Promoting SME competitiveness in Hungary

Strengthening the capacities of SMEs for inclusive economic growth
SMEs are the key to Inclusive Growth

Small and medium-sized enterprises are the lifeblood of all economies. In Hungary, they account for 99.8% of all enterprises, 70% of employment and 58% of value-added.

Small and medium-sized enterprises (SMEs) are the lifeblood of all economies. After the introduction of market reforms in the early 1990s, the number of SMEs in Hungary exploded, roughly doubling within five years (1991-1996). However, the SME sector was hit hard by the financial crisis in 2008. SMEs’ share of value added and employment declined by 10%, and has yet to recover to its pre-crisis strength. This matters, as today SMEs account for 99.8% of all enterprises, 70% of employment and 58% of value added.1

SMEs play a key role in society. Globally, they tend to employ a large share of the most vulnerable segments of the workforce, namely less experienced and less educated workers belonging to poorer households, women and young people.2 Raising the competitiveness of SMEs could help reduce youth unemployment and increase the number of women in work, which currently sits at 62% for women compared to 75% for men.3

Over half of Hungary’s SMEs operate in the services sector, with the largest number in professional services, information and communication, and administrative and support services. In terms of trade, 17% of SMEs export an estimated €3.4 billion to the European Union (EU) annually, accounting for 28% of exports to the bloc.4

One of the priority goals of Hungarian diplomacy is to support the export activities of SMEs. Enabling SMEs to enter and compete in international markets will boost their competitiveness and help Hungary forge links with new trading partners.

Minister of Foreign Affairs and Trade, Péter Szijjártó

How can Hungary help the SME sector recover? The International Trade Centre (ITC), in partnership with the Hungarian National Trading House, conducted the SME Competitiveness benchmarking survey to identify the major factors constraining SME competitiveness. This brochure presents the key findings using ITC’s comprehensive competitiveness framework.

2. ITC, 2015, SME Competitiveness Outlook; www.intracen.org/SMEOutlook
Collecting high quality data is essential

The Hungarian National Trading House

Hungarian enterprises produce high quality products and services in a range of industries, offering excellent value for money at globally competitive prices. The aim of the Hungarian National Trading House, established by the Ministry of Foreign Affairs and Trade and the Hungarian Chamber of Commerce and Industry as a state export development institution, is to support these enterprises in their search for business partners and new clients in international markets. The Trading House recently expanded its commercial presence to almost 50 countries and now operates in four continents.

SMEs are a key focus area. The trading house helps innovative SMEs enter international markets by offering a single point-of-contact service to support their journey to becoming established exporters. To better understand the constraints their members face, the Hungarian National Trading House collaborated with ITC to collect in-depth enterprise data using the SME Competitiveness Survey.¹

123 in-depth enterprise competitiveness surveys

The Hungarian National Trading House conducted 123 face-to-face enterprise surveys, each lasting about 90 minutes. Enterprises were surveyed from all parts of the country. The trading house targets its services on nine priority sectors. The survey focused on three of these: the agriculture and food industry, the electronics industry and the information communications technology (ICT) sector.

Distribution of surveys across Hungary

<table>
<thead>
<tr>
<th>Regions</th>
<th>Freq.</th>
<th>Percent</th>
<th>Cum.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Hungary</td>
<td>44</td>
<td>35.8</td>
<td>35.8</td>
</tr>
<tr>
<td>Central Transdanubia</td>
<td>9</td>
<td>7.3%</td>
<td>43.1</td>
</tr>
<tr>
<td>Northern Great Plain</td>
<td>16</td>
<td>13%</td>
<td>56.1</td>
</tr>
<tr>
<td>Northern Hungary</td>
<td>6</td>
<td>4.9%</td>
<td>61</td>
</tr>
<tr>
<td>Southern Great Plain</td>
<td>24</td>
<td>19.5%</td>
<td>80.5</td>
</tr>
<tr>
<td>Southern Transdanubia</td>
<td>11</td>
<td>8.9%</td>
<td>89.4</td>
</tr>
<tr>
<td>Western Transdanubia</td>
<td>13</td>
<td>10.5%</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>123</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

¹ SME Competitiveness Benchmarking: [www.intracen.org/SMEBenchmarking](www.intracen.org/SMEBenchmarking)

The Hungarian National Trading House

- Founded in 2013
- Operational in almost 50 countries across 4 continents
- Facilitated 3727 business opportunities to date
- Participated in 231 trade fairs
Hungary has some of the most fertile land in Europe. A favourable climate combined with the use of cutting-edge technologies enables farms to achieve high yields and produce high quality goods. Hungary is best known for its production of staple products such as wheat, corn and barley, but it also produces a range of less known products such as paprika, sugar and medicinal plants. Food processing standards are also high due to rigorous national control requirements. As a result, there is strong international demand for Hungary’s agriculture products.

Hungary has a population of 9.8 million people, but the country’s agricultural output is capable of feeding approximately 30 million people.

Source: Hungarian Agriculture: The Potential of Tradition & Innovation

In partnership with ITC, the Hungarian National Trading House conducted in-depth competitiveness surveys on 22 agriculture enterprises to identify their strengths and weaknesses. Although not intended to be representative of the sector as whole, the survey results can help inform policymakers on the types of bottlenecks enterprises in the sector are currently facing.

Hungary’s agriculture enterprises are efficient

The enterprises surveyed all scored well on ITC’s Compete dimension. Nearly 90% of enterprises reported being able to meet the demand coming from clients, and the average capacity utilization was a respectable 68%. Furthermore, all had good record keeping systems in place. In terms of the business ecosystem, access to electricity, fuel and water were all highly rated, with over 67% of enterprises surveyed reporting having good or excellent access to these resources.

The quality of logistics companies is high, but they are costly to use

Fulfilling your client’s time requirements is key to retaining clients and building your business. According to the enterprises surveyed, 84% of the goods dispatched to clients arrived on time. Enterprises in the agriculture sector have stringent time requirements. Thus, reliable logistics services companies is of paramount importance to the competitiveness of the sector. Seventy-six percent of the enterprises surveyed rated the logistics companies they used as good or excellent. However, 53% of the enterprises also indicated that the cost of using such companies was high.

Hungary’s certification bodies are highly regarded, but enterprises find certification expensive

The importance of a food safety system that is rigorous and strictly adhered to in the production of agricultural products cannot be overstated. Requirements to sell into international markets are often tougher. Seventy-one per cent of the enterprises surveyed own an internationally recognized quality certificate for their main product. In addition, over 90% of enterprises reported that the availability of information on standards and certification was satisfactory or better. In terms of the business ecosystem, certification authorities received a high rating, but 61% of enterprises complained that certification was too expensive.
Agriculture and Food Industry

Key sector statistics

Benchmarking results

Top 3 areas firms require capacity building

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Percent of firms with training programmes</td>
<td>30</td>
</tr>
<tr>
<td>2. Cluster co-operation rating</td>
<td>31</td>
</tr>
<tr>
<td>3. Percent of firms holding patents</td>
<td>41</td>
</tr>
</tbody>
</table>

* Scores are out of 100. The higher the score the better

Top 3 business ecosystem constraints

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cost of advertising rating</td>
<td>11</td>
</tr>
<tr>
<td>2. Cost of patent registration institutions rating</td>
<td>16</td>
</tr>
<tr>
<td>3. Cost of logistics companies rating</td>
<td>27</td>
</tr>
</tbody>
</table>

Note: Statistics are based on 22 in depth competitiveness surveys
Source: ITC’s SME Competitiveness Database

photo: (CC) Ken Owen @flickr, The land - along with several other properties dotted around Mozsgó, Hungary
Hungary’s electronics industry has grown rapidly over the last 15 years. The electronics industry is one of the largest industrial sectors in Hungary accounting for 11% of total manufacturing production, and Hungary accounts for 34% of Central and Eastern Europe’s output in the sector. In particular, the sector is on the leading edge of innovation and manufacturing of medical devices, automotive electronics, and nano-electronics. Partly for these reasons, in 2008, EU ministers chose Budapest to host the headquarters of the European Institute of Innovation and Technology.

The electronics industry accounts for 11% of Hungary’s industrial base.

Source: National Central Statistical Office, Hungary, 2017

In partnership with ITC, the Hungarian National Trading House conducted in-depth competitiveness surveys on 27 electronics manufacturing enterprises to identify their strengths and weaknesses. Although not intended to be representative of the sector as a whole, the survey results can help inform policymakers on the types of bottlenecks enterprises in the sector are currently facing.

Stronger clusters would increase competitiveness

Sector associations play a pivotal role in marketing the expertise of their members to potential customers and investors. Effective sector associations can help establish business-friendly ecosystems, which in time evolve into global hubs. In the electronics industry, only 35% of enterprises reported being in regular contact with sector associations, and those that were gave these associations a quality rating of 52 out of 100. In addition, only 37% of enterprises rated the cost of working with sector associations as low.

Upgrading is common, but stronger links to research networks would help

Long-term enterprise competitiveness relies on innovation. Encouragingly, 89% of the enterprises surveyed in the electronics sector reported having improved their products or processes in the last three years. Despite this, only 37% of enterprises reported committing significant amounts of resources to research and development. Enterprises in the industry could stand to gain from stronger linkages with research networks. Only 33% reported being strongly connected to such networks, which are key to keeping abreast of the latest technological developments.

Few enterprises hold patents

Patents reward innovation. According to the World Economic Forum, Hungary generates 25 patents per million people, placing it in the top 30 countries in the world for this indicator. Enterprises report having a good understanding of intellectual property (IP) procedures, and don’t view IP regulations as a burden. In terms of patent institutions, the quality of the services rendered received a score of 80 out of 100, but all the enterprises surveyed found getting a patent costly. However, only 33% of enterprises reported investing significant resources in R&D. Together, this may explain why only 22% of the enterprises surveyed reported holding a patent for their main product.
Electronics Industry

Key sector statistics

- **Size distribution**
  - Small: 19%
  - Medium: 48%
  - Large: 33%

- **Exporters**
  - Exporters: 33%
  - Non-exports: 67%

- **Importers**
  - Importers: 39%
  - Non-imports: 61%

Benchmarking results

- **Competitiveness score**
  - Quality and cost...
  - Time requirements
  - Certification and standards
  - Competition
  - KT requirements
  - Linkages with customers
  - Linkages with businesses
  - Financial requirements
  - Skill requirements
  - Intellectual property
  - Innovation requirements

  - **Firm capabilities**
  - **Business ecosystem**

Top 3 areas firms require capacity building

1. Percent of firms holding patents: 22
2. Resource commitment to R&D score: 51
3. Percent of firms which have attended a trade fair: 52

*Scores are out of 100. The higher the score the better*

Top 3 business ecosystem constraints

1. Cost of patent registration institutions score: 6
2. Cost of certification bodies score: 17
3. Cost of advertising companies score: 24

**Note:** Statistics are based on 27 in depth competitiveness surveys

**Source:** ITC’s SME Competitiveness Database
Information Communications Technology

ICT in Hungary accounts for 5% of GDP and 4% of employment.1 Despite a sharp slowdown during the financial crisis, the sector continues to grow at an impressive annualized rate of 4.5%. Importantly, ICT contributes to inclusive economic growth, as the bulk of ICT enterprises are SMEs.2 However, at €32,000 per person, the productivity level of the sector remains one of the lowest in the EU.3 Exploiting the unrealized potential of the sector would generate important benefits for the economy and increase inclusiveness.

SMEs make the bulk of ICT enterprises – contributing to over 80% of all Hungarian ICT enterprises.

In partnership with ITC, the Hungarian National Trading House conducted in-depth competitiveness surveys on 23 ICT enterprises to identify their strengths and weaknesses. Although not intended to be representative of the sector as a whole, the survey results can help inform policymakers on the types of bottlenecks enterprises in the sector are currently facing.

Better access to skilled workers would help ICT enterprises

Motivated and competent workers are the bedrock of any company. Finding the right workers and developing their skills helps to boost productivity and retain talent. Many enterprises in the ICT sector provide training for their employees. However, 42% of enterprises report inadequately skilled workforce to be an obstacle to their operations. Finding skilled IT professionals is hard, as they require excellent knowledge of specialized skills, which evolve rapidly. This is consistent with the estimated deficit of at least 22,000 IT experts in the country.4

Smaller enterprises cultivate customer relationships online

Knowing who your customers are and how best to cultivate a strong relationship is key to generating returns. Enterprises in ICT have not only detailed information on their customers profile information and expectation, but also access to good advertising services. However, only 48% of surveyed ICT enterprises advertise using traditional channels, and less than 40% of enterprises attend trade fairs. Instead, the vast majority of enterprises (70%) use social networks for advertising. These results are driven by small enterprises. This means that online advertising, and social media in particular, has enabled SMEs to reach out to thousands of potential customers at low cost.

Innovation requires resources and exchange of knowledge

Hungarian ICT enterprises innovate: all surveyed enterprises in the sector have implemented an improved process or launched a new product in the last three years. However, only 37% of enterprises in the ICT sector commit high-level resources to research and development. In addition, only 36% of enterprises in the sector reported strong collaboration with research networks, compared to 50% in the agriculture and food industry. Collaboration among enterprises within research networks is essential to stimulate long-term innovation, which ultimately translates into higher competitiveness.

Information and Communication Industry

Key sector statistics

Size distribution

- 9% Small
- 52% Medium
- 39% Large

Exporters

- 70% Exporters
- 30% Non-exports

Importers

- 41% Importers
- 59% Non-imports

Benchmarking results

<table>
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<th>Indicator</th>
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<td>1. Percent of firms holding patents</td>
<td>14</td>
</tr>
<tr>
<td>2. Percent of firms which have attended a trade fair</td>
<td>39</td>
</tr>
<tr>
<td>3. Use of traditional advertising</td>
<td>48</td>
</tr>
</tbody>
</table>

* Scores are out of 100. The higher the score the better

Top 3 areas firms require capacity building

- Government responsiveness to businesses rating
- Cost of logistics companies rating
- Cost of certification bodies rating

Note: Statistics are based on 23 in depth competitiveness surveys
Source: ITC’s SME Competitiveness Database
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