oligopolistic behaviours. Inside the companies, so called transfer prices are broadly applied, which helps the hidden and illegal transfer and redistribution of incomes, and tax evasion. This way the advantages of the global division of labour are distributed inside the companies, while for the outsiders, high monopolistic type of prices (on components or services) are charged.

“The spread of the capitalist mode of production and free trade following the World War II led to the development of a complex and highly integrated world economy in which international trade and investments flows occur on a massive scale at increasingly rapid rates. International economic structures based on finance and trade have led to increasing interdependence and closer ties between countries. An important part of this process is associated with the growth of transnational production, with the increasing ability of firms to locate parts of their production overseas, while still maintaining direct control over the activities of foreign subsidiaries. This move by many enterprises to spread their activities into other countries has bolstered the globalisation process, broadening the links between countries” (O’Brien et al. 2007: 184).

From the points of view of global integration and transnationalisation, the *spectacularly rapid expansion and growing internationalisation of capital markets* from the 1980s should be particularly stressed. The liberalisation and deregulation of capital markets played an important role, which was accompanied by the new

¹ The study was supported by the European Union and the Hungarian state (project contract nr. TÁMOP4.2.1B-09/1KMR-2010-2010-005).

communication and information technologies (round the clock stock exchanges). The globalisation of financial relations showed extraordinary expansion, particularly in comparison to real economy. The process in Europe was accelerated by the single market and the introduction of the Euro.

1. Theoretical Background

1.1 Internationalisation – European Integration – TNCS

In the past more than 50 years we have experienced *a very rapid and intensive internationalisation of European economies*. The EU members have reached a high level of integration of their economies, which has had broad impacts on economic development, mutual cooperation and the structure of the economies of member states. This can be measured both in terms of trade, and flows of the factors of production.

In the past 50 years the trade among the members has grown very dynamically, in fact in the long run, about one and half times more rapidly than their GDP's. As a result, the economies of the member states have become strongly internationalised, and achieved a high level of interdependence. In fact, we can state that this has led to a very dynamic and high level of integration.

Table 1: Trade flows of goods and services (in % of GDP, EU-15)

	1960	1970	1980	1990	2000	2004	2008
Total export	19,6	21,8	27,2	28,1	37,4	36,9	42,0
Total import	19,2	21,4	28,6	27,5	36,9	35,4	41,2
Internal EU export	7,7	9,9	13,2	14,4	20,3	19,8	21,5
Internal EU import	7,9	11,0	13,2	14,6	21,8	22,2	22,3

Sources: European Commission: 2001 Broad Economic Policy Guidelines. Europe in Figures, Eurostat Yearbook 2009. Eurostat. 2010.

The data show that the EU economies are characterised by relatively high levels of external dependence, which in the last half of the century more than doubled (it grew from about 20% in 1960, to 42% in 2008).

Even greater dynamism characterises the growth of internal trade among the EU members. Between 1960 and 2008, the share of internal export and import of goods and services almost tripled (it increased from 8% to 22 of the GDP), which resulted in a high level of interdependence among the EU members. If we accept 10% as a minimum dependence threshold, then we can say that by the early 1970s they overstepped the threshold of interdependence, and by the early 2000s they produced double of this level. This reflects a high level of real integration among the EU members.

The interdependence has been strengthened by technological and production cooperation, and the infrastructure of integration (transport, communication, financial services etc.) has been built up to great degree. On the basis of intensive internationalisation, the strong foundations of integration have been created, the process has become irreversible. Under these circumstances, quitting the integration process would incur such high costs, that it would be unacceptable for any partners, and therefore it is not a relevant alternative. At the high intensity of integration this equally applies to euro-zone membership.

Of course, there are great differences among the countries, which depend on several factors. Among them, the size of the country, its level of development, and the structural openness of its economy should be particularly stressed.

After 1990, the Hungarian economy reached a particularly high level of internationalisation and integration. With more than 68% of the trade of goods in GDP, the external dependence of Hungary is extremely high, and in this respect, she is the third after Belgium and Slovakia. The proportions are similar in terms of import. At the other extreme, the shares of Cyprus (7.7%) and Greece (8.2%) are even below the magic 10% level. With about 12–13% of the export and import of services in GDP, Hungary is close the EU average.

The internationalisation process is characterised by strong capital interconnections. The mutual investments, the export and import of capital are among the main indicators of global integration, and its well-balancedness. The relation of capital export to import ($Cx/Cm \times 100$) is one of the important indicators of interdependence and the intensity of integration. It closely correlates with the level of development of the region or the country. In a country, the share of foreign investments can be very high, and it can indicate the intensive participation in global or regional integration. But if the country has no or minimal capital export, then it is the expression of one sided dependencies, and it signals the asymmetries of its integration.

The highly developed countries are characterized not only by high shares of foreign investments in GDP, but also by their balancedness. In the majority of OECD countries the capital export exceeds the capital import by roughly 30–50%. Besides substantial mutual capital turnover, the developed countries of the EU are also characterised by net foreign capital investment positions. “The capital export is closely related to the level of development, and in the case of an expanding economy its increase is inevitable. At the same time, there is no rule as to how large capital export is needed for a given level of development. Therefore, in an absolute way, it is impossible to decide that Hungary is ahead of or behind what is ‘normal’” (Világ gazdaság, 30 June 2004). The dynamics of this change is therefore also a good indicator of the process of integration and the level of development. In this respect, Spain and Portugal have produced a remarkable development, in the past 15–20 years they have become important

capital exporters. Spain now is one of the main capital exporters to Latin-America, which indicates its global orientation.

In the past few years, the capital export of the new members has also started. Slovenia, Hungary and Estonia are the pioneers in this process. It is a remarkable development from the points of view of their integration. In 2007, the share of the stock of capital export to import was 50% in the case of Slovenia, 28% for Estonia, and about 20% for Hungary. (In the other new members it is below 10%.) The financial crisis stopped this process, and *it signals the still existing asymmetries of their integration.*

By the 2000s, the transnationalisation of European TNCs has reached a high level, and the European TNCs have become active participants of global integration. The EU gives about 20% of world production, but its role in globalisation is much greater. “In our days, more than half of the transnational companies of the world have European headquarters. One third of the largest firms of the world are from the Union. The globalisation of companies has two dimensions. On the one hand, they extend their activities through expansion of their foreign investments, buying up companies or in the form of green field investments. On the other hand, they cooperate or merger with other transnational firms. These giant companies have their own representation of interests (Round table of European Industrialists) and they are able to influence the institutions of the EU. The European direct investments boosted particularly after 1992, due to the creation of the European single market, the increased global competition, and the opening of the East-European markets” (Zádor 2001: 115).

1.2 Internationalisation and Transnational Company Networks

Global production and business form a complex system, in which besides the big TNCs, the cooperating and contracting SMEs, banks and other service companies play an important role. That is why nowadays we must rather speak about *transnational company structures or networks*. “Today, the globalisation of production is organised in a large measure by MNCs. Their pre-eminence in world output, trade, investment and technology transfer is unprecedented. Even when MNCS have a clear national base, their interest is in global profitability above all. MNCs have grown from national firms to global concerns using international investment to exploit their competitive advantages. Increasingly, however, they are using joint ventures and strategic alliances to develop and exploit those advantages and to share the costs of technological innovation. But the growing globalisation of production is not limited to MNC activity, for over the last decades there has been a significant growth in producer-driven and buyer-driven global production and distribution networks. The globalisation of business is thus no longer confined to the MNCs but also embraces SMEs” (Held 2005: 282). As the developments of the latest period show, these networks have been growingly institutionalised and taken legal forms. “While

there has been a significant expansion of transnational production in the last three decades it has also become more institutionalized as strategic alliances, subcontracting, joint ventures and other forms of contractual arrangements regularize interfirm networks” (Held 2005: 274).

The emergence of *transnational networks* shows a contradictory development in the EU. In most countries, the big foreign companies have built up complex cooperation networks with national small and medium companies. These SMEs can be daughter companies, but often they are connected to one or more large companies as contractual partners, service providers or suppliers. The other part of the SME sector claims a transnational company status on its own right. These SMEs comply with the criteria of a TNC (minimum 25% of their activities are in more than one country), and they not only conduct foreign trade, but they have foreign investments, they conclude production, research and service contracts with foreign partners, and in their business strategies they follow the pattern of the large TNCs. At the same time, it should be stressed that even most of the “local” companies are parts of (often suffering from) that interdependence, as a part of their inputs comes from foreign TNCs, or they have to face foreign competition often in direct ways (small shops contra large supermarkets chains).

In our analysis, we consider the *transnational networking to be one of the most important characteristics and indicator of internationalisation and integration*. It has particular importance from the points of view of *balancedness and the quality of integration*. As the SMEs are organic parts of transnational networks, their position and success greatly influence the development of integration processes. The internationalisation of the SME sector in the EU, however, is far from satisfactory, and it is far below the potentials and necessities. According to the Observatory of European SMEs, only 8% of all the EU-27 SMEs are involved in export, only 12% of the input of an average SME is purchased abroad and 5% of the SMEs in the EU receive some income from foreign business partnerships either from subsidiaries or joint ventures abroad.

The picture is more positive and encouraging in the developed countries of the EU. There are many SMEs which not only contract with big TNCs, but follow transnational company strategies, invest abroad, and have direct and permanent foreign partners. According to a German survey (Going International 2007), the average German medium sized company has business relations with 16 countries. 72% of the questioned companies have partners in the new member countries, but this proportion is 63% for Asia and 53% for North-America.

The internationalisation of the SME sector is considered as a crucial factor from the point of view of increasing competitiveness for both themselves and their respective countries. “The SMEs are likely to benefit disproportionately from pro-competitive effects of internationalisation: internationalisation provides the SME with both growth and increased competitiveness, and is thus

a fundamental engine for its long term sustainability” (European Commission 2007: 17). In the EU, the internal market and the euro can play a role. “The internal market has the potential to be a main engine for SME growth. It can allow them to face international competition better, both at home and abroad” (*ibid* 30).

In the new members and consequently in Hungary, the weakness of local supply to big foreign investors is still generally characteristic. The foreign investors bring their traditional suppliers, and limit their local activity mostly to assembling. For a local SME, it is very difficult to gain a supplier status. The main reason is that it is difficult to meet the high technological and quality standards, but insistence on and devotion to traditional partners also play a role. The local supply to foreign production is often minimal, but it generally hardly exceeds 20–30%. It is even rarer that an SME can gain exporter status, supplying to a production base abroad.

In Hungary, there are still only few SMEs that venture upon foreign business. In 2005, the export of locally owned companies was only 10% of their net turnover. In 2007, only 19.4% of export revenues came from Hungarian SMEs. “Most of the Hungarian small firms, including many ‘gazelles,’ have no export, but many have to face the fact that their domestic markets have been tightened by import competition”² (Papanek 2010: 359). *The asymmetries of integration of new members are reflected in the weaknesses of their participation in the transnational networks.*

In many respects, Hungary is characterised by the high intensity of its global and European integration, but as far as the participation of its SME sector in integration processes is concerned, it is seriously lagging behind. That is a serious distortion, and it reduces the quality of its integration.

In the past 20 years, the Hungarian economy has become an organic part of transnationalisation processes. At the same time, this process is still largely one-sided, and it has only started to change. In this respect, Hungary is somewhat ahead of the other countries of the region. The process is accompanied by the transnationalisation of local company structures (in Hungary, MOL and OTP Bank, Trigranit, Matáv or Fornetti), but one can mention only few SMEs among them (Lipóti Pékség). The expansion of Hungarian “transnationals” is concentrated mostly to the neighbouring Central European countries. As it is stressed by the Commission study on the issue relating to SMEs: “a pro-active attitude to global competition and markets is increasingly becoming not a choice but matter of necessity” (EU Commission 2007: 7).

² In the international literature, “gazelles” are the rapidly growing small firms.

2. Internationalisation of SMEs at the European Level

2.1 General Tendencies

The European Commission published a report in 2010 with the aim of providing an updated and comprehensive overview of the level of internationalisation of European SMEs and deriving conclusions and recommendations from it. According to the Commission, internationalisation means not only exports or foreign direct investments but all activities that put small and medium size enterprises into a meaningful business relationship with a foreign partner, so it refers to exports, imports, foreign direct investments, international subcontracting and international technical co-operation as well. The data, conclusions and recommendations are based on a survey of 9480 SMEs in 33³ European countries during Spring 2009 (European Commission 2010).

The report states that a considerable number of European SMEs are internationalised, but generally their international activities realise in the Internal Market. Their market partners are mostly other EU countries, but in the field of import, China's role is very important. The European SMEs are more internationalised than Japanese or American companies (which is not surprising, because of the significant role of the Internal Market). Moreover, the two most common modes of internationalisation are exports and imports. The SMEs' share in the EU-27 export is 25%, of which about 50% go beyond the Internal Market. Similarly, the SMEs' share in the EU27 import is 29%, of which 50% comes from outside the Internal Market. In addition, 7% of member states' SMEs are involved in technological co-operation with a foreign partner, 7% are a subcontractor, 7% have foreign subcontractors and 2% are active in foreign direct investment.

The Commission claimed that there is a direct link between the level of internationalisation and the size of company. A larger company tends more to internationalise. Micro companies export 24%, small ones 38% and medium-sized SMEs 53% of their production (for imports these percentages are 28-39-55 respectively). Moreover, there is a correlation between the size of the country and internationalisation: generally, the smaller countries' SMEs are more internationalised. Furthermore, trade, manufacturing, transport, communication and research are the most internationalised sectors; exporting and importing activities augment in intensity by the age of companies (e.g. every third company that has existed for 25 years or more exports). In addition, SMEs most often start international activities by importing, and if SMEs both import and export, they start with import twice as often as starting with export (39% vs. 18%). 42%

³ The survey examined the 27 member states of EU and 6 non-EU countries: Croatia, Iceland, Liechtenstein, the Former Yugoslav Republic of Macedonia, Norway and Turkey.

of enterprises started with imports and exports in the same year. It is not encouraging that only few – about 4% – of all internationally inactive SMEs plan to start international activities in the near future.

It is a considerable progress that companies involved in e-commerce are more internationally active; the use of the Internet has erased some barriers for internationalisation. But some serious barriers can still be observed. According to SMEs, the most important internal barriers are: the price of their own product or service and the high costs of internationalisation. The most important external barriers are: lack of capital, lack of adequate information, lack of adequate public support and the costs or difficulties of paperwork associated with transport. Moreover, the awareness of public support programs among SMEs is low and so is the use of public support (financial support is used more by the larger SMEs while non-financial support by the smaller ones) (European Commission 2010).

2.2 The results of the Commission survey

The European Commission supports the internationalisation of SMEs because their international activity brings lots of advantages: these companies reach higher growth of their turnover and employment (the partners have higher growth too) and they are more active and successful in innovation. The Commission's most important recommendations for SME Policy Support are: 1) awareness and use of public support programs should be promoted much more actively; 2) easing the access to support for micro enterprises; 3) it is useful and desirable to present policy support for stimulating innovation in relation to internationalization; 4) besides export, equal emphasis on import as for SMEs, it is a stepping stone to broader internationalisation; 5) foster e-commerce, because it may increase internationalisation and can erase the barriers; finally, 6) lack of information is an important barrier for internationalisation and it might lead to a market failure.

The study shows that in Hungary 5% of the internationally active SMEs use financial public support. With this, Hungary was at the 12th place of 33 in 2009. There are six countries where this percentage is above than 10% (Austria where 47% of internationally active SMEs use financial public support, the next are Turkey – 32%, Greece and Latvia – 17%, Germany and Norway – 14%). In Hungary, the use of non financial public support is not relevant (European Commission 2010).

The survey showed that lots of European SMEs do not export at all; only 8% of these companies were involved in exports in 2005. Generally, small and open economies' enterprises have a much higher involvement in exports. In case of Hungary: 9% of companies have some revenues from exports, and this is little higher than the average in the European Union – 8%. But other small and open economies' enterprises have higher proportions. (The first is Estonia with 23%;

moreover, our neighbouring countries such as Slovenia, Austria and Slovakia also have much higher proportions: 21%, 14% and 12% respectively.) If we examine the exports' share in the total revenues, the performance of Hungary is far from satisfactory, as only 3.3% of total incomes come from exports and only few countries have lower proportions. The average of EU 25 and EU27 is 4.6%, EU15 is 4.4% and NMS10 and 12 are 5.3 and 5.1%. So there is broad room for increasing the exports' share in the revenues. It seems positive that the Hungarian expectations in this field are very optimistic; most of the interviewed SMEs expect that their exports' share in their income will increase in the future (The Gallup Organization 2007). Moreover, in spite of the fact that there is a great number of SMEs in Hungary (99.9% of companies are SMEs), their share in total exports was only 37% in 2008 (the micro and small enterprises' share was 23%, that of medium sized companies' was 14%, while the big companies produced 63%). In the previous years, trends were similar: the SMEs' share of total exports was 36%. In the past years, we can observe certain progress in this respect, but there are broad possibilities for further expansion (Kállay et al. 2008 and 2010).

3. Internationalisation of Hungarian SMEs – Results of an Online Survey

With the help of the Hungarian Chamber of Commerce and Industry and its regional affiliates we sent an online questionnaire to all members of the Chamber. We received 430 answers that at least partially provided the data necessary for our analysis. The results are not representative of the total SME sector, but with a quite balanced regional and size distribution, the survey gives a proper picture about the internationalisation of the Hungarian SME sector. 50% of the responding SMEs were from Budapest, the capital city of Hungary, the other half were from all over the countryside. The proportion of micro, small and medium companies among the responding enterprises was 72.56%, 22.09% and 5.35% respectively.⁴

Generally 22.33% of the responding SMEs have some kind of export income with an average of 34% of their total revenue. Half of the exporting enterprises are exporting in an amount of less than 25% of their income.

⁴ Following the definition of the European Commission.

Table 2: Share of export in the SMEs' income

	% of the companies which have export income	average share of export in the income of the exporting companies
MICRO	16.35 %	29.28 %
SMALL	41.05 %	36.32 %
MEDIUM	26.09 %	59.02 %

Source: own research.

The data show a relatively high concentration of export activity among the Hungarian SMEs, as only a small number of SMEs are responsible for the export revenues of the sector. The results also show that the companies that have reached the “threshold size,” are much more willing and able to trade with foreign companies. As to the ownership structure of the companies, we have found that the family owned companies are significantly less willing or able to step into foreign markets. The export activity share of family owned companies was 14% compared to the 27% share of non-family enterprises.

Concerning the share of supply to transnational enterprises in the SMEs' income, we have found that 23.26% of the SMEs were supplying to transnational companies (within the Hungarian borders), and that constitutes a quite high share of their income (35.79%). It means that one quarter of the responding SMEs are heavily depending on Hungarian affiliates of transnational companies.

Table 3: Supply activity of SMEs to multinationals

	% of the companies supplying TNCs	average share of TNCs in their incomes
MICRO	22.44 %	34.24 %
SMALL	27.37 %	44.31 %
MEDIUM	17.39 %	27.00 %

Source: own research.

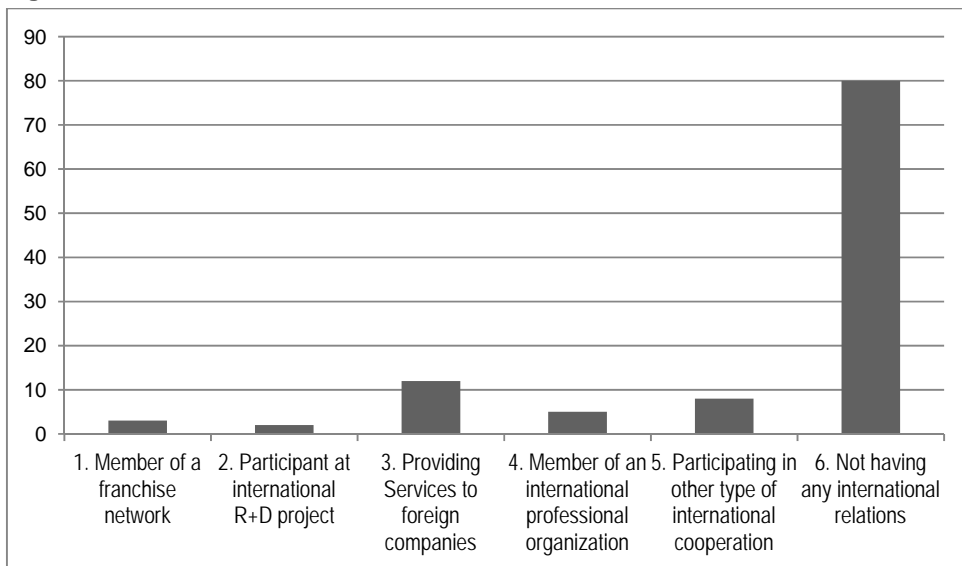
We have analysed how many companies are exporting and also supplying to TNCs inside Hungary. The results are very interesting: only 7.67% of the responding SMEs were able to do both activities, and within this sample the share of small sized enterprises is nearly double of the average ratio (13.68%).

We supposed that enterprises may conduct other types of international activities as well, for example: owning shares in foreign companies, membership in professional organisations, or other types of networking.

97.2% of the responding SMEs do not have any share in foreign companies. The companies belonging to the remaining 2.8% own companies mainly in the

neighbouring countries. The results show that 80% of the responding SMEs do not have any type of international relations.

Figure 1: International relations of SMEs



Source: own research.

In terms of differences in size, the medium size companies are much more likely to participate in franchise networks and international professional organisations.

We were interested in the opinion and demand of the responding SMEs about what assistance they would need to maintain or increase their competitiveness. To “warm up” these questions, we were asking the enterprises about their subjective views on the changes of competition in Hungary after the EU-accession in 2004. The answers were not surprising: nearly two thirds of the SMEs feel an increased and 30% of them a standard high level of competition. What is however surprising is that more than 50% of the SMEs could maintain or even increase their market shares, and in this respect the medium size enterprises produced an above average success rate.

Table 4: Changes in the market positions of SMEs

	ALL TOGETHER	MICRO	SMALL	MEDIUM
1. Fighting to survive with declining market position	46.50%	48.82%	41.67%	33.33%
2. Maintained its market position	43.30%	41.75%	48.81%	42.86%
3. Strengthened its market position	10.20%	9.43%	9.52%	23.81%

Source: own research.

We asked about the causes of the above tendencies with offering some closed answers and one open possibility. We received the following results:

Table 5: Influencing factors of SME competitiveness

	significant positive effect	little positive effect	no effect	little negative effect	significant negative effect
State- and EU-subsidies	9.3%	18.8%	61.2%	3.3%	7.5%
Széchenyi-card program ⁵	16.0%	16.0%	64.7%	1.0%	2.3%
Changing of domestic market demand	6.2%	22.1%	15.4%	27.2%	29%
Possibilities of the international / EU market	5.2%	14.3%	67.5%	7.0%	6.0%
Competition with foreign companies / TNCs	1.3%	2.8%	48.8%	24.8%	22.2%
New technological developments	14.0%	28.4%	50.6%	4.4%	2.6%

Source: own research.

We can say that EU-subsidies had in general none or little positive effect on the responding SMEs, however 32% of them are regarding the Széchenyi-card program helpful. Obviously the change in the demand of domestic market had a mostly negative effect on the responding enterprises, however, a quarter of them could respond to the challenge and were able to adapt to the new situation. What is very sad and disappointing is that the majority SME sector seemingly could not use the advantages of the single internal EU market: only 20% of the enterprises responded positively to that question. Another unsurprising result was that the competition with transnational companies did not help the SMEs, however, a lot of the responding firms could take advantage of the new technological developments.

⁵ The Széchenyi-card is a type of credit card, with an interest rate supported by the state following special rules and in cooperation with the Hungarian Chamber of Commerce and Industry.

We asked the SMEs to indicate what kind of help they are expecting, if any, and from which institutions. The enterprises could mark more than one answers! The results were the following:

Table 6: Expectations of SMEs

	Chamber of Commerce and Industry	Local governments and city halls	Hungarian government	EU
Training and education programs for the employees and for the management	81.3%	9.2%	24.4%	10.4%
Professional consulting services	83.6%	13.2%	18.0%	10.9%
Exploring of foreign market demands and helping to enter these markets	50.3%	7.9%	50.7%	38.4%
Exploring of domestic market demands	67.8%	33.4%	33.1%	1.9%
Interest-subsidised loan	9.3%	6.1%	89.1%	27.3%

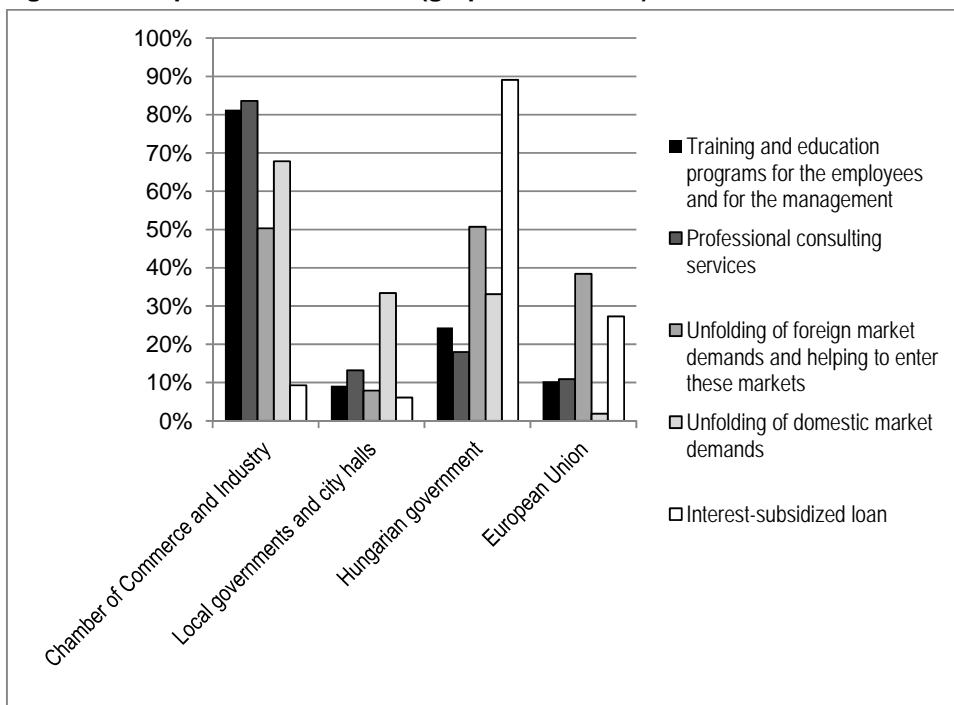
Source: own research.

It is absolutely clear that the responding SMEs are expecting a lot from the Hungarian Chamber of Commerce and Industry and its regional affiliates in the fields of training and education, professional consulting and helping to explore domestic and foreign market demands, so that they could expand their businesses in Hungary and abroad. As indicated, a lot of respondents expect the Hungarian government and some the EU to promote and expand the interest-subsidized loan!

We received various answers to the open question, some of them in proportion of indication were: eliminating the gridlock⁶, foreseeable and simple tax system, elimination of corruption, stable legal system, stable exchange rates (especially EUR-HUF)

⁶ Gridlock is the process, in which an entrepreneur, having fulfilled its contractual obligations, is not receiving the money for it because the client company is temporarily insolvent due to debts other companies (or the state) owe them. This means a whole “chain of non-payment.”

Figure 2: Expectations of SMEs (graphical version)



Source: own research.

However, 11.6% of the responding SMEs are not expecting any help from the EU or the local governments. This result partially reflects the very bad (mostly financial) situation of the local governments and cities, and of course reflects some disappointment in the EU-funds and in the European Union itself, as well.

We were also interested to see what the responding SMEs are willing or able to give in exchange for the help. To answer this question we offered a multiple choice possibility where the enterprises could rank their preferences. The result of this ranking is that the responding SMEs are much more willing to create jobs and increase their turnovers than introduce environment friendly technologies or commit themselves to increasing their export-income.

4. Summary Proposals

In the past over 50 years we have experienced the very rapid and intensive internationalisation of European economies. The EU members have reached a high level of integration of their economies, which can be measured both in terms of trade (share of export or import in GDP) and flows of factors of production (share of capital export and import in GDP). Even greater

dynamism characterises the growth of internal trade among the EU members, which, in addition to global integration, means a high level of their regional integration.

The internationalisation process is accompanied by strong capital interconnections. The highly developed countries are characterised not only by high shares of foreign investments in GDP, but they are net capital exporters (their capital export generally exceeds the capital import by roughly 30–50%). The emerging global integration in the past decades has been marked by rapid and intensive internationalisation of company sectors. The main product of this process was the appearance of Transnational Companies (TNCs).

Global production and business form a complex system, in which besides the big TNCs the cooperating and contracting SMEs, banks and other service companies play an important role. In these so called transnational company structures or networks, the SMEs are strategic factors. These SMEs can be daughter companies, but often they are connected to one or more large companies as contractual partners, service providers or suppliers. The other part of the SME sector claims a transnational company status on its own right, as they not only conduct foreign trade, but they have foreign investments, they conclude production, research and service contracts with foreign partners, and in their business strategies they follow the pattern of the large TNCs. In our analysis, we consider transnational networking as one of the most important characteristic feature and indicator of internationalisation and integration. It has particular importance from the points of view of balancedness and the quality of integration. We consider the internationalisation of SME sector as a crucial factor in increasing competitiveness and as an important condition for sustainable and dynamic growth and improving employment (Europe 2020).

A considerable number of European SMEs are internationalised, but generally their international activities realise in the Internal Market, so market partners are mostly from other EU countries. The European SMEs are more internationalised than Japanese or American companies (which is not surprising, because of the relevant role of the Internal Market). The internationalisation process has been advanced mostly in developed members, while the others are seriously lagging behind.

After 1990, the Hungarian economy reached a particularly high level of internationalisation and integration. With about 80% of the trade of goods and services in GDP, that level is about the double of the EU average. This integration process is highly concentrated, about 80% of Hungarian foreign trade is conducted with EU partners (the share of internal trade to total is 67% on the EU average). In the past few years, the capital export of the new members has started, and Hungary is (with Slovenia and Estonia) one of the pioneers in the process, but is still far from the net capital exporter position. In the past 20 years, the Hungarian economy has become an organic part of

transnationalisation processes. At the same time, this process is still largely one-sided, based on foreign TNCs investing in the country, and this situation has only started to change. The process is accompanied by the transnationalisation of local company structures (in Hungary, MOL and OTP Bank, Trigranit, Matáv or Fornetti), but one can mention only few SMEs among them. The expansion of Hungarian “transnationals” is concentrated mostly to the neighbouring Central European countries.

Hungary has a continuous trade surplus with the EU (among the new members only Hungary and the Czech Republic are in that position), which indicates the good competitiveness of the country. But this is mainly due to foreign TNCs investing in the country. The internationalisation of the local and particularly the SME sector is far from satisfactory, and it is far below the potentials and the necessities. The weakness of local supply to big foreign investors is still generally characteristic. The foreign investors bring their traditional suppliers, and limit their local activity mostly to assembling. For a local SME, it is very difficult to gain a supplier status, it is particularly difficult to gain exporter status, supplying to a production base in abroad. The common modes of internationalisation are exports and imports. The data show a relatively high concentration of export activity among the Hungarian SMEs, as only a small number of SMEs are responsible for the export revenues of the sector. The capital exporter position is even rarer, and the same applies to service and research contracts. Innovative SMEs are lacking. This lends a certain duality to the economy, and as far as the participation of its SME sector in integration processes is concerned, Hungary is seriously lagging behind. That is a serious distortion, and it reduces the quality of its integration.

Some policy proposals:

- Hungary needs first a strategy to help the SMEs’ internationalisation; second, partnership with the interest groups of the SMEs (including the chambers of commerce) and third, to establish an institution which may provide support to those SMEs that have the intention to internationalise.
- Although, the availability of adequate financial resources is of utmost importance, in addition, SMEs need a different type of broad ranging services supporting their marketing, management, or acquiring necessary information. This support should include: training and education in various fields of management knowledge, enterprise incubation services, search for possible financial investors (e.g. business angels and venture capital companies) and financial help to research foreign markets (including a chain of trade promotion offices in target countries). All this may possibly be following best practices of other EU member states. A new strategy for SME-development including a concentrated industry- and service-development (in some specific fields) is needed and a bigger focus on the available EU-funds is required.

- All spheres of economic and related policies (education and training reform, infrastructure development, economic diplomacy) should be formed in a manner giving attention to the competitiveness of SMEs, let it be reduction and simplification of taxes, transparency, stability and accountability of policy and legal environment, stability of exchange rates (EUR-HUF) or eliminating the “gridlock” and corruption.
- Hungarian economic policy should more intensively focus on the inflow of such FDI which uses the Hungarian SME sector as sub-contractor, and which helps their participation in export.
- The improvement of the competitiveness of local (non-internationalising) companies is equally important in the face of fierce and sometimes unfair competition from foreign TNCs (small companies contra oligopolistic organisations) in the domestic market. Special strategies are needed for them. It is important, because they are important actors from the points of view of both sustainable growth and employment.
- Besides the national level of policy and programme development, the regional or local levels are equally important. Co-ordination of all actors is paramount, which should also help to prevent a “support jungle.” Internationalisation is needed for all SMEs, regardless of size. Tailoring support to the individual SME and sufficient network support are essential. Besides trade development, the focus must be on supporting long term co-operation between companies. Search of partners rather than customers should be given priority. Evaluation of programmes is a must. It has to be stated that any kind of state support has to follow the European regulations in regards of equal competition in the single European market.
- From our on-line survey it has become absolutely clear that the responding SMEs are expecting a lot from the Hungarian Chamber of Commerce and Industry and its regional affiliates in the fields of training and education, professional consulting and helping to explore domestic and foreign market demands, so they should try to expand their activities in Hungary and abroad.

Our research has clearly indicated that the pattern of developments and the problems are very much similar to those of other new members, particularly to other Central European countries. Our proposals, therefore, can be applied to them as well.

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