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Small Business Development Along Lake Balaton in Hungary

Introduction

The recent history of socio-economic development in Hungary shows obvious advantages for areas capable of attracting significant amounts of foreign working capital. This favours the North-West of the country, and businesses dealing with financial services, information and communication technology, the media, tourism and the processing industries find better opportunities for growth and expansion. Areas with sufficient infrastructure to facilitate international competitiveness may successfully respond to the challenges of the transition to a market economy and end up as winners in the race for attracting capital. Agriculture and the food economy are among the great losers of this process: 600,000 jobs have disappeared in the sector since 1990, the average wage level being not more than 80% of the national average.

The objectives of the research were to analyse the main sociological and economic features of small businesses operating in the small towns and villages of South and West Hungary, and in particular, around Lake Balaton at the end of the 1990's. The area under examination comprised three sub-regions: rural areas of Zala county, rural areas of Somogy county and settlements located on the shores of the Western basin of Lake Balaton (see Figure 1). Among the latter, two towns, Keszthely and Héviz, were given particular attention because having important tourist attractions they do not suffer from the general rural drawbacks typical of other parts of the analysed area.

The substantial increase in the number of small and medium-sized enterprises is considered by social scientists and economists to be an important feature of the Hungarian social and economic transformation process. In the second half of the 90s there were approximately 1 million small and medium-sized enterprises in Hungary. Their structure was uneven and dis-

proportionate; the majority of them were micro-businesses, that is, family enterprises consisting of 2–3 persons. In the present research approximately 300 entrepreneurs living in the researched area were surveyed about the main characteristics of their business and lifestyle. This paper focuses on the main findings of the Lake Balaton neighbourhood, the results for counties Zala and Somogy are discussed in more detail in Kovács and Bacsí (2001).

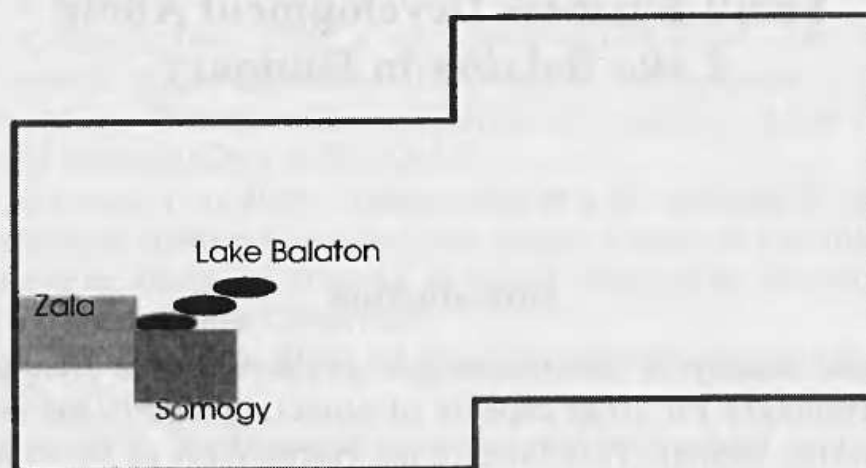


Figure 1

Researched areas on the map of Hungary

General Features of the Researched Area

A survey was completed for the villages and small towns of counties Zala and Somogy, including settlements situated along Lake Balaton as well as more remote rural villages. The two towns, Keszthely and Hévíz, were analysed separately from the villages, and another separate group was formed from villages located around Lake Balaton (in the tables and figures these villages are referred to under the heading "Balaton"). The other villages in Zala and Somogy were grouped under the respective names "Zala" and "Somogy".

The Lake Balaton area markedly differs from the surrounding rural countryside, where tiny villages with a low number of inhabitants, an aging population, low incomes and scarce income generating resources are typical traits. Villages and towns along the lake have a stable population, a well-developed entrepreneurial mentality and outstanding potential for tourism. Most of the population lives in above-average financial and material circumstances. This is apparently in contradiction to the less than average level of personal income tax paid, and the less than average income per person. However, there are strong indications that a large part of the income generated by the tourism industry is never mentioned in tax returns

(tax returns register mainly employees' incomes, a significant proportion of the income generated by private activities remaining hidden from the tax authorities). The importance of tourism is indicated by the fact that in 1997 Keszthely had 30 catering businesses, restaurants, pubs and bars, while the neighbouring Héviz had 18. 4 travel agencies operated in Keszthely and 2 in Héviz. There were 36 hotels and guest houses offering accommodation to tourists in Keszthely and 52 in Héviz, and these numbers have not decreased since. Most of the accommodation is run as private enterprises by families, who even had rooms to let before 1990, when they offered accommodation mainly to German and Austrian tourists (Csite, 2000).

It is clear from earlier research results that a significant proportion of small-scale entrepreneurs are "forced entrepreneurs" (Matolcsy and Diczházi, 1998) who would immediately give up their enterprises if they found a job with a secure income. Their enterprises can only generate a moderate income and the main reason for starting the enterprise was the lack of other means of survival.

The social structure of the entrepreneuring group has undergone significant changes since 1988. In the 80s the notion of being an entrepreneur became increasingly attractive, but for economic and political reasons the possibilities of becoming a private entrepreneur were fairly restricted, and a strong selection mechanism was perceptible. Becoming an entrepreneur required having above-average social, cultural and personal connections. On the job market women, people with little schooling, those in unfavourable jobs, the elderly and low-paid young people were equally disadvantaged. Besides those set up by traditional craftsmen and retail shopkeepers, partnerships emerging in the mid-eighties were generally owned by middle-aged men who were better educated than the average person.

From the early 90s when the legal situation was clarified and the political risk associated with private business disappeared, people of various social backgrounds entered the business sector as entrepreneurs. At the same time, with the increasing unemployment rate, for many people the only available way of earning a living became the establishment of a small enterprise.

The idea of private enterprise had become the symbol of a free economy and high living standards, but negative experiences soon shattered this illusion. Public opinion about enterprises also changed. In 1990 40% of the adult population expressed their willingness to become, or satisfaction with being an entrepreneur, while this proportion was only 20% in 1993, and 24% in 1994. This decrease was due to the changed opinion of the professionals and the unskilled, while skilled workers continue to find the position of the private small entrepreneur attractive (Czakó et al., 1995).

In this research the main objectives were to identify the demographic, economic and sociological characteristics of small-scale entrepreneurs, as

well as the means and resources available to them for their business activities, the level of profit or loss, the proportion of the profits they can accumulate, and the purposes for which they use these savings. Another issue was whether regional differences could be identified.

Main Findings

SOCIAL BACKGROUND AND THE MOTIVATING FACTORS OF THE ENTREPRENEURS

Small and medium-sized agricultural and non-agricultural enterprises analysed in South and West Hungary can be grouped into two distinct categories. Small villages and agricultural towns in Zala and Somogy have lost their economic status. At the same time the sub-region of Keszthely and Héviz is showing dynamic progress, due to the natural resources of the area (Lake Balaton, thermal baths in Héviz). Within this sub-region the dominant force of development is not the in-flow of foreign capital and multinational companies, but the small and medium-sized businesses owned by Hungarian entrepreneurs. This is an outstanding and exceptional model of development in Hungary.

A considerable capital concentration process could be identified in the 90s in accordance with the settlement hierarchy described above. While the winners tend to become concentrated, the losers, though often clustered, are geographically spread out, are scattered over sectors and industries, and differ greatly in size and settlement type, both in economic and social terms. A typical feature of the Hungarian economy is the growing importance of the younger generation in leading managerial positions, as well as the increasing number of female managers (more women have leading positions in businesses than before, though their proportion is still low).

The proportion of female entrepreneurs has also grown, which may be partly due to the fact that the number of businesses involved in sales and retail activities has rocketed. Retail is often a family business, as is underlined by this research, and the husband and wife are equally likely to be registered as owners of the family enterprise.

REASONS FOR STARTING AN ENTERPRISE

In their study of the business and employment trends in the Balaton area Kaposi and Kiss (2000) found that in 1998 the number of businesses per 1000 inhabitants was 40% higher in this area than the national average, and 80% higher in the villages and towns located directly by the lake (see Figure 2). Even more striking, this latter proportion was 10% higher than the same figure for Budapest, the capital of Hungary.

According to this survey the main reasons for starting and running an enterprise are summarized in the following table.

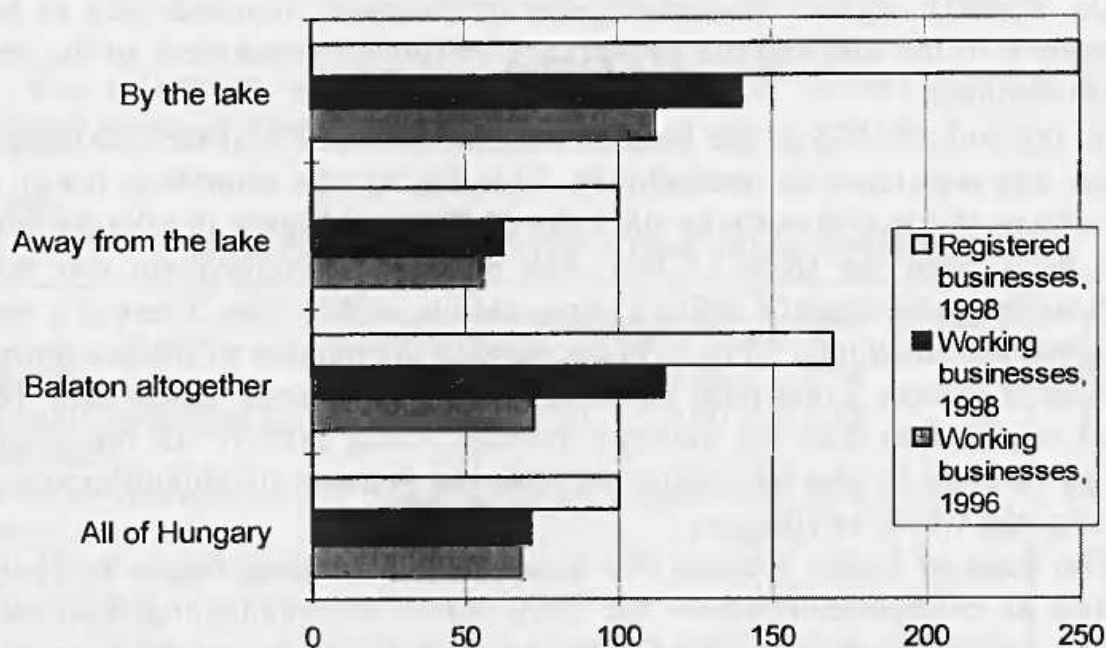


Figure 2
The number of businesses per 1000 inhabitants around Lake Balaton

Table 1
Reasons for starting an enterprise (in %)

| | Balaton | Keszthely | Héviz | Zala | Somogy |
|---------------------------|---------|-----------|-------|-------|--------|
| Loss of former job | 4.55 | 12.66 | 8.00 | 15.29 | 13.16 |
| Hope for higher income | 45.45 | 36.71 | 44.00 | 29.41 | 30.26 |
| Entrepreneurial mentality | 36.36 | 18.99 | 28.00 | 16.47 | 30.26 |
| Family traditions | 9.09 | 11.39 | 8.00 | 12.94 | 18.42 |
| No other source of income | 31.82 | 32.91 | 24.00 | 32.94 | 17.11 |

Note: total percentages may be higher than 100% because each respondent was allowed to choose more than one reason.

The loss of a former job was one of the most frequent reasons in Keszthely, Zala and Somogy, but the “No other source of income” category also indicates limited job opportunities in the area. These two reasons were given by nearly 45% of the respondents in Zala and Keszthely, and by approximately 30–35% in the other three groups. These figures underline the fact that the close-down of industrial factories in Zala and Keszthely greatly contributed to the rapid increase in the number of “forced” entrepreneurs. The proportion of full-time enterprises is high, making up over 60% excluding Somogy.

The disintegration of industrial companies offered opportunities for entrepreneurs in the commercial, trade and services sectors. The services

sector actually enjoyed the advantages of increased demand, due to the prosperity in the 80s and the appearance of foreign purchasers in the real estate business.

At the end of 1998 in the Balaton neighbourhood 4% of the total population was registered as unemployed. This figure was somewhat lower in the villages located directly by the Lake (3.7%) and higher in villages situated away from the shore (4.2%). The national unemployment rate was 8.8% as the percentage of active age population at that time. There is a seasonal pattern showing a 30 to 35% decrease in the number of jobless during the tourist season. Long term unemployment (joblessness longer than 180 days) is also less than the national average, being 30% of all the unemployed directly by the lake shore, 40% in the Balaton neighbourhood and 60% for the whole of Hungary.

The hope of higher income was a frequent motivating factor in all the groups, as entrepreneurs chose the risky option of establishing their own private enterprises to make up for the earnings formerly gained from second jobs, a situation typical of the previous decade. This was particularly true of settlements around Lake Balaton and in the two towns, which are basically resort areas, and where entrepreneurs can hope for higher incomes from the tourist industry and supporting services.

Utilization of Savings

The responses given to this question indicate, that the majority of entrepreneurs do not strictly separate household and enterprise expenses, and the same is true of income. The proportion of enterprises with no possibility of saving any of the income generated is also very high, being about 15–17% except in Zala (see table below).

Table 2

Utilization of savings arising from the enterprise (% share)

| | Balaton | Keszthely | Héviz | Zala | Somogy | Total |
|-----------------------------------|---------|-----------|-------|-------|--------|-------|
| Ploughed back into the enterprise | 50.00 | 24.05 | 38.46 | 18.82 | 14.47 | 23.26 |
| Used in the household | 36.36 | 20.25 | 26.92 | 22.35 | 28.95 | 25.00 |
| Both of the above | 22.73 | 37.97 | 34.62 | 52.94 | 40.79 | 41.67 |
| Purchase of bonds and shares | 4.55 | 0.00 | 0.00 | 3.53 | 0.00 | 1.39 |
| No savings are generated | 18.18 | 15.19 | 15.38 | 8.24 | 19.74 | 14.58 |

New Capital Investments

The following table shows the proportion of various sources in the capital assets of the enterprises.

Table 3

Percentage of capital invested from various resources

| | Balaton | Keszthely | Héviz | Zala | Somogy | Total |
|--------------------------------------|---------|-----------|-------|-------|--------|-------|
| Banks | 9.09 | 11.39 | 8.00 | 8.24 | 7.89 | 9.06 |
| Credits subsidized by the state | 0.00 | 3.80 | 0.00 | 1.18 | 1.32 | 1.74 |
| Friends, relatives, family | 13.64 | 25.32 | 32.00 | 8.24 | 13.16 | 16.72 |
| Entrance of new partner with capital | 4.55 | 3.80 | 4.00 | 1.18 | 0.00 | 2.09 |
| Sale of family property | 9.09 | 6.33 | 12.00 | 4.71 | 3.95 | 5.92 |
| Other | 4.55 | 1.27 | 0.00 | 1.18 | 2.63 | 1.74 |
| No capital invested | 45.45 | 58.23 | 48.00 | 64.71 | 55.26 | 57.49 |

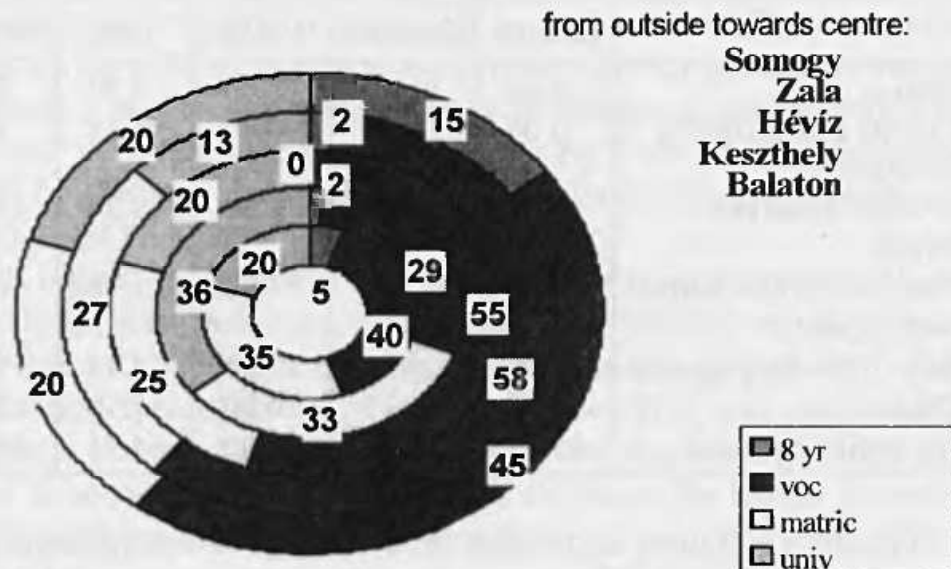
The above figures show that the majority of entrepreneurs have hardly any access to credit. The proportion of bank loans is slightly over 10% in Keszthely and much lower elsewhere. The sale of family property and loans from friends and relatives are a high proportion. About half of the enterprises cannot attract extra capital at all (45–64%). This means that the capital needed to start or expand an enterprise comes mainly from the household savings of family, relatives and friends.

Intellectual and Human Resources, Professional Knowledge and Skills

When starting a new enterprise the knowledge, skills and personal connections gained in the former employment are of great importance. Other important factors are family entrepreneurial traditions and help from parents and grandparents in raising the starting capital. Besides these, the preferred values, lifestyle patterns and cultural background also play an important role. According to Kovách (1997) the children and grandchildren of rich peasants have inherited an inclination for private enterprise, risk-taking and the wish for independence, and these are people who started private farming as early as the 60s and 70s on a scale greater than household plots.

Results clearly show that parents and grandparents living in rural settlements ran agricultural enterprises, while parents and grandparents living around Lake Balaton were mainly involved in manufacturing and retail ac-

tivities (as illustrated by the 20% proportion of craftsmen among the parents of the Hévíz entrepreneurs). This underlines the statement that the example of parents and grandparents running their own enterprises had a significant role in children choosing to become private entrepreneurs themselves (Figure 3).



Legend: *8yr*: completion of 8-year elementary school only; *voc*: vocational school; *matric*: completion of secondary school with matriculation certificate; *univ*: college or university degree.

Figure 3

School qualifications of full-time entrepreneurs

The level of education in agricultural settlements is usually lower than in towns, and the businesses run in towns usually require higher vocational skills and qualifications. Due to less schooling unemployment is also higher than in towns. Villages have higher proportions of ethnic Roma minorities who form the largest group of losers in the transition to a market economy. The proportion of women among the unemployed also differs from the country average in the Lake Balaton area. Around the lake the main income resources are linked to catering, retail, tourist accommodation services, where the majority of employees are women. This means higher female unemployment rates here outside the tourist season.

To summarize it can be stated that entrepreneurs are generally better educated than average, and the majority have at least a matriculation certificate, while the proportion of those with a vocational education as the highest qualification is also high. This latter fact may be explained by the boom in the services sector in Hévíz and around Lake Balaton, which in-

creases the demand for entrepreneurs trained in service vocations. (Note that the proportion of entrepreneurs with a vocational training as the highest school qualification also rose between 1988 and 1993, from 26% to 30%.)

These figures seem to support the "theory" of the emergence of a middle class, and this is especially true if it is considered that the density of small and medium-sized enterprises is higher around the western shore of Lake Balaton (17 enterprises per km², or 44 enterprises per 1000 inhabitants in 1997) than the national average (11 enterprises per km², or 33 enterprises per 1000 inhabitants in 1997) (Csite, 2000).

Summary and Recommendations

The group of small and medium-sized enterprises showed a rather mixed picture. The entrepreneurs differed in several social and demographic traits. Not only were the field of activity and the legal form of the enterprise different, but so were the social and economic characteristics. The profitability and social standing of the enterprises also differed widely. The largest differences were found between the mainly agricultural enterprises of Somogy and small businesses in the two towns, Keszthely and Hévíz. Not only did the school qualifications of the entrepreneurs differ but so did the whole history of the enterprises and their opportunities for growth and development.

In order to improve the social and economic position of the rural settlements in counties Zala and Somogy several measures and steps may be taken:

— In areas with no town in the neighbourhood, villages should be selected which may be capable of carrying out the tasks needed for starting and maintaining the modernization process in the area, and state support would be required for this purpose.

— Relying on local traditions tourism projects should be created and implemented on sub-regional and settlement levels, for which government support and business capital should be mobilized as well as EU funds (such as SAPARD and PHARE funding).

— In the background settlements of Lake Balaton, where natural resources are present thermal springs should be developed into spas, which would contribute to the development of these settlements and the villages along Lake Balaton.

— The development of local industry, including the supporting activities for industry, and the establishment of the facilities for working from home, may improve the capacity of the rural settlements to retain their population. Government measures may greatly help the development of these activities through decreased taxes, customs duties and social security benefits.

— Purchases by local public institutions should favour local entrepreneurs whenever possible.

— New cooperatives should be formed in relation to agricultural activities and craftsmanship.

— The creation of part time job opportunities should be supported by government aid in rural settlements.

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