

FIRMS ASSESSING THE EFFECTS OF THE SINGLE MARKET PROGRAMME IN HUNGARY

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Abstract

The evaluation of the Hungarian business sector assessing the effects of the single market program can be based on answering two questions: how this sector perceives our Association Agreement and how businesses are prepared for our joining to European Union.

Author tries to clear the misunderstanding on behalf of businesses and outlines some basic tasks of what to do.

Keywords: business sector, European Union, Single Market.

1. Preliminary Remarks, as Introduction

Firms – business sector – in our meaning consist not just on private (privatized), but stated owned enterprises and joint ventures, too. Hence any generalized assessment has to take account with precautions. The evaluation of business sector assessing the effects of the single market program – in Hungary – can be analyzed from two points of view. One point is how the business sector perceives our Association Agreement and the other one is how they are preparing themselves, alias how they are prepared for our joining to the European Union.

These points of view are relevant from different institution's evaluations, based on questionnaires and sometimes supplemented by personal interviews.

In order to use these assessment studies, reports – to support hypothesis or generalized statements – one faces at least two difficulties. One is the concept or questions themselves such as 'readiness for integration' or 'did you cross the threshold of integration'. These concepts can be seen highly subjective [1], depending on the personality of interviewed and how he or she is well trained in public relations.

Further on although in the last years a lot of studies published (such as GKI, Kopint Datorg, Ministry of Trade and Finance, Government Integration Working Body, etc.) furthered to evaluate the relationship between the business and EU – these studies, because of their different points of view

and time scale – do not help to get the trend for the last 7 years to evaluate the change of business attitude toward a single market programme. Taking into account all of these difficulties the author's intention is to try to reveal the reasons behind the answers and to shape a guideline for businesses 'to help you to help yourself'.

2. Firms Assessment of our Association Agreement

Our basic statement – opinion – is that many times repeated in this article in different context – that **single market is not just to do with exporting. It is about liberalising the whole business environment.**

The root of the 'Gloomy Europicture of businesses' [1] consists of once our transition, namely of the symptom of 'firms afloat and firms adrift' [2]. This type of business behaviour typical in the transition to market economy and supposing not just in Hungary – is in contrast with our basic statement.

The basic root is *supplemented* in Hungary by the misunderstanding – on behalf of many firms – the essence of our Association Agreement.

Association Agreement is the result of our successful economic diplomacy, basically a Free Trade Agreement, furthering the *existing* export possibilities but not opening new markets for new products. It can be supposed that this misunderstanding resulted in a gap between the evaluation of our Association Agreement on macro level – reflected in foreign trade statistics and on micro level – reflected in surveys.

Export–import between Hungary and European Union
(million US \$) (3)

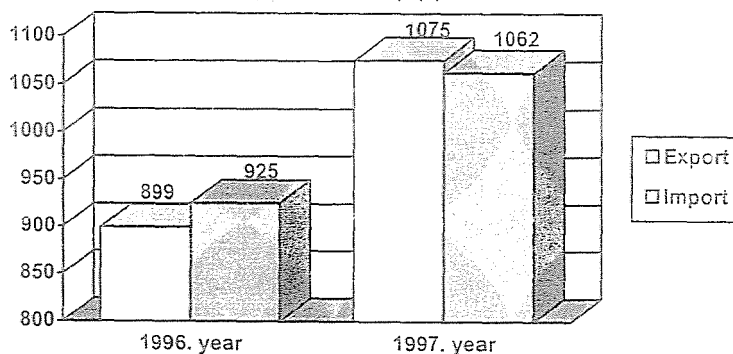


Fig. 1. 'The gap' illustrated by diagramme and in figures

The same survey reveals that barriers to EU export do not play a substantial role compared with other types of barriers hindering the export performance of the businesses.

Table 1. Assessment of the Association Agreement by types and industry structure (% share of answers) [4]

Types of firms	No of questioned	Not answer	SUBSTANTIAL ADVANTAGE	SMALL ADVANTAGE	DISADVANTAGE
Private firms	103	19	16	61	4
joint ventures with majority foreign capital	59	20	+19	56	5
with minority foreign capital	24	21	17	54	8
majority state owned	50	14	+18	54	14
Not privatized	37	16	3	65	11
Industry structure					
Machine	61	25	16	54	5
Building material	12	17	0	75	8
Chemical	17	24	24	35	18
Textile	121	19	14	60	7
Food	9	22	22	22	33
Construction	2	0	0	0	100
Trade	10	30	10	50	10
Remarks:	+ joint ventures	→	not just export link		
	+ state owned	→	large scale		

Comparing the diagram and the survey figures a question is immediately emerging: if majority of firms do not feel substantial advantage from the Association Agreement why the impressive foreign trade results? Further on the firm's complaint about the lack of market information – as one of the main barriers of EU export is in sharp contrast with the institutions opinion that are the main supplier of information? [6]

3. Adjustment to the Requirements of the Single Market Program

The evaluation of the Hungarian business sector's adjustment to the requirement of the single market can be analyzed from different points of view. The usual method of assessing whether this sector is 'prepared for integration' is asking the firms: is there anybody at firm level who is responsible for

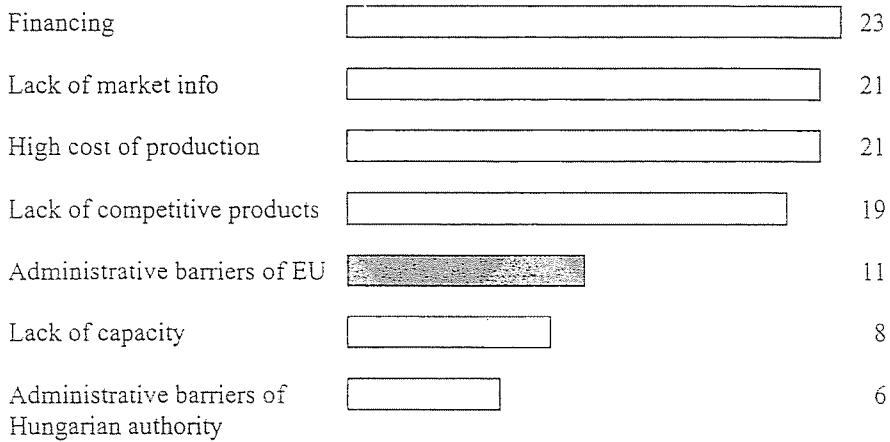
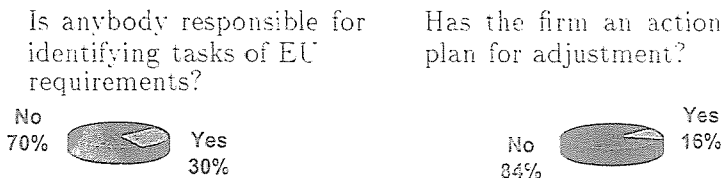


Fig. 2. Barriers of export to EU % share of answers [4]

identifying task of European Union's adjustment and whether the firm has already prepared its plan for action?

Answers to this question seem rather disappointing from ISM questionnaires - including 400 firms [1] - too.



Although an **action checklist** for businesses is a must.

The evidence of preparing action checklist derives from our basic statement.

This checklist must outline the **main issues** the business could face in this new environment and highlight **key points** to consider in defining the **business plan**.

Taking advantage of a single market or defending a customer base will raise fundamental questions about the future of *every* business.

But every business has to keep in mind that for some *new horizons will open up* with new opportunity to sell to new customers, developing new products and build new links with other firms. Others may find their current business *threatened by* the arrival of new competitors, changes in the practice of customers or suppliers or changes in technical regulation.

Further on every firm - **firms who operate only locally**, too - may be affected by the single market programme - for example rules for public purchasing, the implications of new product directives and the role

of harmonised standards.

The **first part of the action checklist** consists of main issues the businesses could face in joining to EU. In order to help firms with the task of assessing the effects of the single market on their businesses in many EU countries the *relevant Department of Trade and Industry* has published national and regional *guides to sources of practical advice*.

For example in Great Britain the national guide lists only organisations with national coverage while regional guides focus on local organisations. The main type of organisations (chambers of commerce, developing agencies, local business organisations, innovation centers) offer different services: such as *general service*: the organisation is knowledgeable about a particular activity (e.g. exporting) or type of EU legislation (e.g. employment law) but not necessarily as it relates to a particular business sector; *sector specific service*: the information and advice offered relates specifically to the business sector covered by the organisation (e.g. impact of food harmonisation programme on manufacturers of food packaging); *company specific service*: the organisation is capable of advising about the implications of the single market programme for an individual firm's operations.

In Hungary it is an often announced opinion that although many organisations offer services, the information network is not simply and systematically organized and the transmitted information is not clear and simple enough for practical usage.

Other source of information for businesses assessing the effects of single market programme are the *professional advisers* – be it accountant, bank manager or solicitor, universities, business schools, polytechnics.

Among professional advisers especially the banks provide a wide range of services to businesses. For example they can identify trading partners of candidates for mergers and acquisitions, offer competitive trade and commercial financing, provide money transmissions and cash management services, minimise currency and interest rate risks, etc.

Taking into account the development of the Monetary Union, one can suspect that the banking system's tasks – after our joining to EU – are more differentiated than that of discussed by bank managers.

The **second part of the action checklist** includes the key points to consider in defining the business plan. First of all businesses must *rethink* of how the firm should secure its future. Some key questions businesses should ask:

- How is the market, including home market changing for our business?
- Should we become an EU and/or CEFTA business, looking upon these regions as our primary market rather than just home market?
- How our scale of the target in our plans will change the submarket orientation?
- In which way will the business be vulnerable to more competition in the present market?

- Should the business form links, merge or acquire business to strengthen the market presence, broaden the range of products and services and spread the financial risk?
- Is the management and structure appropriate to exploit new opportunities of defending the firm position?
- What training in languages and other skills the business needs to be ready for the single market?
- Who in the given firm is going to be responsible for deciding how to make the most of the single market? etc.

A major *rethink will need a plan for action*. Preparing the plan a lot of issues need to be checked. The general checklist includes each part of the business plan such as marketing, sales, distribution, production, production development, purchasing, finance, training, languages and recruitment.

Some thoughts about rethinking marketing and financial plan. **The basic chapter of the plan is the Marketing plan** because a third larger than the American market and more than double the Japanese, the wider European market offers new opportunities.

The 'headline' is more customers, more markets but also more competition.

Even if the firm is trading locally, its product, quality service and price must meet consumer's needs and preferences.

Key questions and tasks can be summarized as follows.

1. Which new customers can the firm reach?
 - identify countries where the firm's sales are limited
 - identify those the business are not selling to
 - identify which market becomes more accessible and when (e.g. there are growing opportunities to bid for public procurement)
 - establish who the potential customers are
 - consider the option of supplying as a subcontractor
2. Are the firm's products or services suitable?
 - business has to find out whether tasks and preferences are similar to those of the firm's existing buyers
 - businesses have to check whether there is an industrial standard for the product set by the national authorities or not officially set by the main supplier
 - firms have to test whether the quality, design and packaging of the product are acceptable by the markets
 - business has to decide whether to compete on quality or on price
3. Are the firms organised within its business to learn about the wider market and to promote the firm's products and services effectively?
 - firms have to decide who will take the responsibility for European marketing

- to decide on a regular way of collecting and evaluating marketing information.

In the framework of the business plan effective **financial** management – especially cost control – is vital in the larger European market.

Key questions and task concerning the **Financial Plan**

1. What are the effects of competing in the wider market on the profit and loss account?
 - quantity increase revenues arising from sales expansion
 - identify changes in operating costs as a result of the single market (transport, distribution, rationalisation of production, certification procedures)
 - estimate the effect of different sales terms in EU countries
2. What are the effects of competing in the wider market on the balance sheet?
 - budget for capital expenditure requirement arising from expansion of production
 - budget for additional working capital requirements
3. Will the existing financial management be adequate?
 - evaluate the effectiveness of the existing resources and procedures
 - consider the need for currency management
 - consider the need to upgrade the existing system to handle new demand such as foreign transactions, currency dealings, debt collection and larger volumens
 - check the cost control procedure

The requirement of rethinking the business plan has of course one condition and one implication.

Taking into account the restructuring of the Hungarian Business sector doubts can emerge whether the firms have real business plans at all and those who have it already have started the rethinking process.

4. Instead of Summarization: the SWOT Picture

Strength

- changed ownership structure
- experiences from previous cooperation
- quick adjustment in certain industries (machinery)

Weakness

- missing strategy
- poor business plan
- poor digesting of information

- just waiting substantial government support

Opportunity

- further cooperation link
- not undervalue labor contract agreement
- focusing on internal market, too
- better understanding the multinationals withdrawal strategy, too

Tasks

- renew and rethink relevant chapters of business plan
- changing attitude of firms behaviour: better personal management
- coordinated, simply and easily accessible public and private information network

Two last remarks:

This SWOT type summarization includes points over this analysis and in some way seems to reflect a static picture: taking *given* macro conditions into account and *omitting* the characteristics of changing strategy of multinationals – affecting their cooperation link with Hungarian businesses.

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