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ANALYSIS OF THE SME LEADER IN SZABOLCS-SZATMÁR-BEREG COUNTY IN HUNGARY, A DIMENSION OF THE “EFFECTIVE SME”

Case
Study

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Abstract

The SME leader has a fundamental role in the efficiency of their business. They often dig deeper into the everyday tasks of their enterprise and their implementation than the managers of large companies. This has the advantage of being able to see the whole of the business so that the SME manager can intervene more flexibly, faster, and more accurately if necessary to manage and develop the business more efficiently. However, due to the small size of the organization, the manager also must perform several other functions (marketing, management, finance, etc.), for which multidisciplinary knowledge and approach are required. However, they primarily require economic expertise, which appears as a shortage of respondents. The results of a survey showed that one of the most important shortcomings in the SME in Szabolcs-Szatmár-Bereg County (Hungary) is due to a lack of economic expertise by managers and, consequently, the lack of vision on which effective and appropriate decisions are based.

INTRODUCTION

Small and medium-sized enterprises are the engine of the Hungarian economy, because of their number and employment rates. It is therefore in the interest of many economic operators to operate this sector effectively. However, experience and statistical data show that today's SME sector still needs to evolve in many ways to become effective. This research aims to identify the causes of the current situation and to find solutions that can be put into practice.

The economic importance of SMEs

According to the Hungarian law (Act XXXIV of 2004) on small and medium-sized enterprises and supporting their development), *small and medium-sized enterprises are economic operators who make up the majority of the Hungarian economy, give jobs to the majority of the employed, and pay a greater proportion of tax and contributions.* One of the important objectives of both the European Union and the Hungarian government is to stimulate the growth of the capital strength of small and medium-sized enterprises, to promote their development, thereby preserving their ability to compete and to employment. Furthermore, increasing their competitiveness at the domestic and EU level, thereby promoting a balanced development of the economy and society.

Specificities of SMEs

Small and medium-sized enterprises contain characteristics that are different from large enterprises. Understanding these features lead us to gain an even more accurate and deeper knowledge of the challenges and characteristics of SMEs.

Clusel (2012) sees the key influencers of SMEs, which can also mean their strength and exposure, in three areas:

- the enterprise management and its organization
- the members of the enterprise
- assets owned by the enterprise

The enterprise management and its organization Marchesnay wrote in 1990 (p.16) that "the leader of small businesses is at once a composer, conductor, and occasionally a performer." Which can be said to be a beautiful and realistic analogy. Later (1995) he highlighted the decisive role of the leader and the lack of differentiation of tasks in SMEs.

Duchâtel (2015) summarized the different roles of SME leadership:

- Brings the strategic vision (Martinet, 2002)
- Control (Ginglinger, 2002)
- Ensure financial resources (Albouy, 2002),
- Provide cognitive resources (Charreaux, 2002)
- Promote social responsibility (Pérez, 2002).

This multifaceted role is a kind of vulnerability because according to Megginson and Netter (2003),

SME leaders often start a business because they have the right expertise and skills in one field, but they do not always have leadership and managerial skills.

An SME leader, therefore, encounters a huge number of factors and stakeholders in his work. Most SMEs are informal organizations and fully dependent on the leader, which affects their vulnerability if any unexpected negative event happens (Ingham, Koenig, Nonaka & Takeuchi, 1997).

According to Kállay (2012), *"A significant number of Hungarian enterprises outsource management functions requiring special expertise, most of the accounting, but this does not change the fact that all in-house functions are performed personally (p.15)."* His opinion is that with the growth of the enterprise, management and ownership are partially separated, and the enterprise hires non-owner employees. *"As the headcount increases, management and its areas begin to function as independent functions and are also separated from work in a narrower sense. In companies that continue to grow, management is articulated, specialized, and more and more expertise can accumulate in management. Further growth and development may lead to the emergence of capital ownership as an independent role in the enterprise (p.15)."* It can be said that for small companies it is not worth applying a sophisticated management structure, since its costs are not reimbursed. However, in the case of larger enterprises, it is adversely affected if not enough time and energy is devoted to management (Kállay, 2012). *The reason is that when the number of employees reaches a certain limit, the SME leader can no longer follow the strategic and operational control of the company (Villás and Popovics, 2020).*

Members of the enterprise

Especially in SMEs, the role of the leader is fundamental. According to Kosiansky, and Loup (2002), it is essential to identify how the leader perceives the environment of the enterprise. They explain in their study that when leaders gain information about their environment, they decode it according to their ideas, insights, beliefs, and experiences. In their opinion, the personal, internal thought system of the leader determines how he views the outside world and perceives his "own" reality. This is especially important for SMEs, where a leader embodies decision-making and the environment of the enterprise makes sense through the perception of a leader, which determines the strategic vision and decisions. In Savoie and Morin's (2001) interpretation, it is simply that because of the selectivity of our detection mechanisms, we are only looking for information about what we consider important and valued to us. Efficiency is a construction that can be defined in

several ways, according to interests, values, qualifications, status, and experience, as well as according to the goal that a leader intends to achieve.

Duchéneau (1997) reports on research where more than 70% of SME leaders prefer intuition to make decisions.

Many authors agree that the way SMEs are managed is highly centralized. It can also be said that management is embodied only in the person of the manager-owner. Hertz (1982) establishes that the basic feature of a small business is that the owners manage in a personalized way, rather than through a formalized management structure. Therefore, Kalika (1984) believes that, especially in the case of micro-enterprises, the centralization of decisions around the leading person of the enterprise is a natural process. This idea confirms the words of Gervais (1978), who wrote a few years earlier that the centralization of SMEs does not appear as a burden, but rather as a natural need, in which the leader and individual goals are reconciled with the organizational goals. An important factor for SMEs to achieve centralization is that the relationship between managers and employees can be considered a close relationship. By communicating with his employees daily and being present in everyday events and problems, his position of power is naturally strengthened. Another importance of this is that the manager personally knows his employees and assesses their actual abilities, knowledge, and weaknesses (Barreyre, 1967)." The small size of SMEs facilitates direct and personal relationships, bringing with it a unique management style. According to Gervais (1978), there are positive aspects to this, as this way employees also know the leader better and thus more easily accept his position and authority.

However, SMEs are usually less attractive and well-known compared to large companies, which can also cause difficulties in recruitment. Furthermore, low wage levels are common, resulting in the emigration of skilled workers or their employment in multinational companies. The migration of labor to Western Europe has hit the SME sector the hardest in Hungary. Further training in enterprises could improve the quality of human resources, but this is rarely the case for SMEs (Kállay, 2012).

SMEs are adversely affected by aging management and generational change. *"For nearly 20 percent of Hungarian businesses, even the youngest owner is over 60 years of age, which means that the problem of generational change will increase within a few years"* (Horváth, Kovács & Ella, 2019). More than 70 percent of family businesses envision succession as a transfer of management to a family member. László Rudas, president of the National Association of Family Businesses,

Assets owned by the enterprise

Competitiveness is hampered by limited source of money for SMEs, which also leaves them vulnerable to a sudden negative event. This is due to the lack of collateral, which is particularly characteristic of the SME sector, and the risk to creditors and investors arising from their sometimes short and therefore uncertain operation (Gyurcsik, 2017). The consequence of this limited source of money (capital intensity) is the low investment rate. In particular, the low share of investments in technology and productivity increases should be highlighted. A further consequence of this is that outdated production systems remain, causing a lag compared to the top companies (Horváth et al., 2019).

As a result of globalization processes, SMEs are suffering a significant disadvantage, mainly due to their small market share and influence due to their small size. Large companies use their dominant position to reduce them, such as obtaining advantageous bargaining positions in price negotiations, final products, or raw materials. In this way, SMEs achieve a bad bargaining position, which is at the expense of their competitiveness and makes it difficult for them to acquire customers.

"In a globalized world, outstanding research and innovation performance is essential for competitiveness. However, a significant proportion of SMEs lack the knowledge and capital needed for innovation, and there is even a certain mistrust of who they can turn to acquire knowledge (Horváth et. al, 2019). According to Williamson (1981), a company with significant knowledge capital is more likely to innovate and therefore have more growth potential.

To summarize, although there are great opportunities for SMEs due to their specificities, there are also many factors that cause their vulnerability, which may explain their large-scale closure and bankruptcy.

MATERIAL AND METHOD

In the following paper, the aim of the primary research was to analyze the personality, knowledge, and challenges of the SME leader as he is the cornerstone of the operation of the enterprise.

In order to have the most relevant data on the SMEs' leadership, the online survey was the most appropriate method.

The survey was carried out in 2022 and extended to the leaders of micro, small and medium-sized enterprises in Szabolcs-Szatmár-Bereg County (Hungary). In the first step a database of 70 companies was created, then an online survey was sent to them by email. 38 fills were received from

the questionnaires sent, two of which were deleted due to incomplete and inaccurate replies. Thus, the sample consists of 36 complete and processable responses. Therefore, the sample cannot be considered representative.

The survey consisted of a total of 41 questions. For better analysis of the answers, for most of the questions, the filler would choose from the answers defined. However, for almost all questions, the filler was also allowed to answer individually (with the help of the "other" box). The questionnaire included multiple-choice, check box, multiple choice grid, check box grid, and Likert scale closed questions. For every Likert scale question, it was used a scale of 5. Furthermore, open questions were also applied when the aim was to express the individual opinions of the leaders.

Nearly half of the companies in the sample are micro-enterprises, nearly 40% are small businesses and 14% are in the category of medium-sized enterprises.

RESULTS

According to the survey results, an SME leader started to be in that position because of the existence of a family business in half of the cases. In almost 40% of cases, the leader was motivated by the hope of a better living, as well as the desire for autonomy and independence. Meanwhile, the realization of an idea or vision was the main reason for only 22% of the respondents. Furthermore, only 8% of the respondents were forced entrepreneurs.

A question was asked to the SME leader about the strengths they think to have. Having a great knowledge of their field was chosen by an outstanding number (81%). Almost 64% of the leaders feel more motivated, which is understandable since there is more interest and responsibility attached to their work. Almost half of the respondents feel that they are more experienced, able to find solutions more efficiently, and more responsible. Regarding the ability to have a better overview of the processes, as well as for the observance of priorities respondents did not emphasize having them.

Based on the results, each respondent personally makes leadership decisions, and 50% also employ a specialist to help them. In terms of making strategies, nearly 70% are done in person, and 60% of the respondents also employ a specialist. Management tasks are performed by each leader. Administrative tasks are performed by one-third of respondents and are mainly performed by an employed office administrator. Nearly 40% of respondents do HR tasks, but 75% of leaders declare to hire a specialist to make those tasks. Marketing and business development are carried out by the leaders in the first place, but at the same

time, the majority are carried out together with other professionals. Almost all managers check the work done, and nearly 50% are also checked by a professional. About planning and strategy tasks, there are cases where there is no one performing them at all. This is also reflected in a minimal proportion in the case of HR activity, marketing, business development, as well as the control of the work carried out, which must have been the answers of the head of micro-enterprises.

The SME leader has many responsibilities according to the different tasks, that are not made by one person but by divisions in big companies. Most of these tasks require expertise in economics, that's why in the survey it was asked whether they have any degree in economics. Only a quarter of respondents have such a degree. Furthermore, the remainder of the fillers do not have it and do not plan to study it in the future. It can be said that three-quarters of the respondent leaders perform economic-oriented management tasks without prior knowledge.

In an open question, it was asked what the greatest difficulty and challenge of a leader is. The majority of the answers see it as recruiting the right workforce. Most of them are understaffed and find it particularly difficult to find a properly qualified workforce. Furthermore, there is a high turnover, because of the lack of endurance and unmotivatedness. Overall, it is difficult for leaders to deal with people and establish long-term relationships with the employees. Some wrote that they found it difficult to find a reliable employee as well. There was also a response about the difficulty to hire suitable workers for seasonal work.

The second point that the respondents highlighted was the difficulty of continuously following technological and IT changes. Proper time management, an efficient organization of work, and being able to see through the whole process were also mentioned as hard tasks. Often due to the lack of economic knowledge, it is problematic for them to follow and adapt to economic changes.

Respondents listed several difficulties in connecting with customers. These are for instance: meeting the needs of partners while complying with legal requirements (for example, the buyer refuses to receive an invoice); clients neglecting the administrative tasks related to them, which hinders the work. Some have cited the lack of financial resources, as well as the difficulty of establishing an appropriate financing system. The leaders addressed the difficulties of shortages of raw materials and goods due to the current economic situation and the challenge of finding alternative solutions. Facing everyday challenges is not an easy task for leaders.

The first question of the questionnaire revealed that the majority of respondents consider having an effective enterprise to be a top priority. However,

in the latest question of the survey, it was asked to do the leaders if they feel able to make an impact on efficiency. Yet less than half of managers feel that they can have the maximum impact on achieving more efficient operations. This indicates that nearly half of the respondents are unable, or don't have the means to make their company fully efficient.

CONCLUSIONS

The SME leaders participating in the survey perform almost all the functions performed by a separate specialist in the case of a large company. There are a lot of tasks for the leader, which requires basic economic knowledge. However, the results of the questionnaire show that a minimum proportion of them have any type of economic specialization. However, even with highly efficient production or the provision of services, if there are no proper economic vision, knowledge, and methods, the company will not be able to operate effectively. The reason is that the vision is the basis of the decisions made in a company. Furthermore, as has become clear in the processing of the literature, the attitude of the leader has a great influence, because it forms the basis of his decisions.

These conclusions highlight the need to look for solutions tailored to SMEs, considering their specificities, helping them to solve their problems not only in the expectation of external government interventions and assistance. The real change must take place on an internal level, and with the efforts of all actors.

As solutions, we propose to introduce an official credit system for SME leaders, which makes it compulsory for them to take part in a short course, where they can acquire basic economic knowledge and approach.

Based on the conclusions, we also propose to develop a simple and effective management method tailored to SMEs. A method that can be transferred in a short period to a business leader. It would be important to make it easy to understand, even through online courses, with practical, and concrete direction for them.

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