



SITUATION OF THE BUILDING INDUSTRY SMBs SINCE THE CRISIS

Péter Földi¹, Judit Tóth², Emese Melinda Bogáth¹

¹Szent István University, Faculty of Economics and Social Sciences - Doctoral School of Management and Business Administration (Hungary), ² Szent István University, Faculty of Economics and Social Sciences

Annotation

In the ever-changing economic environment, micro, small and medium enterprises had to and continue to have to find the possibilities to survive and develop. In the meantime small and medium-sized enterprises have brought about hundreds of thousands of jobs to replace and instead of the old ones; therefore they have become a determining factor of the economy. Nowadays, it is an important question in what ways and using what kind of means their development can be promoted. In developed countries, there are no definitive answers either and the answers are not known to all the problems. One of the most important areas in the Hungarian economy on its way to turning into an advanced market economy is the development and strengthening of SMBs. In spite of their outstanding role, these enterprises suffer significant disadvantages as compared to their corporate counterparts, due to their size and their operational risks, in obtaining the financial resources they would need for enterprise development and maintenance. For this reason, more and more attention is being paid to the access of SMBs to funding sources and the removal of their obstacles in this regard. In exploring the financing possibilities of SMBs, internal and external financing tools are exposed as available for enterprise operation and development. We are going to take stock of the impact of CSOK on the building industry. In addition, we are looking at the impact of each factor and the extent of their contribution to the performance of SMBs. How does the insufficient labour force affect the capacity utilization of enterprises?

KEY WORDS: economic incentives, small and medium-sized enterprises, subsidies.

Historical development of SMBs in Hungary

In the beginning of the 1990s, Hungarian small and medium-sized enterprises had considerable potential benefits compared to their other counterparts in transition economies in two aspects:

- they were in a position to gain entrepreneurial experience for nearly a decade at the impact of the 1980s,
- on the other hand they became confronted earlier by the legal and regulatory environment of market economies.

In the period of the early transition economy of 1990-1996, the development of Hungarian SMBs can be divided into two phases from 1990 onwards:

- 1990 was the beginning of the early phase: the Hungarian economy started to turn into a market economy economically and politically.
- The period from 1990 to 1997 was that of the early transition economy, in which the small and medium sized enterprises sector and its economic environment displayed the following typical traits:

At the beginning of the period, the economy based on shortage turns into a competitive economy. A rapidly growing number of businesses emerge, the vast majority of them micro-enterprises. The ratio of foreign trade to GDP rises rapidly, as a result of which the openness of the economy is increasing.

The creation of frequently amended new laws exposes small businesses to a serious adaptation problem, in the result of which the regulatory environment becoming rapidly liberalized turns increasingly unstable.

There is a high-rate and initially robust growth in revenue concentration as the inherited welfare and other

public spending of the past needs to be funded through redeployment from receding revenues.

The small business sector becomes "diluted" by many new entrepreneurs and its quality indicators are deteriorating. There are a high proportion of enterprises unable to survive or grow.

From 1997 the advanced transition economy:

- The economy based on shortage comes to an end.
- The institutional framework of market economy is established (tax laws, legal framework for the establishment, operation and termination of businesses, bankruptcy law, etc.) and the foreign trade of the country is liberalized.
- The regulation of import is becoming increasingly more liberal, some of the foreign-owned enterprises domiciled here sell in the local market, and the performance of locally owned businesses, as well as their competition with each other is intensifying.

The regulatory environment is beginning to stabilize in the advanced phase of the transition economy. The indicators of small and medium-sized enterprises describing the quality of management are improving, and the proportion of businesses capable of involving external funding sources is on the increase. Financial intermediaries determine the creditworthiness of their clients based on well-defined indicators. They are scarcely present on the foreign markets, and sell primarily to the public, to a lesser extent to domestic businesses. In the period from 1997 until today it is worth separating the one that lasted until the beginning of the 2008 crisis from the one that followed after that. The period favouring the development of SMBs lasted from the middle of 2001,

when the foreign currency liberalization became valid, until the outbreak of the crisis in 2008.

Businesses more tightly related to the global market felt the impact of the crises as early as in 2008 (large companies, export-oriented companies). By 2009, however, most of the companies in the economy experienced a fall in credit supply and a fall in demand. The impact of the economic crisis on domestic small and medium-sized enterprises:

- fall in demand,
- a growing number of delayed payments,
- fall in credit offered by banks,
- emergence of solvency problems,
- increase in the importance of informal financing (family, friends),
- resulting drop in investments and consumption and an increase in the financing costs of companies,
- companies suffer a disadvantage in international competition due to high tax burdens,
- resulting shift to gray-black economy.

The decrease in the number of SMBs stopped in 2010, while revenue growth started to increase, however employment continued to drop with the average size of companies decreasing.

The transformation in terms of employment and competitiveness of the SMB sector also took an unfavourable turn in the period following the crisis.

Characteristics of the SMB sector

It is of special importance that the operation of businesses should be examined on the basis of the following three areas:

- ownership structure, management and structure,
- weak bargaining position and
- capital saving scope of activity.

Their closed ownership structure typically represents a lack of professional skill and ability, since few owners are often an indication of a lack of sufficient expertise. Thus, business operations cannot be the most effective and optimized, as professional capital is one of the most important resources for business. Furthermore the rigidity of owners to changing the closed business structure limits their opportunity to involve funding. The smaller a company, the less governance gets separated from the owner, that is, there is a lack of delimited scopes of activity and positions get merged with each other.

The weak bargaining position of SMBs applies to both buyers and suppliers. Competitors enter the market relatively easily, as their activity is typically not capital intensive. The existence of a weak bargaining power also applies to their ability to assert their interests vis a vis financial institutions. The majority of companies are established with minimum capital on the basis of statutory requirements for SMB. There is a financing problem already at the founding stage, which usually accompanies the lives of many businesses. By choosing a business scope with low capital intensity, the disadvantage of under-capitalization can be reduced.

The successful operation of businesses requires several existing financing elements. The most important financing features are as follows:

- Low capital availability is typical for micro as well as small and medium-sized businesses, for which reason they are at a serious disadvantage compared to large companies, which can be a problem in using any external financing element. The initial state of being undercapitalized intensifies and an even greater debt plagues funding. One of the reasons for this is that the basis of the financial resources of businesses is ensured by the owners' assets, and on the other hand, the small company has a limited ability for self-accumulation.

- Due to their weak capital strength, these companies are unable to take higher risks because they cannot bridge the steady fluctuations in revenues and their default. Traditionally, low risk taking can also be ascribed to cultural and personal reasons. SMBs, with few exceptions, do not engage in activities that only generate losses for years or where initial investment pays off only in the long run. This is not the reason why they are unable to finance the initial losses without the help of capital.

- Businesses are constantly struggling with liquidity problems in case of chronic underfunding so that they can maintain their solvency. In most cases, companies are also involved here the business of which runs smoothly. The main reasons for solvency problems is underfunding resulting from lack of capital and, respectively, the emergence of a net lending position resulting from their weak bargaining position in their customer and vendor relations.

- SMBs can be placed at a disadvantage versus large companies by the transaction costs of using external financial resources. Due to economies of scale they can have only a part of the high transaction costs of the smaller amount of loan paid by their customers. The transaction cost is inversely proportionate to the external capital they intend to involve.

- The lack of transparency in this sector could be a major problem. Small businesses do not operate in a transparent way. By doing so, fundraisers handle their annual reports carefully, as quite presumably they fail to represent real data.

- The primary consideration for those extending external resources is to have their risk minimized by hedging. Hedging requirements of financiers is that it should retain its value, be liquid and easy to trade. An under financed business with low capital intensity is hardly able to provide sufficient guarantee (hedge). Small businesses are at a serious disadvantage compared to large companies in terms of the involvement of financial resources. One of the reasons is that the financial resources of businesses are based on the owners' assets. Another reason is that a small business - due to its size - has limited self-accumulation ability.

Life-cycle models

Different life-cycle periods can be distinguished for most of the companies the knowledge of which is crucial in terms of their capital requirements and, eventually, the possibilities of their funding. Life cycle models try to outline the company's career path. Life stages are divided into staggered stages, which can be identified on the basis

of relatively uniform characteristics. Companies' life paths may differ according to their individual external and internal capabilities. There are several models in the literature, the most important difference being the basis on which the individual life stages are identified. Most life-path models address only the development stages of companies, but there are some that analyse them right from the period before the foundation of the company to the end of their operation. Extremely detailed analyzes have been conducted into each stage of the life-cycle. Several of them divided a company's life-cycle into 4 or 5 phases, among them the models that focus on SMBs. The majority of life-cycle researchers used the characteristics of company management and organizational structure as a basis for separating from each other the respective life-cycle phases, which are based on hard-to-measure properties.

Timmons (1990) seeks to eliminate this, assigning specific time periods to the individual stages of the life-cycle, as well as dividing three life-cycle phases according to income and headcount.

Adizes' (1992) is one of the most widely used models that compares the phases of development with the more complex, size-and-revenue-independent lives of living organisms. It tracks the development of a company until it is set on a stable growth path; therefore it is suitable for examining the development of SMBs.

Larry Greiner (1972) divides the life-cycle into five phases, separating them into evolutionary and revolutionary periods. Evolutionary parts show a calm and balanced development, while crises characterize revolutionary phases. The managerial decisions taken in the revolutionary period play a key role in the company's future. These decisions determine whether the company is able to move on to the next growth phase or if it starts to decline.

Research on small and medium-sized enterprises in the country is widely processed by Mrs. Salamon's model, who also tested them on a high-numbered sample. The four models are summarized in Table 1 below.

Table 1. Phases of life-cycle models

PHASE S	TIMMONS	ADIZES	GREINER	MRS SALAMON, ANNA HUSZTHY
1.	Phase of research and development	Courting phase	–	–
2.	Initial phase	Infancy Let us go, come on! phase	Creativity	Kick-off phase
3.	Early years of growth phase	Adolescent years		Creativity phase
4.	Maturity phase	Adulthood (manhood)	Governance phase	Governance phase Delegation phase
5.	Stabilizing phase	Established organisation	Coordination phase Cooperation phase	Phase of steadiness

Source: Timmons [1990]; Farkas [2005]; Mrs. Salamon 2006

All of them divide the life-path model to five larger phases, with a different distribution.

Timmons does not address the decline of a business in his model; he focuses more on the growth phase of the life-path, with the primary aim of making it sustainable once it is reached. His typifying resembles to a great extent the traditional product life-cycle curve phases.

Adizes' model stands out with its detailed segmentation. Several alternatives are outlined for businesses at the end of each stage, yet each stage holds the option of decline in its respective end considering the models. Several indicators offer themselves to be suitable to measure growth.

The company's past was first taken into account by Greiner, which includes the company's internal capabilities and the external industry environment. They modelled their career paths according to two factors, taking into account their age and size. It distinguishes between evolutionary and revolutionary phases. Developmental periods are evolutionary stages, while the problems of how to proceed that emerge at the boundaries of business life cycles are reflected in the revolutionary stages.

Mrs. Salamon has already taken into account the peculiarities of SMBs. She has created her own model from the previously-created ones (Adizes and Greiner models). She also synthesizes into five phases the most advantageous properties of the two foreign models. She states that life cycle phases are not sharply delimited and that organisations do not necessarily follow every development phase. Certain problems are easier to handle because the features of the cycles can be recognised and thus predicted.

There are several common and more controversial aspects among the models. The two most prominent issues are the mode of transition between life stages and that of the continuity in time of the life course. Nevertheless, it can be said in general that each model is capable of testing companies individually, and can help solve problems such as capital requirements. Their use may help companies in designing their short-term alternative future.

Peculiarities of micro, small and medium businesses

One of the milestones of our economy's development is the accession to the European Union in 2004. At the same time, Act XCV, 1999 on small and medium enterprises was replaced by Act XXXIV, 2004, which, among others, addresses the development of SMB. As a consequence of the new law, the classification of SMBs changed in two steps. It is important to note that, as of 1 May 2004 a temporary provision was introduced to bridge the gap until the enforcement of the new law on 1 January 2005. As a result, both sales and balance sheet values of SMBs changed at both times. Nevertheless, according to the recommendation of the European Union in 1996, the number of employees remained unchanged from the beginning.

As of 1 January 2005 the legal regulation of SMBs has been as follows under Act XXXIV, 2004:

(1) SMB is an enterprise with less than a total of 250 employees and annual net revenue not higher than a HUF amount corresponding to EUR 50 million or its balance sheet not exceeding a HUF amount corresponding to EUR 43 million.

(2) Within the SMB category, a small enterprise is defined as an undertaking whose total number of employees is less than 50 and its annual net sales or total assets do not exceed a HUF amount corresponding to EUR 10 million.

(3) Within the SMB category, a micro enterprise is defined as an undertaking with an overall number of employees less than 10 and the annual net revenue or balance sheet total not exceeding a HUF amount corresponding to EUR 2 million.

(4) An enterprise is not an SMB if the direct or indirect ownership of the state or local government exceeds 25% individually or collectively, by virtue of capital or voting rights.

As a result of the change in the categorization of businesses almost 1,000 companies were transferred to another category, which resulted in changes in the proportions of micro, small and medium-sized enterprises by sector, for which reason more companies are enabled to access subsidies.

Based on their economic significance, performance, their role in achievements and prospects, companies are classified into the following three main groups by the Strategy for Development of Small and Medium Enterprises (2007):

- Fast growing businesses,
- Businesses sustaining their level,
- Businesses lagging behind.

Fast-growing businesses: they constitute 15% of all businesses, and they are in their expanding or mature state of their lifecycle. They are capable of increasing their business income and expanding abroad in addition to domestic expansion, often being innovative small businesses. Their annual growth can even exceed 20%. The stability of their financial situation allows for bank financing. These enterprises contribute most to growth and development. They are characterized equally by economic growth, accelerating market mechanisms and increasing competition.

65-70% of businesses belong to the ones sustaining their level, and they can be classified on the basis of their lifecycle anywhere from their initial phase to having reached the phase of maturity. Stagnation is moderate, neither improvement nor deterioration can be expected in their case. More than two-thirds of the companies in this group operate as a private business, and are a micro business with single-entry book-keeping, i.e. private or general partnership. The personal business income of the business grows moderately. Considering their financing methods they can be family or friendly loans. They rarely use or are able to use the tool of bank financing. In addition to legal and financial consulting, they also need business and management skills consulting in their operation. Micro lending and loan guarantees are typical of their financing.

Typically, 16-20% of businesses constitute the group of those lagging behind, which companies are in either

their initial or declining stage of life. The situation of these companies is bad or even in a critical state. Their turnover, their capacity utilization decreases, their sales opportunities and their performance deteriorate. They are mainly selling their products and services to the public. Bank financing cannot be used because of their poor financial situation and their past. If their internal resources do not provide coverage, they can only rely on family or friendly loans. They need continuous advice on their operation.

The functions of micro, small and medium-sized enterprises, and the role they play in the economy

Large companies have outsourced a significant part of their activities for the sake of reducing their costs, so the economic role of SMBs has become more important. A considerable part of suppliers come from the pool of smaller and more resilient businesses. In Hungary small and medium businesses constitute the most widespread form of enterprising and business management. They also played a major role before the change of regimes. At that time, one third of jobs, while since 1994, two thirds of the jobs have been provided by them, mainly due to the massive disappearance of jobs in large enterprises. Nowadays, in Hungary, 99.8% of all registered businesses (according to the distribution of headcount) are SMBs. As a consequence, the SMB sector plays an important economic role in the country's income generation, foreign capital management and investment.

The performance of the small and medium business sector declined following the crisis that broke out in 2008, and could not recover until 2013. The crisis impacted far more heavily SMBs, than larger companies. The most important indicators like the number of SMBs, employment and value added fluctuate around 90% of the 2008 values. The number of SMBs decreased by 4% between 2009 and 2013, more than 22,000 SMBs disappeared, resulting in a drop by 2% (net 32,500) in the number of jobs. Gross value added dropped by 6% over the same period. According to forecasts value added generated by SMBs is expected to increase by 0.3% by 2016. The number of employees is expected by forecasts to drop by 0.9% per year. This translates to about 30,000 employees if considering the years of 2015 and 2016.

However, the employment rate of Hungarian SMBs is 3% higher than the EU rate: while in Hungary this figure is 70%, the EU average is 67%. Nevertheless, value added in Hungary is 4% lower than in the EU as a whole. In Hungary, the efficiency of SMBs is low, as compared to that, large companies represent lower employment rates and higher added value, hence the proportion of employees within the sector is much higher than their production indices would justify. It should be noted that in spite of the generally weak performance of SMBs between 2009 and 2015, they achieved a remarkably high growth of 31% in the information and communication sector, adding 3% more employees in the sector.

The innovative potential inherent in businesses is an additional advantage of the SMB sector, which comes through predominantly in the field of inventions. Thanks to their innovative and competitive power, small and

medium-sized enterprises can become the cornerstone of economic development and market economy, but it is important to point out that there are currently few truly innovative businesses. Due to this and the high number of enterprises, the SMB sector ensures the existence of market competition in a number of sectors. Differences can be observed between different regions of the country based on the economic sectors and the size of the headcount employed. There are several factors influencing the number and structure of businesses. In terms of location they are situated in the central region, i.e. in Budapest and Pest County, and their number almost reaches half a million. In terms of their distribution by sectors and trade, it can be generally stated that three quarters of SMBs are represented in the real estate businesses and business services, trade and repair as well as the building industry and agriculture sectors.

The typical scope of activity of the SMB sector in labour intensive sectors:

- Micro businesses: retail trade, tourism, financial intermediary activity
- Small businesses: publishing, wholesale, clothing industry, wine and wood product manufacturing
- Medium businesses: food processing, transportation, plastics industry.

26% of SMBs operate in the retail and wholesale sector. This sector employs 26% of all SMBs employees and generates 22% of the total value added of all SMBs. In the manufacturing sector, large companies have a decisive role in Hungary, as micro and small enterprises produce less than a third of added value.

According to the KSH data of 2015, the number of SMBs was 674,416. Considering the number of employees the number of those who can be classified into this sector is less by 142,149 persons. In the year under review, the net sales of SMBs amounted to HUF 37,909 billion. The gross value added of companies is HUF 7,880 billion, which means that HUF 2 billion less can be attributed to the sector than in the case of classification by headcount categories (KSH, 2016)

Status report of the building industry from a few years’ distance

As building industry is the country's major driving force, I would like to continue with its industry analysis.

The prevailing state of the performance of building industry can be generally stated to depend on the demand for construction emerging and varying in the function of macro-economic processes. The performance of the building industry in any given year is determined, among other things, by the amount of the central budget and local government funds earmarked for investment in construction projects, renovation, and maintenance work, demand of the private sphere for investment and the demand of the population (KSH 2003). In recent years, the latter has risen sharply, thanks to the CSOK program of the current government.

Before looking at the economic weight of building industry, let's look at what kind of macroeconomic processes affect it:

Hungary’s economic performance in figures

The table below illustrates well how Hungary's GDP indicator evolved over the past 15 years. In 2009, the volume of gross domestic product was only 93.4%, which is a significant proof of the 2008 economic crisis. Our next negative record is the 2012 figure, with its 98.4%, which clearly indicates the recession due to the collapse of the domestic currency market. The period from 2013 to 2016 was largely sufficient to allow Hungary to recover more or less from the foreign exchange crisis, - or at least to get consolidated to some extent in the result of which analysts expect a moderate yet firm GDP growth in 2017.

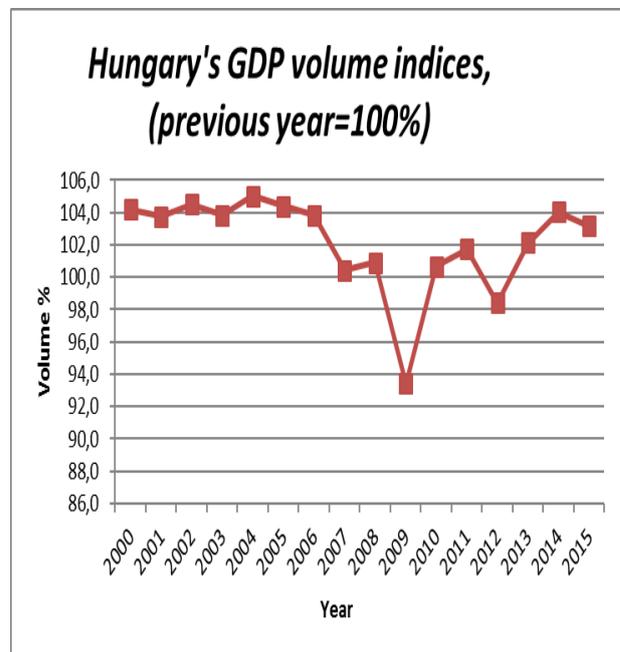


Fig. 1 Hungary’s GDP indices between 2000 and 2015
Source: Self-edited on the basis of KSH data

The 2008 crisis did not spare the building industry either, the weight of its contribution to GDP in the ensuing years shows a gradual decline, which is to be illustrated in the table below. Calculating at current prices the weight of building industry fluctuated from 3.9% to 5.8% from 1995 onwards, at the same time it steadily declined between 2006 and 2013 (at the impact of the crisis) then again it rose to 4.3% in 2014. (Source, KSH, 2015). In addition to the building industry, I also show data from a few other sectors, so as to allow a clear assessment of the position of the performance of building industry relative to other sectors.

Table 2. Contribution of the building industry to GDP between 2000 and 2015

Year	Gross domestic product (at current prices, HUF million) >100%	Agriculture (%)	Building industry (%)	Commerce (%)	Tourism (%)	Financial activity (%)
2000	11 367 299	5,73	5,12	9,86	1,94	3,86
2001	13 299 498	5,62	5,45	10,31	1,90	3,68
2002	15 126 813	4,83	5,78	10,60	1,96	3,98
2003	16 388 592	4,49	5,41	10,11	2,03	4,19
2004	17 978 221	5,04	5,35	10,08	2,06	4,31
2005	19 346 002	4,28	5,74	10,06	1,96	4,79
2006	20 959 964	4,05	5,35	10,54	1,90	4,86
2007	21 961 795	3,98	4,95	10,69	2,04	4,55
2008	23 172 330	3,95	4,92	11,20	1,91	4,39
2009	22 331 803	3,51	4,88	9,93	1,94	5,05
2010	22 915 330	3,55	4,22	9,94	1,81	4,97
2011	23 919 662	4,62	4,12	10,13	1,80	4,77
2012	24 070 712	4,60	3,88	9,99	1,68	4,56
2013	25 399 647	4,59	4,05	10,50	1,73	4,01
2014	27 302 406	4,70	4,27	10,36	1,73	3,91
2015	28 513 085	4,13	4,15	10,38	3,91	3,73

Source: Self-edited on the basis of KSH data

As a general trend it can be stated that in the years following the crisis of 2008 the demand fell back, orders declined and, due to the high rate of increase in the prices of loans and changes in financing ratios public investments completely ceased and buyers disappeared from the demand end of the housing market, who were mostly young people around 30 who intended to purchase flats by paying 10% of it from their own funds, although the sufficient level of this ratio would be around 25-30%. At that time circular debt was assessed to be around a value of HUF 400 million in the Hungarian building industry, close to half of which was impossible to collect according to analysts. Under such circumstances only capital intensive firms were able to survive.

The currency crisis that broke out in 2012 only worsened the situation of the building industry, because people basically did not feel balanced in their financial position. A large part of the population showed a great degree of indebtedness, which resulted in what can be called a loss of confidence in banks. While there are only few jobs that offer a secure financial background, the placement of long-term loans does not seem to be as dynamic as it used to be before and all this has a negative impact on building industry, among others.

We can also see from the table that, after the year 2012, there is a growth trend emerging, since the success of the Family Home Benefit (CSOK) mentioned above and the current EU support cycle (2014-2020) fundamentally increase the orders and performance of companies. One can however assess it as a risk that due to the massive redundancies of the previous year, there is

a shortage of professionals in the industry at this time, and under such conditions the provision of mass housing can be problematic.

The organisational framework of the building industry

The building industry continues to be characterized by a large number of organizations, among them micro and small enterprises. 88 734 building industry businesses were registered in late 2015, 1.2% less than one year before (92 211). The highest number of businesses (59,066) operates in the special construction industry sector, more particularly nearly 30,000 of them - i.e. 30% of all building industry companies - in the building engineering-assembly sub-sector.

The dominance of micro-enterprises is shown by the fact that 89.9% of them employ fewer than 5 people. Their number is especially outstanding in the special construction industry, in particular in the building engineering and finishing construction sub-sectors.

Employment indicators

At the impact of recession, the industry parted with about 83,000 to 85,000 employees in the years 2007-2013. The figure below glaringly illustrates this drastic workforce reduction.

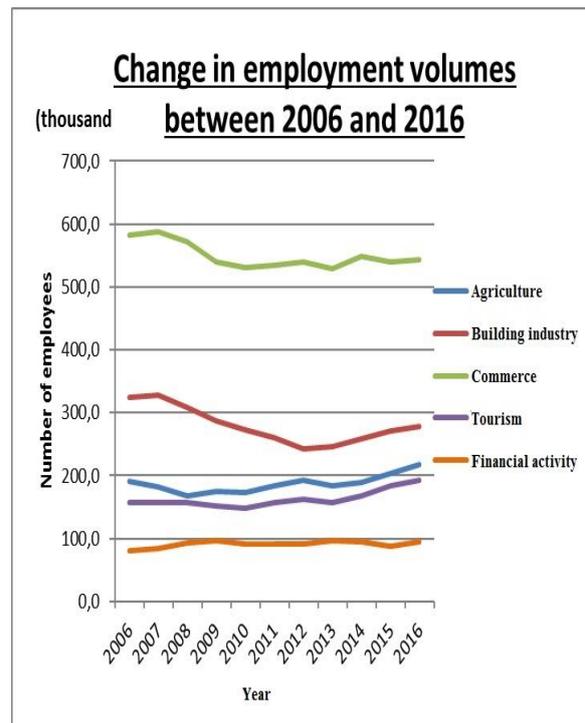


Fig. 2 Change in employment volumes between 2006 and 2016

Source: Self-edited on the basis of KSH data

In early 2014, the total number of employees was 258,000, including those employed with a contract amounting to 108,300 people. A higher degree decline occurred in the contractual and service forms of engagement. The decline stopped in the latter half of 2013, and a slight increase could be observed. According

to a survey of the population's employment data the 271.9 thousand people employed in the building industry accounted for 6.5% of total employees in the national economy in 2015. In the competitive sector, the number of employees is higher than in the building industry only in the manufacturing industry, trade and vehicle repair sectors of the national economy.

It can be concluded from the above that due to the unfavourable economic impacts of the previous years the industry is struggling with a shortage of staff and professionals. According to GKI's survey, the demand and labour shortage roughly equally embitter the producers' lives. According to ÉVOSZ, a major limiting factor is still the high public burden on live labour and the growing administrative burden confronting SMBs.

Investment

In general, domestic investment costs have decreased to some extent in the recent period (2015-2016), but they are still high (especially in the light of the declining producer price index), mainly due to EU funding and Growth Loan Program (s) most enterprises do not want to borrow at all. Although SMB-s capable of developing a relatively low-cost source, some of these companies are afraid of a rapid growth in order not to become a new victim of nationalization. Since 2016, EU funding has also enabled a 0% interest rate credit facility for investment purposes. The investment rate was 21.7% in 2014, 21.3% in 2015. It is expected to be below 19% in 2017, which is a low rate for a moderately developed country. In 2017, a reinvigorated EU investment cycle is expected to result in a 5% increase in volume and a 19.3% investment rate.

The willingness of building industry to invest in the light of loans

Basically, we know that the more its financial reserve the higher is a company's willingness to invest. However, unfortunately, nowadays it is hardly the case for building industry businesses; what is more, their liquidity is rather weak in most cases.

To crown this commercial banks continue to consider the riskiest financing building industry firms since 2008. 2014 was the year of several governmental measures and the Hungarian National Bank's economic stimulus program, which provided the basis for maintaining the industry's momentum in 2015. "However, due to market uncertainties, only a few construction companies were able to join the stimulating lending program in 2015". [ÉVOSZ, 2016, page 4].

In 2015, building investments fell by 2.3%, while machinery investments increased by 4.1%. In 2016, construction investments drop by 20%, machinery investments by 1%, while in 2017 construction will once again become more dynamic (8%) due to the growing EU subsidies. This is illustrated by our next figure.

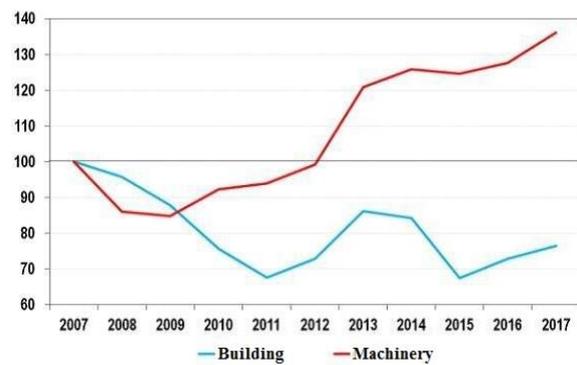


Fig. 3 Building industry and machinery investments between 2008 and 2017 Source: KSH, GKI Gazdaságkutató Zrt.

In 2016, domestic purchasing power expanded significantly, with an especially lively housing market. At the same time Hungary still seems unable to attract large investors (the volume of new, announced improvements is small, with the exception of Mercedes expansion, and they are accompanied by a substantial government support), while domestic-owned, typically small and medium-sized companies still fail to be able to break through.

Productivity of the building industry

The year of 2016 year was quite hard for the building industry: production was reduced by 24%, mainly due to the ebb of EU subsidies. The performance of civil engineering was practically half of what it used to be. At the same time, housing construction started climb: about 11% more homes were sold than a year ago. Construction investments in the national economy decreased by 33% over the same period, while the sector's own investments fell by 10.5%. The above is well illustrated by the rhapsodic volume changes in the figure below.

The profitability of the building industry showed deterioration as early as in 2015 (according to Opten, the profit of the sector fell by 13% on an annual basis). However, in the first half of the year, 13% less building industry companies were terminated than a year earlier. One can feel a kind of rearrangement with the sector getting more transparent, but the number of liquidations continues to be excessively high within company termination, which means the confidence crisis is far from coming to an end. The number of newly established companies grew by 30%, a part of which may clearly be ascribed to the expansion of "CSOK", as the housing industry practically attracts project firms.

As previous years testified to it, the performance of the sector depends to a great extent on the cyclical nature of EU subsidies, so that the resources available in a wider volume this year will have a positive impact on the industry, which is further supported by the governmental housing policy measures and running projects (World Aquatics Championship, Paks 2). Investments in building industry are also fuelled by the fact that in the sector, which in the previous years was on a constantly regressing path of movement, capacities have been

curtailed due to which a great part of building industry firms reported a lack in capacities in late 2016.

According to prevailing trends 2017 will be a noticeably better year for the building industry, as real estate development projects starting in 2016 are expected to gradually begin to make their impact felt, and on the other hand, large-scale infrastructure developments of the previous years will also be removed from the base.

Summary

The importance of SMBs is not only of an economic nature, but besides the role it plays in employment; it is also of paramount importance in economic growth, innovation activities and in improving the competitiveness of economy.

At the same time, SMBs with Hungarian interest in many cases have little capital and are still struggling with regular liquidity problems. Due to their weak bargaining position, high labour and low capital intensive activity, and less than a sufficient level of professional leadership they are more sensitive in responding to changes in the external business environment. Whereas they take a greater share in providing employment than in revenues and income generation, their performance is inferior to that of their counterparts in more developed countries.

When exploring the options of SMB financing, several internal and external financing "tools" are available for the operation and development of businesses. In the case of SMBs the decisions taken in the course of planning financing the focus is on finding solutions with the help of which liquidity can be sustained, i.e. they strive to align the maturity structure of resources and assets.

In Hungary, micro-enterprises that account for the majority of SMBs develop and invest from their profit, and the savings of their family, in the first place. It can be stated that the vast majority of enterprises seek to meet their funding needs within the framework of non-institutional forms of financing and only if this volume of funding is insufficient they will turn their attention to institutional forms of external financing, more particularly loans.

In 2008, due to the impact of the economic crisis, the growth rate of lending to micro, small and medium-sized enterprises slowed down. Banks typically became more cautious in lending, while SMBs are typically more cautious in borrowing, and they continue to be that today also. Domestic SMBs, in addition to their prevailing business nature and economies of scale are at a disadvantage compared to the corporate sector in acquiring external funding. This can be explained by the fact that large companies are able to rely heavily on their operations and developments abroad, while SMBs in these cases rely mainly on their domestic borrowing opportunities, and thus the success of their financing depends to a large extent on the willingness of banks to lend.

According to international trends any country's financing habits and possibilities are determined in the first place by the country's financial and legal infrastructure. Thus, the financing habits of enterprises are more determined by the quality of the financial

intermediary system in the region and the legal and tax environment. The more advanced the country's financial intermediary system, the more the sources of institutional funding such as bank loans and credits, leasing and factoring are the most significant financial resources for SMBs. Other non-institutional foreign capital resources are generally costlier and rather haphazard in their availability.

A multitude of court cases and litigations can be expected in the building industry due to the unexpectedly high cost increase of building materials this year, and the fact that paying for the labour force as well as support services requires increasingly more money. Most entrepreneurs, namely, stipulated their contract prices by calculating a 5-7 per cent price increase, while, in the meantime, the actual average price increase has been 25 per cent.

The lack of skilled workers is there to aggravate further the situation of the building; however the problems in labour supply will be probably reduced in the future through automating work processes and improving efficiency. It is now worthwhile to develop SMBs because they can expect growth in the long run, which is also predicted by the continuous increase in orders.

Another difficulty is that the limit for the obligation to return VAT has been reduced from HUF 1 million to HUF 100 thousand, which places additional administrative burdens on businesses during the tax reporting period.

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Péter Földi is PhD student at the Department of Business Sciences at Szent István University. His scientific research deals with corporate financing, corporate treasury and corporate valuation. He has 2 degrees. The first one was awarded in 2012 when he qualified with a Bachelor's Degree (BA) in Finance and Accounting, followed by the second one as a Master in Finances in 2015. Both were awarded at the Szent István University. In 2013 he earned a chartered accountant degree. foldi.peter89@gmail.com

Judit Tóth is a graduate student at Szent István University's Financial Master course. She earned her first degree also at the Szent István University as a BA in Tourism and Hospitality. tothjudit0506@gmail.com

Emese Melinda Bogáth is currently studying at her PhD degree course in Business and Organisation Sciences. She works for Allianz Hungária. emese.bogath@allianz.hu