Financial Decisions of Micro-Enterprises in Albania and Hungary

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Abstract: This paper examines the characteristics of Small and Medium Enterprises, specially the financial behaviours of micro-enterprises in Hungary based on the SME Competitiveness Research (Kadocsa, 2015). In the second part of the article the authors examine Albanian micro-enterprises. Further this article provides evidence regarding the main characteristics of SME-s in Albania and Hungary. The aim of the paper is to explore, whether there are any differences between thinking and behaviour of the two countries?

Keywords: Albania, Hungary, micro-enterprises, financing, decision

1   Overview

This paper examines the characteristics of Small and Medium Sized Enterprises (later referred as SME) especially the financial behaviour of micro-enterprises in Hungary based on the SME Competitiveness Research (Kadocsa, 2015). The article aims to present micro-enterprises in Albania and Hungary based on a parallel analysis approach using the same questionnaire.

The reason why the comparison is considered for these two countries is related to their similar experience. Both of these countries have been through a communist era, which strongly affected the countries not only into a socio and political perspective, but also into the economic perspective. The main questions arising in this article are related to the difference between the thinking and behaviour of the two counties. In this article authors are going to examine the differences in SMEs' characteristics.

This article aims to describe the main characteristic of Hungarian SMEs especially the micro-enterprises in line with the literature review; secondly it aims to analyse the financial culture of micro-enterprises in Hungary; thirdly the paper aims to examine the characteristics of Albanian micro-enterprises on the basis of responses that were given to the same questionnaire used with Hungarian SMEs. As a result the authors point out some interesting differences and similarities which turn out to be in line with the literature and present primary research and case-studies.

2 Literature Review

The economic importance of small and medium-sized enterprises[1] (SMEs) in Albania and Hungary is unquestionable (Lazányi, 2014a) (Lazányi, 2014b). To emphasise this importance this analysis is conducted. In this section a theoretical background is provided.

2.1 Number of SMEs

Although Hungary and Albania have very different characteristics, they have the same proportions of SME sector (Figure 1.) An interesting indicator, found in this analysis is the number of active SMEs operating in both countries. For instance, Albania has a population of approximately 3.2 million and the ratio of SME divided by population is 0,035. Meanwhile in Hungary this ratio is considered to be 0,06 SMEs per person. (KSH, 2015b), (Musta and Meka, 2015)

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1   Small and medium-sized enterprise: According to paragraph 3. § (1) of law XXXIV., 2004. an enterprise may be qualified as an SME if:

 a) the total number of its employees is less than 250 people and

 b) its annual revenue is maximum 50 million Euros or its equivalent in HUF, or its bottom line maximum 43 million Euros or its HUF equivalent.

 (2)Within the SME category an enterprise may be qualified as a small enterprise if

 a) the total number of its employees is less than 50 people and

 b) its annual revenue or its bottom line is maximum 10 million Euros or its equivalent in HUF,

 (3)Within the SME category an enterprise may be qualified as a micro enterprise if

 a) the total number of its employees is less than 10 people and

 b) its annual revenue or bottom line is maximum 2 million Euros or its equivalent in HUF.

Figure 1.
The size of SMEs according to their number of employees.
(KSH, 2015b), Musta and Meka (2015)

2.2   Hungary

According to the data of the Hungarian Central Statistical Office published in 2015 the proportion of the SME sector is 99.8%, within which 94.8% of all the enterprises are micro enterprises in Hungary (KSH, 2015a); 66,9% of the labour force are employed by the SME sector. (SBA, 2015). The competitiveness of SMEs has an impact on whole of country (Varga-Csiszárik-Kocsir, 2015).

According to the SBA report (SBA, 2015) access to finance is one of two SBA areas where Hungary is above the EU average. Hungarian enterprises access easier the public financial support, and the banks have more willingness to provide a loan to them. Cost of borrowing for small loans is cheaper and total amount of time it takes to get paid is a bit shorter in Hungary than in an average EU country. However there are more rejected loan applications in Hungary than EU average. (SBA, 2015.)

There are several possibilities for Hungarian SMEs to solve their financial problems. The New Széchenyi Plan has been as an efficient support system. It's based on the EU sources, and it provides new tenders for SMEs. Széchenyi Kártya - SME Credit Card Programme has been extended, it combines different loan product for the SME not only to finance current assets and temporary liquidity problems, but to finance their investment. (Kavosz, 2016). Seed capital, business angels and venture capital were invigorated by EUR 700 million under the JEREMIE Holding Fund until 2011, but these solutions weren't popular among the SMEs. (Borbás, 2013). There are lots of opportunities for tender due to the operative programmes of EU multiannual budget for 2014-2020 which includes Programme for the competitiveness of enterprises and SMEs (COSME), and Horizon 2020 - Framework Programme for Research and Innovation. The tenders provide several financial way to reach SME's goals like non-repayable grants, reduced rate loans, and their combination.

The different forms of finance don't substitute each other equally: the choice depends on the laws of tax or liquidation. There can be some rules which motivates

the SMEs to get bank loan (eg some reduced rate tax because of the company's loan), or the bank not to give loan. (Antal-Pomázi, 2011)

Ágnes Csiszárik-Kocsir made a research about the financial strategy of SMEs, and it turned out that the small and medium enterprises haven't got enough capacity and financial knowledge to think about the enterprise with finance-consciousness. They use own capital at first, and if they need, try to use bank loan, but they had very weak relationship with the participation of the financial market (Csiszárik-Kocsir, 2015).

2.3 Albania

According to Musta and Meka (2015), micro enterprises (1 to 9 employees) in Albania constitute the dominant part of the SMEs, up to 95% per cent, 4 per cent is constituted by companies with 10 to 49 employees and only 1 per cent is constituted by companies with more than 50 employees.

According to the Institute of Statistics in Albania there has been an increasing trend of overall active enterprises in Albania from 2010 until 2014. The same trend stands for new entry companies.

During 2015, due to the implementation of the formalisation reform, many of the SMEs which were working under informality conditions, could not support the pressure so they are now closed. This accounts for a considerable number of SMEs. For instance Bedalli (2016) states that 4.918 SMEs were suspended. According to Bedalli (2016), the number of SME being run or managed by foreign owners has increased substantially. There has been a 12 per cent increase of the foreign SMEs in 2015, compared to 2014. Meanwhile according to ECR Report (2013a) financing for small firms is less floating compared to financing for large firms.

Another factor affecting SME financing needs is the development stage. Firms do not have the same funding necessity at every stage. Felkana et.al (2001) states that firms at the starting stage usually rely on their own saving or borrowings from family or relatives, while during the maturity and later more established stages, they usually rely on loan financing.

Musta and Meka (2015) and Abdulsaleh (2013), state that the financial behaviour of firm is determined by many factors such as size (which can be measured as the asset size), age (for how long has the firm been into the market), ownership type, legal form, location, financial structure, industry sector and the ability to provide collateral in support of the loan request. Meanwhile it is also found that even though bank financing is more expensive, it generates a higher profitability for firms, due to the fact they - because of being monitored by banks, - will use their funds in a more efficient way (Keasey and McGuinness (1990).

Falkena (2004) states that SMEs tent to seek finance for relatively small amounts. The cost of credit assessment and loan and investment monitoring leads to a high cot of providing funds for the SME.

Based on this literature review and different academic perspectives of the main authors, the main research question posed in this article is: How do the micro-enterprises make their financial decisions according to a primary research in Hungary and several case-studies of Albanian companies? Based on this research question, this study hypothesizes that: *The main source of financing for the SME in Hungary and parallel to that in Albania (from a certain size onwards?), is bank loan.*

3 Data and Methodology

In this section the data design and methodological approach are discussed. This article is a parallel analysis approach based on primary data, collected from small and medium enterprises in Albania and Hungary.

3.1 Data Design

In Hungary there is a total number 578.708 active SMEs operating within the country; 94,8% of them are operating as micro enterprises, which means that their total number of employees is less than 10. (KSH, 2015a) The data for SMEs operating in Hungary is provided by the Research Workshop for Research and Development of Small and Medium-sized Enterprises (Kadocsa, 2015), which generates a total number of questionnaire response 407, which is about 0,07% of the total SMEs. While in Albania, according to the official data from 2014, the total number of SMEs actively operating into Republic of Albanians 112.537. Due to the unbalanced data sample, this study is mainly focused on studying the financing features of small medium enterprises in both countries.

3.2 Methodology

The instrument used to generate the primary data is a questionnaire. The same questionnaire is used for SME-s interviewed in Albania and in Hungary. It is divided into three main sections. The first section is related to the general profile of a company, such as the sector where the company operates, the year it was established, number of employees. The second part of the questionnaire analyses the financial indicators such as revenues, loan support etc. The third section is related to access to tender. The authors have decided to use the first two part of the research for this paper.

4 Main Findings

4.1 Hungary

The main findings of the Research of Competitiveness of SMEs are presented in this part of the paper. There are 242 micro-enterprises who have answered the research questions, which makes up 59% of all items.

The graph below (Figure 2.) shows the role of planning in the SMEs' strategic management. Hungarian managers seem to know about the importance of planning, but they usually don't write their plans down, and don't discuss it with their colleagues (together is 41,7%). More than 30% just improvise. 21,5% use and write down their Business Plan, but only 4,1% take action after any misbalances are noticed comparing the plan and the reality.
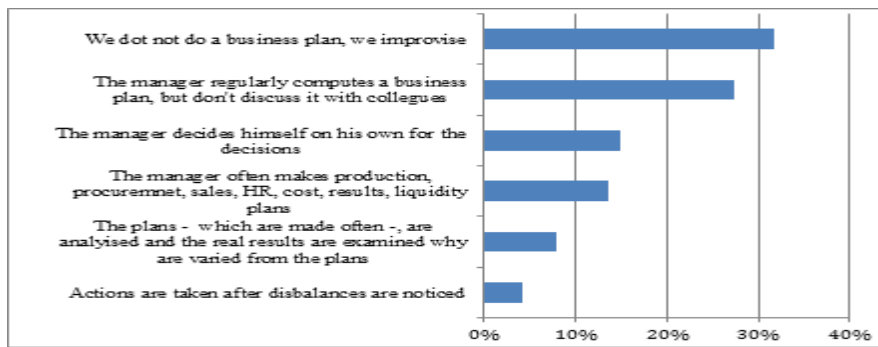
Figure 2.
Role of the Business Plan in terms of strategic management (Edited by the Authors)
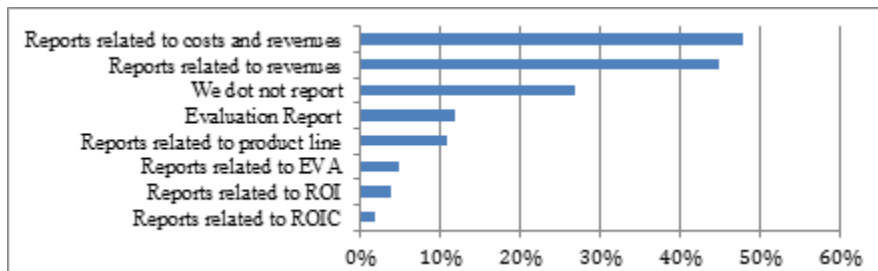
Figure 3.
Reporting with the Accounting Office (Edited by the Authors)

In Hungary Micro-enterprises use more reports at the same time as noticed on Figure 3, nearly a half of them (48%) require data about their revenue and costs, but less than 10% of them use EVA, ROI, ROIC rates as information to their decisions. However, 27% of micro-enterprises don't use any report. Figure 2 and 3 show that the micro enterprises make decision in a less conscious way compared to the bigger

companies according to this research.

As also stated in the literature review section, financing is a key issue in term of operational activity of the micro SMEs. Figure 4 shows the sources of financing for SMEs in Hungary. The most common source of financing is from revenues. Owners capital and bank loan are listed thereafter, 79% indicated only one source in the questionnaire.
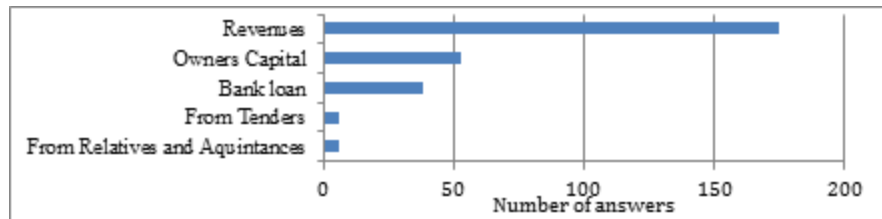

Figure 4.

Financing sources (Editted by the Authors)

Hungarian SMEs are cautious about their financial decision, especially after the economic crisis (Csiszárik-Kocsir, 2015). Most of them never ask for short-term and long-term loan (75%, 80%), and only 8% answered that getting short term loan, and 5% who said that getting long-term loan is a usual solution for their financial problems. ("Very often", "Often" and "Depends" together).
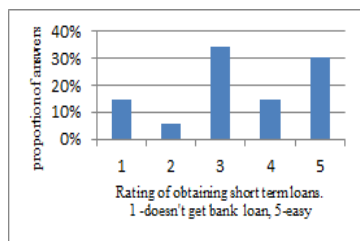

Figure 5.

Difficulty of obtaining a short term loan
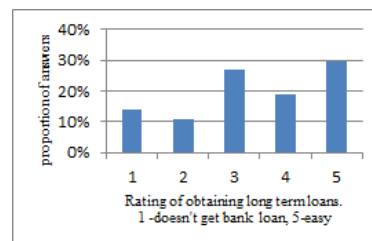
(Edited by the authors)

Figure 6.

Difficulty of obtaining a long term loan

(Edited by the authors)

Figure 5 and 6 indicate the difficulties in obtaining a short term and a long term loan respectively. Obtaining loan from a bank is easy, supposedly due to the well-known Széchenyi Kártya – Credit Card Programme for SME which was extended in 2011 to the long-turn loan products. (KAVOSZ, 2015) Meanwhile most of the SMEs responded that the reason why they do not apply for a loan is related to the fact that they do not find it necessary to apply for a loan. They use alternative financing sources.

4.2 Albania

As presented in the graph below, the majority of the SMEs operating in Albania do not conduct a Business Plan, but improvise instead. Nevertheless slightly more than 20% state that the manager conducts a business plan but does not discuss it with the colleagues.
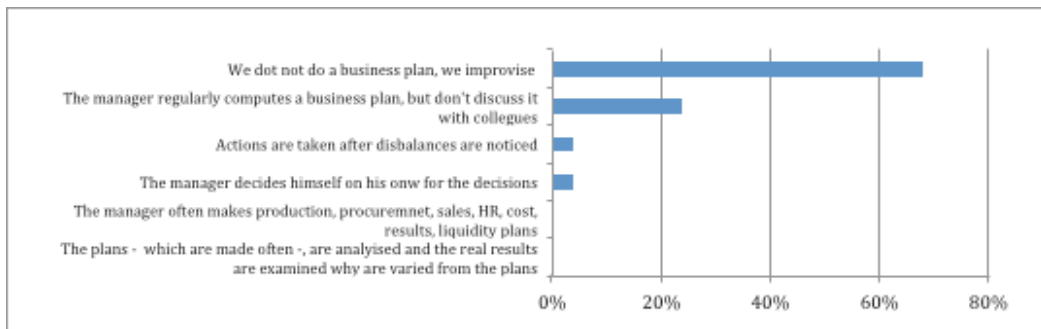

Figure 2a

Role of the Business Plan in terms of strategic management (Edited by the Authors)

Figure 3a indicates the frequency of the accountancy reporting. The graph shows that slightly less than 30% of the SMEs in Albania stated that they exchange regular reporting with the accounting office for reports related to revenues, and other 30% state that they get reports related to costs and revenues.
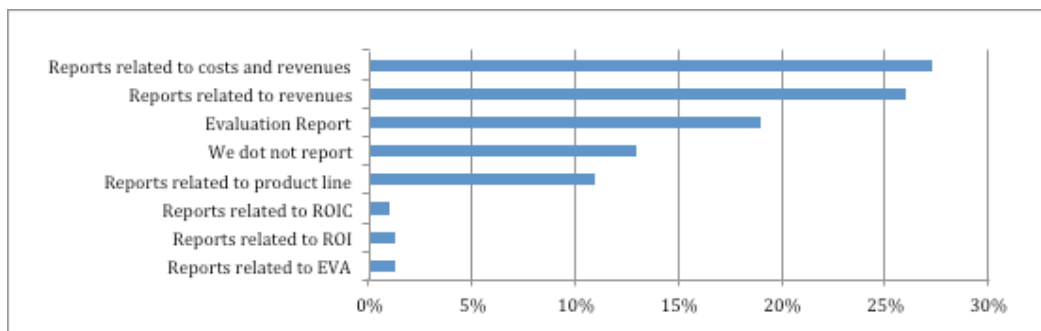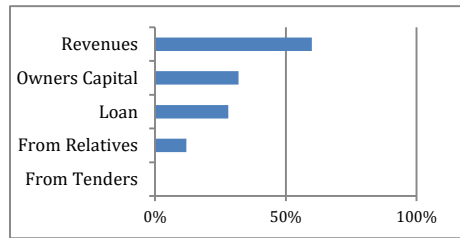

Figure 3a.

Reporting with the Accounting Office (Edited by the Authors)

A specific element is sources from relatives and acquaintances, which in the case of Albanian SME weights for slightly more than 10%. This may be explained due to the cultural fact that Albanian are very related and usually rely on each other (Hofstede, 2016.)

Figure 4a.

Financing sources (Edited by the Authors)

In terms of the frequency of requiring a short time loan the analysis indicates that approximately 70% of SME in Albania never or rarely ask for a short term loan. Only less than 30% answered that they often, or occasionally - depending on the situation - require a short term loan from a bank. In terms of long term loans the situation appears to be slightly different and very similar in both countries. More than 60% of the respondent SMEs in both countries answered that they never asked for a long term loan from a bank. Similar results are revealed for about 20% of the respondent SMEs in Albania and Hungary, stating that they rarely asked for a long term loan from a bank. The reason beyond the fact that more than 90% of the SME never or rarely ask for a long term loan may be related to the bank's procedures. The dominant part of the SME operating in Albania, find it very difficult to obtain a loan from a bank; and only 30% of them find these procedure easy.
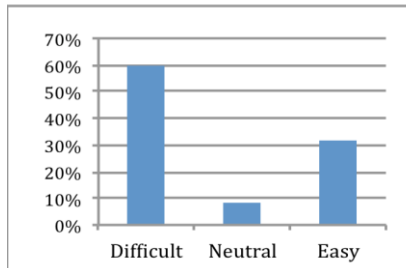

Figure 5a.

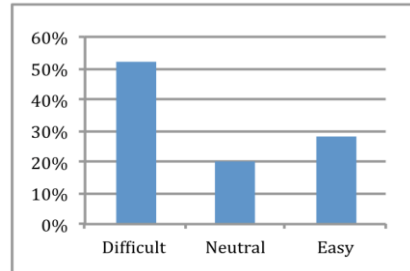Difficulty of obtaining a short term loan

Figure 6a.

Difficulty of obtaining a long term loan

Nevertheless, there is also an explanation beyond the responses generated from the SMEs in Albania and in Hungary. The results are again similar, despite of financing source from relatives; here it is found that a considerable part of SMEs in Albania prefer borrowing from relatives because this source has a lower cost compared to other funding sources.

Conclusions

According to the primary research and case-studies there are some similarities and several interesting differences between Albania and Hungary examining the micro-enterprises. Both researches indicate that micro-size means less conscious, planning in the financial decisions, and less liabilities in the financing. Most of the micro-enterprises in the two countries answered that they don't need loans, but while Hungarians access to finance easier, Albanians have a difficult administration process to get bank loan. Another interesting difference pointed out by the research data is that the Albanian companies in the study answered in bigger proportion that they ask money for their enterprise from acquaintances rather than the bank not only because it's cheaper and it has less administrative difficulties but due to their culture: They are much less individualistic (Hofstede, 2016) than the Hungarians.

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