

ANALYSIS OF SMEs IN HUNGARY COMPARED WITH ROMANIA USING THE INFORMATION AND COMMUNICATIONS TECHNOLOGY IN THIS SECTOR

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Abstract

Small and medium enterprises contribute greatly to achieving the fundamental objectives of any national economy. They play an important role in the economy for reasons such as: foster innovation and flexibility; they can be integrated relatively easily into a regional industrial network, which contributes to the economic development in the region, reducing unemployment and raising the living standards because it provides jobs, stimulate competition, helps the functioning of large companies that provide different services or producing different parts.

In this article I made a comparison of small and medium enterprise sector in Hungary and Romania.

Key-words: *role of SMEs in the economy, set up a company in Hungary and Romania, internet in the enterprises, difficulties of SMEs in Hungary*

JEL Classification: A₁, E₅₉, O₃₀

Introduction

The study that I conducted wishes to highlight the real situation of the enterprises in Romania and Hungary as well as the penetration of the information technology in SMEs.

Peter Drucker said: “The small business represents the main catalyst of the economic growth” so that the importance of this work derives from the important role of the SMEs in the life of the society.

For this purpose, I defined the business, I have shown which is the procedure for establishing a business in Hungary compared to Romania and I presented some aspects concerning the use of information and communications technology in the SME sector.

This article is based on the most recent studies in the area, aiming topic, supplemented by my own research, through consulting the documents published on the websites of the national and international institutions, in the Report of SMEs’ Activities, 2010 and on the Doing Business Report, 2011.

Literature review

In the literature, the importance of SMEs sector has been referred to by economists such as: Peter J. Buckley (1989), Schmiemann (2009) and authors like Fisher, Craig and Bentley (2007), Levy and Powell (2005), Stockdale and Standing (2006) showed the importance of the web business strategy for the small business owners.

In the UK and U.S.A. the government policy consistently recognizes the importance of access of SMEs to innovation and information and communication technologies (ICT) to help them develop (Wright, Ul-Haq and Oktemgil 2006).

Theoretical background

The definition that reflects the fundamental features of an enterprise is defined by Robert Hisrich (2006) as follows: “The enterprise is the process of creating something new, valuable. In this process the entrepreneur assures the time and the effort required, assuming the financial, psychological and social risks. And of course, because at the end of this process one gains the recognition that would provide material and personal satisfaction”.

Ovidiu Nicolescu and Alexandru Isaic-Maniu in the *White Paper of SMEs in Romania* (2003) highlight the role and the importance of SMEs in the economy, considering that they derive from the next facts:

- generate most of the products and services without which the country’s population would not survive today;
- is the main creator of the economic substance of the value added in any country, without which the contemporary society cannot exist;
- provide jobs for most of the population;
- its performance makes the condition and performance of each country’s economy and the standard of living of its population.

Statistics of almost all countries show that SMEs absolutely dominated the economy, representing over 99% of all firms and having the substantial share in obtaining the GDP and providing jobs.

The new Internet technologies contribute directly to the expansion of the electronic commerce, of the new business models; the information is the major source in the “new economy”. The electronic commerce and the new technologies, in general, can generate significant cost savings and can facilitate the access to the domestic and foreign markets.

One of the major advantages of the electronic commerce process is the fact that it can be run anytime and anywhere, stepping over the boundaries of the location of the user data and the moment when conducting the business. (Pocatilu, Boja, 2009)

1. Overview of the SMEs’ sector in Hungary and Romania

During the week we are constantly in contact with the smaller businesses (e.g. bakeries) or the larger ones (e.g. utilities companies) because they purchase the various products, services or we offer them services or we are their employees.

For society, the enterprises are crucial. The target group of my study in Hungary are the microenterprises.

The importance and the significance of this theme is illustrated by the fact that out of 533,240 enterprises in Hungary, in 2009, a total of 503,171 is represented by the microenterprises, those producing an added value of 9 billion euro of the total added value of 49 billion. Also, the microenterprises contribute to employment at a rate of 35.4% compared with the European Union, where the average of employment in the microenterprises is 29.7%.

In Romania, in 2009, of a total of 440,063 small and medium enterprises, 389,389 are microenterprises. Microenterprises have contributed to employment at a rate of 21.2% compared with the European Union, where the average was 29.7%. Microenterprises also produced an added value of 12.1% compared with the European Union, where the percentage was 21%.

The private household sector in Hungary is based on SMEs.

The vast majority of SMEs have appeared during the regime change. Most have become entrepreneurs “of need” after they have lost their jobs, which means that previously lacked experience in business and management, which later became the source of the problem for SMEs.

Likewise, during the change of the regime, more microenterprises had less than 10 employees. In Hungary, the vast majority of companies are composed of this kind of enterprise and the SMEs may have significant effect on the country’s competitive ability and development of the economy.

Microenterprises and SMEs constitute 99.9% of all functioning enterprises. These enterprises under the data of the Central Statistical Office (Központi Statisztikai Hivatal – KSH) in November 2010 provided employment for an average of 773,900 employees in the private sector, compared with the same period of 2009, when the average number of employees was 747,900.

The average net monthly earnings of the employees in the private sector were 133,191 HUF. Although the unemployment rate reached a value of 10% during January-December 2009, and a value of 11.3% in November 2010, SMEs have an important role in employment and development of the economy.

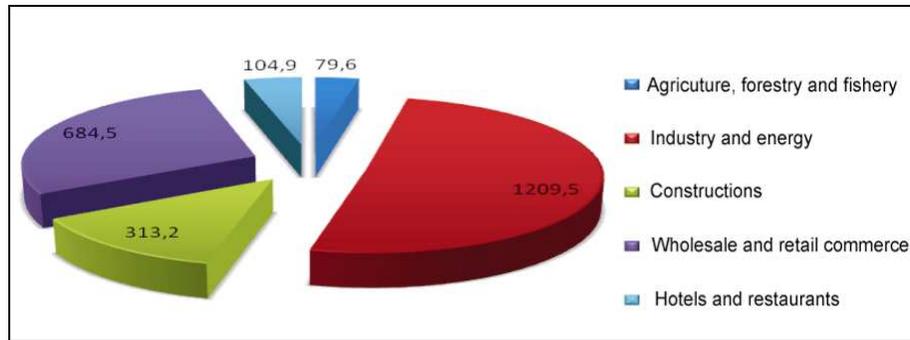
In December 2010, in Romania, the average net monthly salary was 1,496 lei in the private sector which was reduced with 72 lei in March, 2011, at a value of 1,424 lei.

Regarding the employment situation, according to the Report of the SMEs’ activity, in 2010, there was a loss of 333,273 jobs.

Reductions in the staff numbers were recorded both on the total SME sector and in each size category. The strongest negative dynamic was in the category of the medium-sized enterprise (-13.5%), followed by small (-12.1%) and micro (-8.2%) enterprises.

Reducing the number of employees was higher in the medium-sized enterprises, through more severe restructuring measures introduced in order to face the financial and economic crisis. In the case of small and microenterprises, the number of the employees is much smaller, so the staff adjustments could not be made without affecting the basic functions of any company, respectively, of its functioning.

I illustrated the employment structure on the sector of activities, in the chart below:



Source: Monthly Statistical Bulletin no. 11/2010, www.innse.ro

Fig. 1. Distribution of the number of employees in the SMEs, according to the sector of activity, in Romania – 2010 (thousands people)

2. Procedures for setting up the business in Hungary compared to Romania

According to the data derived from 2011 Doing Business Report, I presented below the procedure for establishing a company both in Romania and Hungary, the time and the cost involved to launch a commercial or industrial firm with up to 50 employees:

In Hungary, in order to set up a firm four stages must be followed:

1. The first step is contacting a lawyer to represent the firm and prepare the legal documents. The fee paid to the lawyer depends on the services offered and company size. This step varies between 1-2 days and can cost from 100,000 to 260,000 HUF, depending on the complexity of the procedures.

2. In the second step, one has to pay at least 50% of the subscription in advance (at least 250,000 HUF) into a designated account at the time of subscription. Half of the cash contribution must be paid when the company is established and the rest is paid in accordance to the provisions of the memorandum, but not later than one year after establishment. This stage lasts one day and the cost is zero (free).

3. At this stage, one applies for registration at the Court of Registration (simplified electronic registration). After the court receives the request for registration, the company may issue a certificate for commence operation. Companies can be established in two ways:

a) Simplified electronic filling, the stamp tax is 15,000 HUF and no publication fee. Time – one working day.

b) Standard electronic filling, the tax stamp and the fee is 100,000 HUF and the publication fee is 25,000 HUF. Duration – 15 days.

Along with filling the application form, an on-line registration is filled at the State Authority Tax (for VAT and income tax) and the Statistical Office.

The cost for this procedure is 20,000 HUF and lasts one day.

To set up a firm in Romania, according to 2011 Doing Business Report, one must follow six stages:

1. Obtain the certificate from the National Trade Register Office by filling out a form to check out name availability and reserve the name. The cost is 56 RON and duration for this procedure, one day.

2. Depositing the funds in the bank and obtain a document confirming the existence of a deposit with sufficient funds. For this stage, the banking commission varies from 0 to 0.5% of the capital and takes one day.

3. Obtaining a tax clearance certificate for enterprise associations and its legal representatives of municipal departments of the public finances. The cost for the fiscal record is 20 RON and lasts one day.

4. Recording “one-stop shop” (Single Office) by the National Trade Register Office, the Bucharest Court, obtain registration to the court, notification and registration for the publication of the statistical and social insurance.

The cost is 120 lei (registration fee) + 30 RON for each mandatory element of basic information about the company, such as capital, company, associates, administrators, company’s main activity object + 100 RON for each 2,000 characters as a tax for publication in the Official Gazette + 30 RON for registration in the National Trade Register Office (“Registration Certificate”) + commission for the liquidation fund (20% of the fee charged by the National Trade Register Office) + 10 RON (Fiscal Identification Code – CIF) + monitor fund tax (5% of the fee charged by the National Trade Register Office) + 10 RON (fee required for the National Trade Register Office to submit documents for publication in the Official Gazette). Time for carrying out this procedure is 3 days.

5. Registration for the VAT is free and lasts 3 days.

6. Recording the contract of the employees at the Territorial Labour Inspectorate (TLI) is also free and lasts one day.

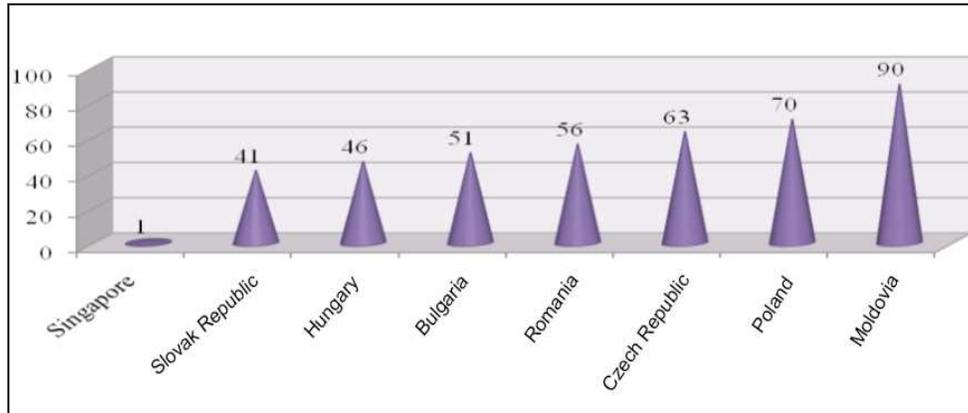
Doing Business Report shows that Hungary ranks on the 46th position out of 183 economies and Romania ranks on the 56th.

In point of easiness of setting up a company, Hungary is ranked on the 35th place while Romania is on the 44th, the highest ranked country based on this criterion being Singapore.

From the comparison made between the two countries we can conclude the following: to establish a business requires four stages in Hungary and six in Romania. The time that is required, expressed in days, for Hungary is 4 days and 10 days for Romania. The cost for setting up the business in Hungary is 8.2 (% of income per inhabitant) and 2.6 (% of income per inhabitant) in Romania. The minimum paid-up capital is 0.9 (% of income per inhabitant) for Romania and 10.2 (% of income per inhabitant) in Hungary.

Singapore, which is ranked on the first position based on this criterion, has a total of three procedures for setting up a business and lasts 3 days. The cost is 0.7 (% of income per inhabitant) and the minimum paid-up capital is not necessary (0.0% of income per inhabitant).

Below, I presented graphically the location of Hungary and Romania compared to the economies of other countries:



Source: Doing Business Report 2011, www.doingbusiness.org.

Fig. 2. Comparing Hungary and Romania to other countries on the criterion “ease of starting a business”

3. Using information and communication technology (ICT) in the SME sector

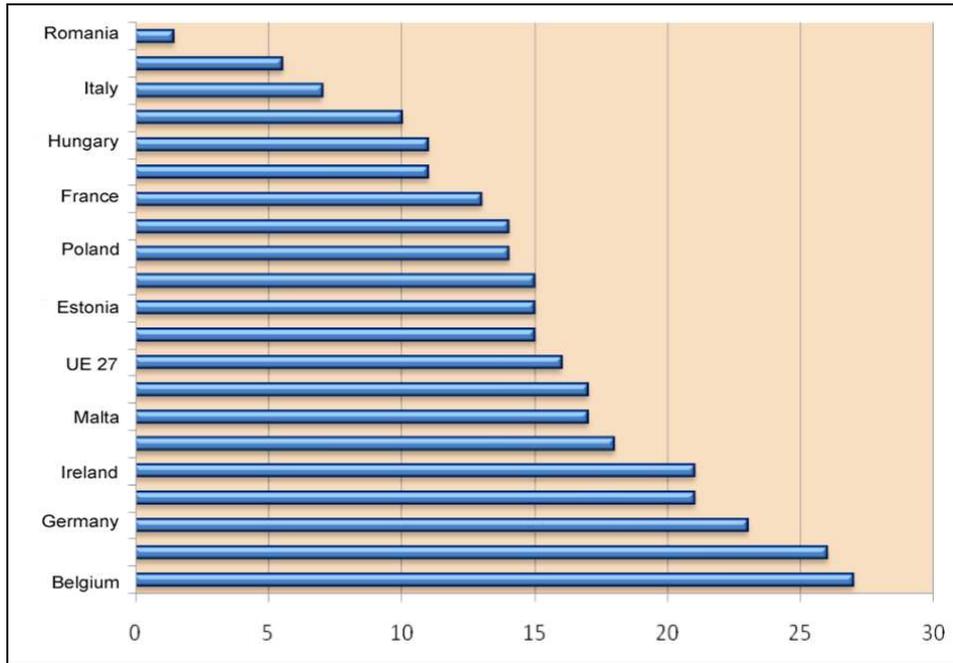
Using information and communications technology (ICT) – which includes software services, hardware for computers and telecommunications equipment, and technical services – represents a major facilitator factor in the innovation process. After joining EU, Romania has developed, within the meaning of approaching the use of ICT in other Member States, and in the recent years the differences in the development of information society have been reduced by developing an ICT industry, a broadband infrastructure and applications of the related services. The penetration of the information and communication technology is still very low due to a low demand and a limited availability of the infrastructure in terms of the access and the price for using it.

In comparison with the EU Member States, the costs for information technology sector in Romania occupies one of the lowest ranking positions in the EU, as it can be noticed in figure 3.

In Hungary, the expenses for the information and communication technology had a value of 11 million in 2009, compared to Romania, where they totalled 1.4 million euro. By comparison to other EU countries, our country was ranked last.

Romania also is on last place in the 27 EU Member States as regards the access to the broadband networks, a specific requirement of advanced Internet services. In terms of the infrastructure, only 73% of the Romanian enterprises have Internet access, compared to Hungary where the proportion is 89%. Is an urgent necessity to update the Internet infrastructure in Romania.

However, there are large differences depending on the enterprise: almost all large enterprises have Internet access (96% in 2009), while only 63% of small and microenterprises, which form most of the SME sector, have no access.

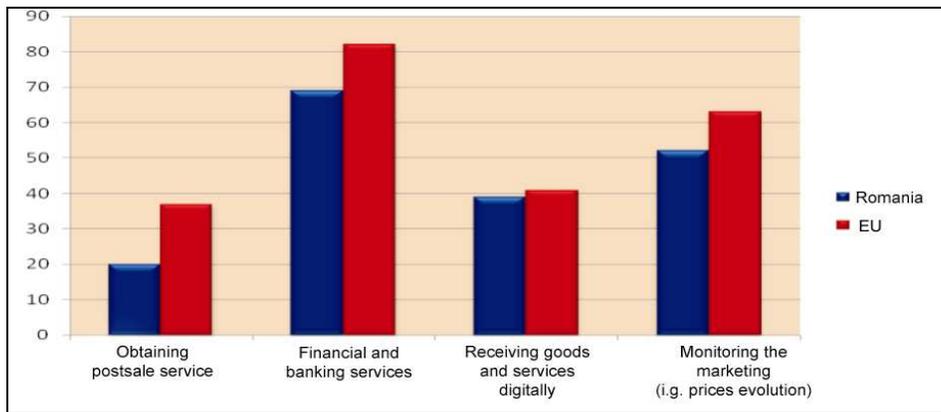


Source: Annual Report on SME sector in Romania 2010, www.esimplu.ro/resurse-de-afaceri/documente.

Fig. 3. Expenditure allocated to information and technology (million euro) in 2009

The main Internet activities of the Romanian SMEs are for banking and financial concerns (69%), followed by monitoring the market (52%), activity for which the share of SMEs is higher than the European average.

The usage of the banking and financial services is lower, which implies that there is no market sufficiently developed for such services yet.



Source: Eurostat Database, Information Society Section, http://epp.eurostat.ec.europa.eu/portal/page/portal/information_society.

Fig. 4. Types of activities used on the Internet by SMEs in Romania

In Hungary was launched a project called “My Company is on the net” by which the Hungarian government intends to help small and medium enterprises to become more competitive and achieve higher incomes, following the introduction of Internet in the small companies, particularly those that sell goods and services.

Conclusions

The SMEs play an important role in any economy, being the engine for its development. As a consequence of the economic and financial crisis, the SMEs were reduced in number; those most affected were medium-sized enterprises.

Regarding the creation of the company, analyzing the procedures described in 2011 Doing Business Report, it can be said that in Hungary there are four stages in this respect, and six stages in Romania. Thus, in point of view of easiness of setting up a company, Hungary is ranked the 35th internationally and Romania – the 44th.

The penetration of the information and communication technology is still very low due to a low demand and a limited availability of the infrastructure in terms of the access and the price for its usinage.

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