

Analysing the Conditions of SMEs Regarding Quality Assurance in Hungary and the European Union

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Abstract: Nowadays, small and medium sized enterprises (SME) have a relatively large task and expectation caused by the appearing of populated large foreign-owned enterprises in our country. In order that they will be able to cooperate with them and be able to join and integrate into the value chain they supply they must meet the high quality of standards. Obtaining then preserving quality certificates is essential for this. It can be fulfilled exclusively with thorough screening and problem identification.

This situation is exacerbated continuously by globalization in which each sector is involved. It means that they must remain competitive globally. Although in our country most of the small and medium sized enterprises bears the specific characteristics of family businesses innovation may not be avoided if they intend to stay competitive. To fulfil this quality assurance is one of its integral part.

Keywords: quality assurance at SMEs, competitiveness of small and medium sized enterprises, development of SMEs

Introduction

The quality assurance standards of our time keep on providing challenges for our country's economy and its participants; the companies, entrepreneurs. It is particularly true in the sectors of small and medium sized enterprises. To be able to stay in competition and increase the competitiveness they always have to fix or sort out difficult barriers that roll in front of them.

What are SME exactly? Although the abbreviation SME is used every day you may not know the underlying content of the phrase. Therefore, it is worth examining it as well as its criteria.

In accordance with their objectives domestic small and medium sized enterprises shall endeavour to ensure, control and check their operating processes. Moreover, they intend to manage effectively meeting the requirements of quality management. To what extent they manage to do so can be presented by the analysis of the current situation. (Kecskés, 2018)

The definition of the term 'SME'

The meaning of SME is defined by the act XXXIV of 2004. In accordance with that an enterprise is qualified as an SMSE whose total number of employees is fewer than 250 and whose annual net turnover does not exceed that amount of Hungarian forint equivalent to 50 million Euros or its balance sheet total not exceeding that amount of Hungarian forint equivalent to EUR 43 million.

Within this that enterprise is qualified as a small business whose total number of employees is less than 50 and annual net turnover or balance sheet total does not exceed that amount of Hungarian forint equivalent to EUR 10 million.

Within SME category an enterprise is considered to be a micro-enterprise that total number of employees is fewer than 10. and annual net turnover or balance sheet total does not exceed that amount of Hungarian forint equivalent to EUR 2 million.

SME category	Number of employees	Annual net turnover	Balance sheet total
medium	< 250	≤ 50 million €	≤ 43 million €
small	< 50	≤ 10 million €	≤ 10 million €
micro	< 10	≤ 2 million €	≤ 2 million €

Table 1. Specifications of different enterprises on the basis of their definitions

Source: own editing based on EB, 2016; Deloitte

An enterprise may not considered to be an SME in which the direct or indirect ownership share of a state or a municipality reaches or exceeds 25% singly or in combination on the basis of its capital or voting rights.

Changes in the proportion of SMEs in the last decades in Hungary or in the European Union

The quality approach can be interpreted as proactive management of activities related to internal and external customers. Quality approaches can support efforts in the area of corporate social responsibility through professionally selected tools, project management, development of working processes and working environment as well as strategic problem solving. Nevertheless, a systematic approach is essential for coordinating these efforts. (Berényi, 2018)

Small and medium sized businesses take a significant role in the operation of some national economies. This is especially true for Hungary and the European Union. The entry of these enterprises to international markets leads to their continuous growth and facilitates national and global economic development. In an attempt to support these outcomes, they endeavour to acquire best practices and experiences in order to facilitate entering, surviving, and growing in global markets. (Zarei- Nasser - Tajeddin, 2011)

According to the latest data in the EU 99% of European enterprises are SMEs and two third of the employees are employed by a small or medium sized company. Concerning Hungary there seems to be more than 520 thousands of enterprises of which more than 99% are micro, small or medium sized businesses. Within this almost 95% of Hungarian enterprises are small businesses and about the rate of medium sized enterprises is 4%. Most of them are joint ventures while more that 35% of them are individual entrepreneurs. The number of employees employed by these businesses reaches 1.7 million that is around 70% of employees in Hungary according to the statistics of European Union. (KSH, 2016)

Based on the above data it can be claimed that both in the EU and in Hungary the most significant source of employment is provided by small and medium sized enterprises.

Further analyses figure out that in Hungary the majority of the joint ventures are limited liability companies, more than 45%, secondly limited partnerships, about 16% and the rest in the national economy are other type of joint ventures and joint stock. On the basis of data available it is clear that the classical role of joint stock company is missing. Most of the joint stock companies operate just for tax optimization. In terms of geographical breakdown by headquarters the significant shares of Central-Hungary is attained due to the extremely high proportion of joint ventures. It is explained by the capital centred economy of our country and its infrastructure. (KSH, 2013).

According to the data from 2012 95% of operating SMEs are microenterprises (that employed fewer than 10 people) and 4,0% employed 10–49 persons while the rate of medium sized enterprises with 50-249 employees did not reach 1%, as it was only 0,7%. (KSH, 2012)

By 2016 61% of the operating enterprises were joint ventures 39% worked in individual form. It depicts that comparing it to the data of 2012 while the number of micro and medium sized enterprises reduced that of the small enterprises increased. In summary the number of SME decreased with 0,1%. Moreover, due to the metropolitan focus the rate of individual enterprises in Budapest increased the most in Middle-Hungarian region. (KSH, 2016)

Reviewing the data from 2018 it is obvious that 99,1% of the total enterprises were small and medium sized enterprises in Hungary in that year. The market share of small companies slightly decreased though the share of medium sized enterprises did not change. The market shares of SMEs were the followings: 94,7% for micro enterprises, 4,6% for small sized ones and 0,7% for medium sized ones.

	2012			2016			2018		
Type of SMEs	Micro enterprise (%)	Small enterprise (%)	Medium sized enterprise (%)	Micro enterprise (%)	Small enterprise (%)	Medium sized enterprise (%)	Micro enterprise (%)	Small enterprise (%)	Medium sized enterprise (%)
Distribution by %	95	4	1	94,5	4,7	0,7	94,7	4,6	0,7
Degree of change				-0,5	+0,7	-0,3	+0,2	-0,1	0,0

Table 2. Ration of the number of SMEs

Source: Central Statistics Office

Enterprise Category	2016	2017	2018	2017	2018
				change compared to previous year, %	
micro enterprise	652 852	680 804	709 159	4,3	4,2
small enterprise	32 852	33 663	34 369	2,5	2,1
medium sized enterprise	5 184	5 177	5 423	-0,1	4,8
Total of SMEs	690 763	719 644	748 951	4,2	4,1
enterprises out of SMEs	6 104	6 708	6 954	9,9	3,7
Total of enterprises	696 867	726 352	755 905	4,2	4,1

Table 3. Changes of SMEs in the last years,
Source: Central Statistics Office

However, the business efficiency of SMEs lag behind that of large companies worldwide. This tendency is present in Hungary and in the European Union as well. On one hand, it is caused by the extremely low performance of the application of digital technology in business in Hungary comparing to the EU average. (Losoncz, 2018) In our home country only 16% of enterprises are able to provide electronic exchange of information, 5% of them provide cloud services and 8,9% apply social media. However, without digitalisation a company may not be a full participants in the competition on market.

Economic role of small and medium sized enterprises in our country

Majority of enterprises operating in Hungary are in the group of small and medium sized enterprises. The economic role in of SMEs has been assessed. The main reason behind it is large scale corporate processes as a significant portion of their activities has been outsourced for the purpose of reducing costs. A huge number of their suppliers are selected from smaller and flexibly operating companies. Although SMEs were active only in local or regional economy especially provided retail services, recently they have appeared in innovative business sectors. These are mainly the enterprises with network-based who are about entering global market. SME sector has a significant role concerning revenue generation of the country and in the operation of foreign capital and in investments. Furthermore, this sector has a social role in job creation and employment. (KSH, 2018).

Their participation in the labour market is remarkable. While small and medium sized enterprises provide employment for almost two third of employees in the business sector. Moreover, they contribute to the total performance of enterprises with a considerable rate which was 46% of added value, 30% of investments and 42% of net income in 2018.

The economic role of an enterprise is described by the income, the scale of achievement, investment activity and the number of employees. Turnover realized in the course of sales depends on the size of the company and the value of sold products or services. Gross value added derived from the difference in output and downstream consumption reflects the efficiency of an economic activity. Profitable

operation ensures the long-term viability of a business. To promote sales, to improve efficiency and productivity, to fulfil the requirements and quality needs of consumers requires the continuous renewal of fixed assets. Thus, the volume and composition of investments influence the economic performance of a company. All these determines the size of staff employed which is changeable based on business opportunities and activities carried out. (ksh.hu) The success of businesses is not only influenced by their access to financial resources, but also by their internal organisational structure and the standard of their organisational culture. (Mester – Tóth, 2015)

The structure of SME sector

Majority of small and medium sized enterprises employ few people. As according to the data available 91,8% of the total enterprises employs only 9 persons, therefore, they are micro businesses. This has a great impact on corporate culture. These small sized companies are characterized by a family atmosphere and simple organizational structure and more limited efficiency tools. The crucial elements are the employees and the owners. The corporate atmosphere depends on the motivating tools applied and the number of employees. Therefore, the small and medium sized enterprises are mainly controlled by one person, their organizational structure is linear and the division of tasks are carried out according to the ordering or the manager decides on it as decision making is centralized. There seems to be single-line organization, instructions are given by one boss and a subordinate has to report to the same person. In case of medium sized companies where there are 10-49 employees the structure is more complicated. Its reason is that here the central person is the founder or the owner who is not capable of controlling such a large organization and covering all the processes and issues on their own. Thus, there are some managers in key position whose personality has a huge impact on the subordinates and the owner.

In summary It can be claimed that most of the small and medium sized enterprises are under a single member control. Their organizational structure is linear and centralized. (Baksi, 2016)

SMEs in the overall fire of quality assurance standards

Small and medium sized companies who intend to increase their competitiveness may not avoid dealing with ISO quality assurance system. Some organizations deal with it as an external constraint while others have internal interest in it. Former reason may be stated as a requirement of the society or customer's need. Meeting customers' requirements is important to retain favourable market position and positive frame. As in long term it may provide economic advantage for a company.

Beyond those described above most of the multinational companies expect their partners to imply ISO standards. Moreover, it is not unusual that further requirements are set for the SMEs by a parent company. It follows the number of the companies operating in the current ISO standard system is more millions all over the world. And it is going to grow in the future.

The ISO standard model

The system of ISO 9001:2015 standards currently in force is more user friendly than the former one was. It fits more to the users' needs. The previously used expression 'product' has been changed into 'product and service'. Regarding the environment of an organization the standard provides new terms.

Stronger emphasis is placed on risk investigation in order that risks could be identified more easily. Risks are originated from uncertainty. It represents the negative or positive consequences of a possible quantifiable error in case a specific event (=place, time, method) occurs:

Risk = possibility of occurrence * damage (profit)

The standard has taken responsibility for the companies. Namely the organizations have to define their processes with more details in some specific cases. Due to the renewed requirements ISO standard 9001:2015 has become much more practical compared to its predecessor (Abuhav, 2017).

A gained ISO certification circle is valid for three years. When the validity period has expired a review, a so called audit is required.



Figure 1. The order of audits in long term

Source: menedzser.tuti.hu

Struggles and problems of SMEs in the aspect of quality assurance in Hungary

Although in Hungary the conditions of enterprise foundation and the time required to this is less than the average are in accordance with that of other EU member states, Hungarian entrepreneurs must face to several difficulties regarding quality assurance during their operation.

According to the surveys carried out in the European Union and in our country finding the potential customers is the most challenging. This corresponds to the market entry condition so-called by the European Commission. On the other hand, providing and employing the required number of skilled labour and experienced leaders cause difficulties in Europe. The employees' professional knowledge, skills and composition does not cover the labour market needs. The regulations and the private sector demand almost the same amount of requirements. Furthermore, access to finance and production costs or employees' salaries represent significant burdens (SAFE, 2014). The research data of 2015 provides that there seems to be still significant room for development in Hungary concerning business friendly environment and climate (Lazányi, 2014). In contrary to strong fears and eternal pessimism Hungarian people seem to be open to launch their own business. Two third of respondents (61%) has positive attitude to the life-form of an entrepreneur. And more than one third (35%) could imagine themselves as a self-employed. However, if the barriers are taken account it can be seen that mainly the fear of

failure hinders most of the people (86%) to launch their own businesses. In Hungary this barrier is more significant than anywhere else in the world. Examining the individual components of fear of failure, the greatest constraints are the risks of financial difficulties (57%) and economic crisis (42%) which may cause bankrupt. Moreover, several people are afraid of being unemployed (24%) and its legal consequences and lawsuits (22%). (Global news assets, 2015).

Further problems are originated from the financial and administrative regulations imposed on them.

Hungary's economic performance is above the EU average regarding the state aids and public procurements. This strong performance is due to the high and active participation of SMEs in public procurements. It is confirmed by the SMEs' share of public contracts and high participation rate in public tenders. Based on both indicators Hungary can be classified into the first group. Referring to the two indicators the average delays in payments is less than exemplary from public authorities. Moreover, the participation rates in e-procurement is low and this has indicated only little improvement in the last years. The on time payment reduced from 27 to 24 days and users of e-government has increased from 10% to 12%. These changes ease the SME participation in public procurements and in other activities. These activities include organizing professional workshops and conferences, providing supports in publication, and discussing regulations on phone.

Hungary as well as several other countries in the union is under the average of EU in the field of environment. According to the research of SBA (Small Business Administration) its fundamental reason is that there are only few 'green' products produced or sold by SMEs. This is particularly regrettable as there seems to be significant potential in making the activities of SMEs more environment friendly and sustainable. (Holicza, 2016)

SWOT analysis

To increase the efficiency of a company application to a quality assurance system is inevitable. Currently in the field of quality assurance the number of enterprises that have obtained ISO quality assurance system is extremely low. It is only 15%. Therefore, if a company decides to undertake the high cost foreseen and devotes time and energy on obtaining the quality assurance certificate it can gain extraordinary advantage over its competitors. Although several of them have no precise information of these advantages and the opportunities that this certificate shall provide. The businesses may overestimate the risks that they have to face.

An effective way for SME companies to identify the risks and opportunities is the method of SWOT analysis. As both the internal and external sides this method is used by and can define a clear image for a company. (Cicek, 2018)

As described above small and medium sized enterprises operate in the same way in the European Union like in our country. The aim of the SWOT analysis below is to summarize the situation of SMEs nowadays. It reveals their strengths, weaknesses and what kind of unexploited potentials they have and what threats they have to face with.

Strengths	Weaknesses
family like atmosphere simple organizational structure continuous task performance and control one-person leadership, quick decision-making Quick response on customers' needs the need of large companies for SMEs: supply, service etc. outsourcing	85% of SMEs have no ISO certificate, therefore, they cannot develop and contract with large companies controlling is difficult without quality assurance Without ISO certificate they have no opportunity to sell abroad without quality assurance certificate participation in public procurements and gaining support are not allowed weak efficiency
Options	Threats
Flexibility Involvement into innovative activities by launching quality assurance Enhancing competitiveness with having quality assurance certificate Entry international market with ISO certificate that may result development of an enterprise and increase of turnover Participation in large enterprise outsourcing Employing labour with professional knowledge Separating management and ownership roles	gaining ISO certificate is costly While working on obtaining the quality assurance certificate the company cannot produce due to having few employees Some sectors require more certification that takes more time and more loss high public burdens and administrative burdens

This SWOT analysis presents how much the large companies rely on SMEs. As the use of outsourcing that means off shoring some activities a large company can operate faster, more effectively and can provide a better quality, well controllable and more cost effective service. Moreover, it is able to concentrate more on their main profile.

Having their quality assurance means that they meet its conditions, therefore, they are able to provide a good quality service at a good price. Large companies tend to choose them as due to their size any problem occurs can be well transparent and controllable.

Currently the weaknesses of SMEs is that 85% of have no quality assurance certificates. Furthermore, a great number of these SMEs are micro businesses – almost 100.000). Therefore, not only do they miss out the aforementioned partnership, but also hide their development. The lack of public procurement

results that these companies also fall short from state aid. Furthermore, they can operate at weak level of efficiency. The productivity of an average SME is only one third of that of the corporate level. (Boda, Gy, et. al. 2019)

It is clear from the analysis how many new opportunities open up for an SME by having an ISO certificate. Having quality assurance system is required to several fields including the presence of foreign market. It is also inevitable to foreign sales as well as applying to domestic public procurements. Although they may result significant revenue increase at a company. to encourage competitiveness this renewal could be completed with some organisational changes too. For instance, if the ownership and management roles are separated it will promote the competitiveness of the enterprise and will support the penetration to new markets. (Bokor, 2014)

To gain ISO certificate skilled personnel is required to develop family businesses to become a real company. As conscious business building may be fulfilled exclusively in this way at those family businesses that are beyond their original level.

If a company crossing national borders intends to produce or provide services export having quality assurance is a requirement. However, obtaining that is very time consuming and costly. Moreover, in certain sectors such as food industry quality requirements are extremely strict. Even the existence of quality assurance certificates (e.g.: IFS21, BRC32, FSSC43) does not guarantee the direct access, for example, to a large transnational corporation in Germany. Public burdens of SMEs are higher than that of large corporations. In addition, the time spent on administration is too much. Besides, large and multinational companies also benefit significantly from government job creation supports.

1 IFS: International Featured Standard. 2 BRC – Global Standard for Safety”. 3 FSSC: Food Safety System Certification

Conclusions and proposals

As a final thought, I think it is important to emphasize that none of the companies can avoid innovation. Currently small and medium sized enterprises operating among different market positions and local circumstances face to several difficulties. In order that a company develop they have to think over their opportunities (can something be implemented or is it worth doing it) and they have to review their abilities (possible resources, knowledge, administrative framework). Then they have to decide whether they are willing to take the risk.

Certain countries such as Hungary's enterprise company try to reduce this risk for businesses. In several cases an enterprise must be able to implement self-renewal, too. This means that innovation activities are broadly interpreted. Despite the threats to remain in market for a long term the conformity to quality assurance standards will be definitely required. A prerequisite to export is the existence of quality assurance certificates, though the process to obtain it is extremely costly.

To be a supplier of a production process at a multinational company also requires quality assurance as a prerequisite. Furthermore, it fits well and can complete the management system of a small company. Indirectly it also improves continuously the performance of the company.

A developing company may not avoid digital transformation as well as it is required by ISO standards, too. The basic funds of it are mainly present at most of the SMEs in Hungary or in the EU. However, a

real competitive advantage can be obtained if almost every segment of operation is planned on digital bases by companies. This includes task assignment, monitoring, resource planning, control of working time, measuring efficiency and the quality assurance of the completed work performed.

As several researches provide that encouraging and introducing of a quality system results definite progress and measurable outputs.

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