

PERIODICA OECONOMICA

REGIONAL DEVELOPMENT AND COMPETITIVENESS

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STUDIES ON ECONOMIC SCIENCES
OF UNIVERSITY OF PARIS–SORBONNE IV
AND ESZTERHÁZY KÁROLY COLLEGE

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SUSTAINABILITY PROBLEMS OF REGIONAL COMPETITIVENESS

1. Interpretations of regional competitiveness

The international statistics regularly provide data in relation to the development level of certain countries, regions and emphasize there is strong relationship between development level and competitiveness. The improvement of competitiveness contributes to the increase of GDP and fosters economic convergence.

GDP per capita in purchasing power parity is the accepted indicator the international comparisons are based on.

“Competitiveness practically means the tendency and readiness to market competition, the abilities of gaining position and long-term compliance which are primarily signified by business success, market share and profitability” (Lengyel, I. – Deák, Sz. pg. 8.)

In Ádám Török’s interpretation “in micro level the idea of competitiveness means gaining position in market competition and the ability of compliance between certain companies and their competitors, and, from a macroeconomic point of view, between certain national economies.” (Török, Á. pg. 10.)

The appreciation of the regional level in competitiveness is the consequence and the demand of the latest period. The principle of subsidiarity and the financing practice of the European Union comply with the following world economic process. On the basis of Porter’s work, Imre Lengyel wrote the followings: “In the strong rivalry in global competition the local advantages as the improvement of innovations, the lower costs of transactions, the institutions providing special competitive advantage (education, training, certification, etc), and local knowledge base are appreciated. We can say that the global competition is nothing else but the competition of regions and towns providing place for global companies. It means that the international competition has been replaced by the global one, the former national economy has lost something of its importance; on the one hand, its competences “have gone up” to a global level, on the other hand, “have gone down” to the regional one” (Lengyel, I. – Deák, Sz. pg. 4.)

2. Economic growth and its measurement

Sustainability evaluation is more and more often added to competitiveness analyses. However, economic growth and competitiveness analyses based on GDP reflect economic performance in a restrictive way and are still substantially determining.

The question arises: why does it cause a trouble if there is a discussion on establishing the conditions of sustainable development as important objectives and, at the same time, calculate on the basis of GDP indicator and draw up development indices? In the followings I present some of the possible answers I consider these important ones to these questions.

In 2001 the Nobel Prize in Chemistry was awarded jointly to two American and a Japanese researcher for their work in the field of chiral synthesis. The word “chiral” originates from the Greek “kheir” meaning hand. Our left and right hand are related to each other like the mirror to its image. The molecules creating organisms predominantly possess these symmetric characteristics i.e. they are chiral molecules... This image and its mirror-image have the same energy and characteristics apart from one: one of them rotates the polarized light plane to the right, and the other to the left, but the absolute value of the rotation is completely the same. Although the image and the mirror image which cannot be made to coincide with each other differ only in one characteristic, almost always only one of these forms appears in nature. Hence, the biological effect of medicine highly depends on the fact whether we have taken the image or the mirror image into the living body, it could be even the matter of life and death” (Szántay, Cs. pg 1).

Csaba Szántay started his lecture with these thoughts in the autumn course of ENCOMPASS (ENCyclopaedic knOwledge Made a Popular ASSet). In this regard, the idea occurred to me that in the economic researches we experience the same phenomenon when, for example, we analyse the units of GDP. Behind the currency units (HUF, Dollar or even, Euro) used to measure production we can find such different goods and services which partly serve life but some of them could even lead to death. However, the indicators, primarily the Gross Domestic Product (GDP), measuring the amount and increase of goods completely hide this difference. They even suggest as if all GDP units served the good, life and sustainability. In this way, to increase GDP results in serving its own purpose.

The growth rates expressed in GDP statistics overstate the welfare development. Its negative effect on the decision-making process is important. It can be hardly argued that governments give priority to such interventions that advance economic growth. Nevertheless, if we assess economic growth without its harmful environmental effects, harsh contradiction could develop between the

economic policy and social expectations. To form a rational judgement we should know what amount of the gross domestic product is needed to cover the damages and losses caused by the economic activities and to replace those environmental functions that were available before it, e.g. the self-cleaning ability of the environment. We should also be aware to what extent the renewable resources are going to be damaged irreversibly as a result of the production process. Can make use of them in an economically efficient way or are they able to expand only with ecological development measures? In connection with the non-renewable energy resources we should be familiar with the implications of the production, the role of recycling and the extent of the environmental damages caused by the production.

3. The general good or bad in general (What do the curves show?)

The major trend of the economic science does not realize and recognize the “chiral” characteristics of the economy, and it assumes that every goods produced “rotate” to the good direction, i.e. serve the general good. In 1920 Pigou referred to this contradiction from the aspect of externalities¹ in his work “Economics of Welfare”. Realizing the “chiral” correlations, he pays attention to the fact if we continue our activities in the same way, and we do not take the external effects into consideration, the negative externalities are going to cause bad in general instead of the general good, and the positive externalities hidden are going to cause social losses.

The producers do not pay the negative external costs of the environment pollution activity and the real social cost of the supply remains hidden as illustrated in *table 1*.

The demand for goods or services is marked with the “D” demand curve. The private cost of production is signed with “PC”. The “SC” shows the social costs which, in case of negative externalities, is above the “PC” curve as it also includes the costs and damages caused by the negative externalities.

If the market is not regulated from the environmental point of view, the producers make the amount signed with “Qm”, as in competition this choice maximizes the private producer surplus. However, taking the negative externalities into account, the example mentioned above is not socially efficient since the social optimal point is at “Q*” production level and not at “Qm”.

¹ „Externality – external effect – is the accidental side effect of a person’s legal activity or that of a company on the profit or welfare level of another person or company (Mishan, pg. 137.)

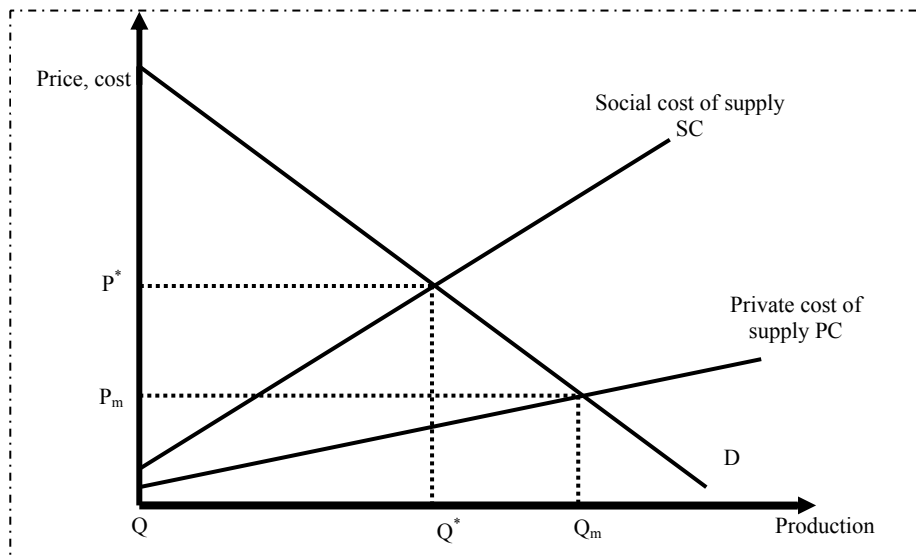


Figure 1. Market distribution with environment pollution
(negative externalities)

(Source: Szilávik, J. 2005. pg. 171.)

With the help of the illustration we can draw several conclusions regarding the market distribution of the articles as items that cause such external economic effects as environmental pollution:

- production of too much polluting material;
- too much pollution;
- the price of products responsible for environment pollution is too low;
- until the costs are external, the market will not induce such incentives that serve cleaning, application of environmental-friendly technologies, production of cleaner products;
- the recycling and re-use of polluting substances are not encouraged as their emission to the air is simple and cheap.

The GDP is calculated on the basis of the private cost of supply and each item is indicated as positive although certain parts of them are paid by the society. Thus, from the aspect of the “chiral” correlations, in case of negative externalities the effect increasing GDP is only “mirror image” since the society pays for the positive image several times (natural and architectural environment damages, health damage, biodiversity decrease etc.).

In the economic assessment, the *positive externalities* also remain hidden similar to the negative ones. If positive externalities exist, the following figure can be drawn.

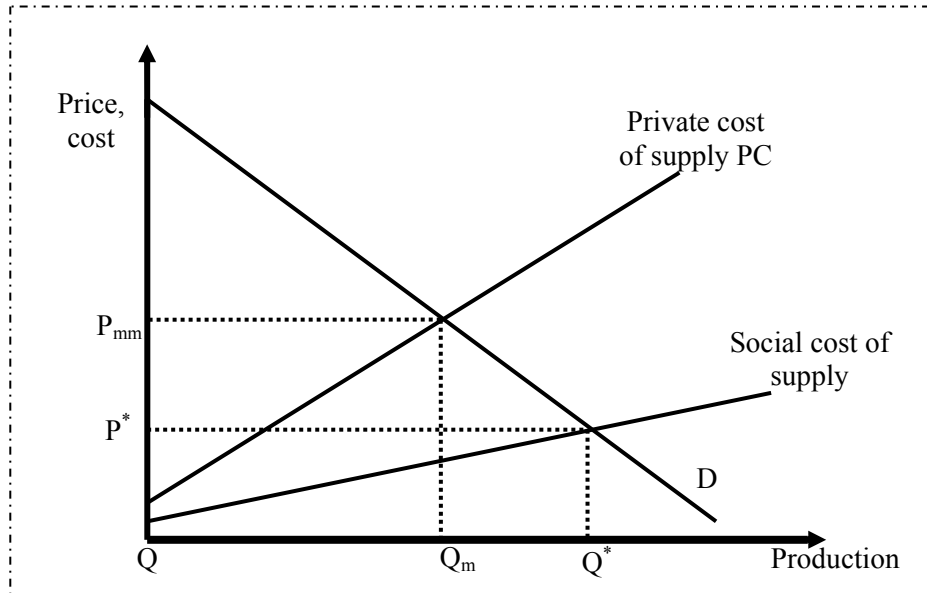


Figure 2. Market distribution in case of negative externalities (Ed. Szilávik, J.)

A classical example for the positive externalities is the case of the beekeeper and the orchard owner. While collecting honey, bees make pollination, which can be considered as a positive external effect, thus making excess production and plus benefit to a third person i.e. the orchard owner.

The positive external effects appear as cost reducing factors (see pollination by bees resulting in greater amount in production that causes unit cost decrease). However, the third agent does not realise this positive effect in the traditional market, in some cases s/he proposes to do actions against it, thus, besides lower production level (Q_m) the society loses welfare effect.

With regards to the negative effect of externalities in micro level, the following relationship is given (see figure 3.). As it is known, entrepreneurs endeavour to increase their benefits (MNPB) as the result of their economic activity.

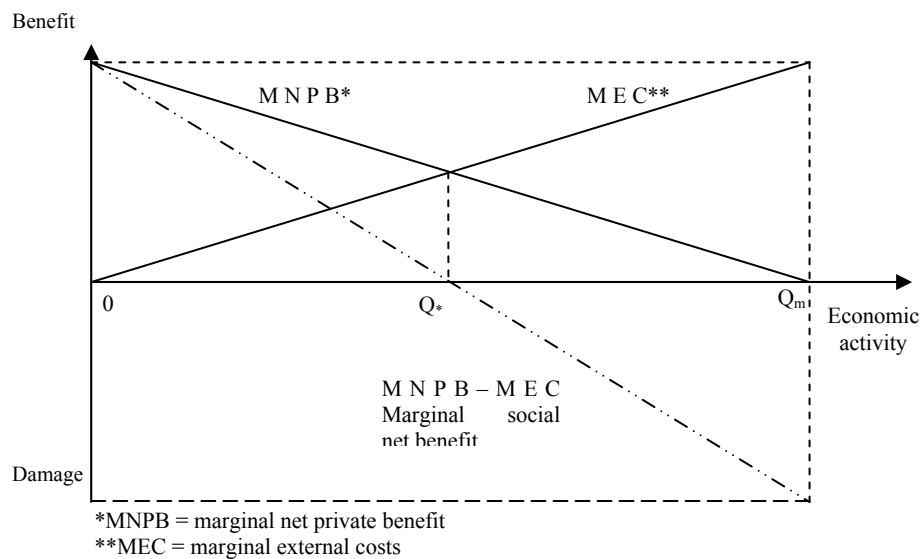


Figure 3. Benefits, costs, social losses (Source: Agro 21. Vol. 2005/40. pg.30.)

(Figures 3, 4 and 5 show marginal costs, profit margin in the context of economic activity. The costs caused by pollution are assumed to be proportional to the economic activity.)

In descending rate though, but their interest is to implement it up to the point Q_m . However, this way of management can cause negative effects. It is illustrated with the marginal external cost (MEC) curve. Nevertheless, these negative effects are less than the benefit, thus, up to this point the activity of the holder is advantageous and beneficial for the society as well. (This point is called as the optimum point of externalities in environmental economics.)

However, in unregulated market entrepreneurs do not stop at this point, but continue their activities up to Q_m point. Nevertheless, the production after the Q point does not serve the general good as regards the public benefits but, transferring into the negative range, result in bad in general.

Pigou raises the question of internalising the externalities. In case of negative externalities it can be implemented with Pigovian taxation.

The effect of taxation is shown in table 4.

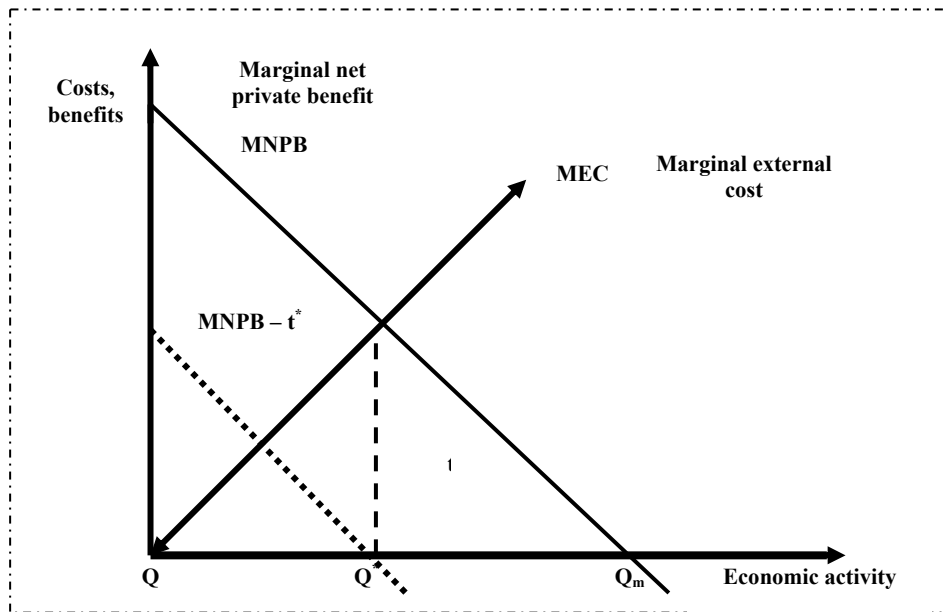


Figure 4. The optimal amount of Pigovian taxation
(Source: Szlávik, J.2005. pg. 183.)

According to Pigou if t^* amount of tax is levied on each polluting unit, it will encourage companies to decrease their activity, which is economical for themselves, from Q_m production level to the socially optimal Q^* level. The optimal amount of tax is equal to the external marginal cost of the particular pollution level.

With regard to the analysis I consider it important to emphasise while the Pigovian taxation is known and accepted, the Pigovian subsidy is more rarely practiced than appropriate, although in case of positive externalities it is as equally important as the taxation of negative externalities. The optimal amount of Pigovian subsidy is illustrated in Figure 5.

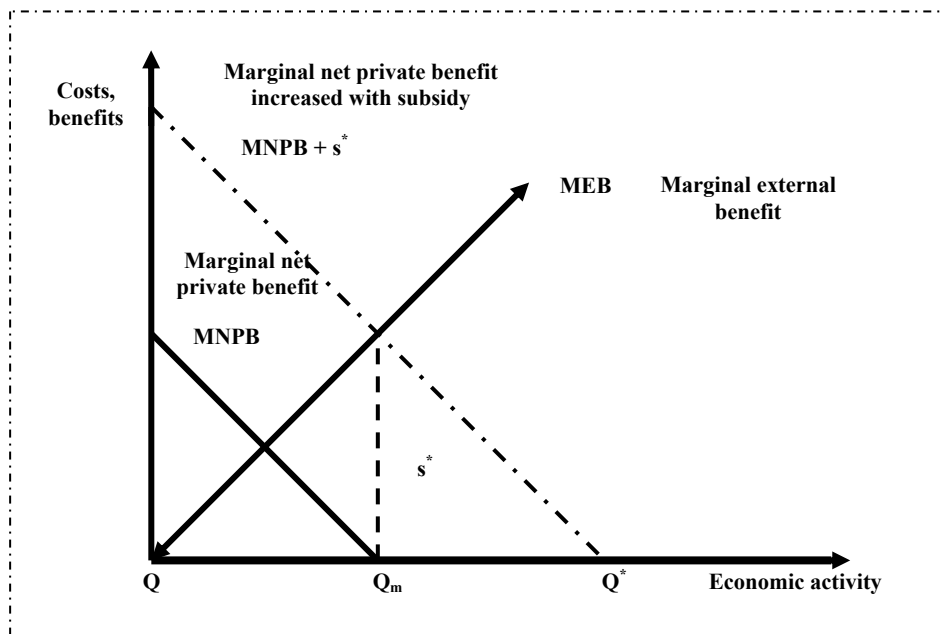


Figure 5. The optimal amount of Pigovian subsidy (Ed.: Szilávik, J.)

Among the markings used in the table „s*” means the optimal amount of subsidies that is equal to the positive externalities level. Because of the positive social effect the marginal external benefits (MEB) can be interpreted instead of marginal external cost (MEC).

By supporting the positive external effect we can achieve the society receives the increasing social benefit which is created as the sum of marginal net private benefit (MNPB) and the subsidies „s*”. This encourages producers to increase their production from the Q_m level, which is profitable for themselves, to the socially optimal Q^* level.

Considering the tables 4 and 5 from mathematical aspect, we can see this solution operates at break even from the budgetary point of view. However, in fact double positive effects can be achieved with regards to the social costs and benefits. Through taxation pollution decreases, with subsidies the role and effect of positive processes increase. As a consequence of the combined application of taxation and subsidy, the social usefulness (can) increase as a whole. With the two-way regulation (taxes, subsidies) the economy can realize a more genuine image, a more sustainable state instead of a distorted mirror image.

The negative and positive external effects often appear in conjunction with each other. In these cases, taxes, fees and subsidies can be applied. Thus, for example, the effects of roads and especially that of highways coexist with

benefits and damages. If we do not take these into account, they cause not only significant economic losses but severe social-political conflicts.

In the paragraphs above, only one method of the marketisation of externalities – the Pigovian taxation and subsidy have been referred to. However, in politics several other means are available to control production and consumption to such direction that serves long-term welfare and sustainable development.

The starting up of actual processes is highly complicated as each step can injure and often injures the parties concerned. The effect can be restructuring, profit and regional rearrangement.

4. The regional level of sustainability

In the followings we are going to write why we consider the regional level as outstandingly important from the aspect of sustainability and how the implementation of sustainability objectives serves regional competitiveness. The regional, local levels are also outstandingly important from the point view of the processes described in the first part of the study since the effect, content and indicators measuring the activities appear more genuinely in this level than in the national and global ones. The processes in this level can be genuinely observed and are not only figures in economic statistics reports.

The European Union can be regarded as the leading force to enforce the idea of sustainability. In its main documents, if slightly mentioned only, the demand for the implementation of sustainability is present.

The Sustainable Development Strategy adopted by the EU in Goteborg (2001) was added to the competitiveness appropriations of the Lisbon Strategy (2000). The mid-term review (2004) emphasised that the EU should become a competitive and dynamic knowledge based economy in such a way that the quantitative and quality improvement of employment can be implemented in conjunction with sustainability.

The surveys already carried out emphasise the importance of the local level and the role of the sustainable settlement, which focus on the improvement but at least on the preservation of living conditions, living standards and environment of local inhabitants with the assistance of different solutions concentrating on sustainability. These means can affect a great variety of fields as, for example, sustainable agriculture and rural development, sustainability marketing and management, sustainable consumption, sustainable finance, sustainable tourism, education, training. In Hungary the role of the local level is particularly outstanding which fact is supported by the high proportion of rural areas and number of inhabitants living in the country compared to the European average.

The three major priorities in the 2007-2013 programming period of the European Union are the convergence, regional competitiveness, employment

and cooperation in the European region. To implement convergence, basically the increase of competitiveness is aimed in the fields affected.

The improvement of competitiveness serving sustainability objectives is advanced if in our programmes and projects strategic environmental surveys (SES), also required by the EU directives, are carried out, whose priorities are drawn up in accordance with sustainability values. In the following illustration the list of values for the “New Hungary Rural Development Strategic Plan and Programme” (2003-2013) can be seen.

Sustainability values (for SES)²

Holistic, comprehensive and common values	Environmental and natural aspects
Local and regional sustainability	Nature preserving rural development
Global sustainability	Ecological rural development
Ecosocial rural development	Pollution prevention, minimization
Attractive rural world	Minimizing follow-through effect
Value-preserving diversified economy	Dematerialization
Carefulness and unselfishness	Recycling
Ethical operation	Saving exhaustible resources
Conscious food production and consumption	Value preserving production with renewable resources

Economic aspects, criteria	Social aspects, criteria
Prosperous rural economy	Local ecosocial interest and social responsibility
Integrated product policy	Social equity
Decentralized rural development	Knowledge-based rural development
„Produce and consume locally”	Social cohesion
Quality products, innovation	Solidarity, regional cohesion
Diversified rural product supply	Generation justice and social equality
Production cooperation within regions	Social participation

² Based on the work of Tamás Pálvölgyi, with respect to the aspects of SKV in progress

Approaching this issue from the sustainability dimension, we can say that in accordance with the logic of sustainable development the key objective is to improve the living conditions, the quality of life. Compared to the economic growth oriented strategies the main difference is the assessment of economic development. In this case, the objective to be implemented is not the economical growth itself, in which economy is used as means, but the development, the quality, and not the quantity.

Finally, using Meadows' definition (Meadows, D. 2005) on sustainable development we draw up a definition of regional competitiveness that can serve as a guideline for regional development plans and programmes.

On the basis of sustainable development criteria the regions are competitive if they make use of the possibilities found in nature, organize their economy and society in that manner so that they can remain in existence throughout generations without undermining their vital physical and social systems. The capital of nature is converted into economic capital while taking the rules of renewal into account and at least such welfare level is ensured for the future generations living in the regions as for the inhabitants living there at present.

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**CHAMBLISS KAREN – SLOTKIN MICHAEL H. –
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**Enhance sustainability, steady-state sustainability,
and the structured ecotourist**

1. Introduction

With the 1987 publication of **Our Common Future**, also known as the Brundtland Report, the now familiar definition of sustainable development entered the public policy lexicon: “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” Unfortunately for policymakers, Brundtland’s dictum was essentially non-operational, since establishing economic values for succeeding generations, which requires knowing future consumer preferences, are an impractical task. To fill this vacuum, *operational* definitions of sustainability have been offered which consider the aggregate stock of physical capital (business investment) and natural capital (environmental assets) as a determinant of the ability of future generations to enjoy similar levels of consumption.

The basic idea is that non-declining capital stocks should yield non-declining production levels, but implicit in this outlook is the substitutability of physical capital for natural capital. That is, as environmental assets are depleted, the economic returns from liquidation should fuel capital replenishment through physical investment. Doubts about the effective substitutability of physical for natural capital have led to variations on the theme of non-declining aggregate capital stocks. These alternative definitions, as they become more restrictive, allow for decreasing levels of substitutability between man-made and environmental assets. The most restrictive definition, so-called environmental sustainability, prohibits the substitution of physical for natural capital and even requires that physical service flows from natural capital be maintained.³ By way of illustration, this would entail sustaining catch levels for specific fisheries or water flows from specific water sources, and essentially negates intra-substitutions within the category of natural capital.

The more restrictive operational definitions of sustainability appear to be favored by policy advocates and the general public alike; moreover, these

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³ See Tietenberg (2006) for a thorough but concise discussion on weak, strong, and environmental sustainability.

sustainability criteria are the drivers of a new outlook towards business and commerce which has ascended in corporate, academic, NGO, and governing bodies during the past twenty years. Referred to under the rubrics of corporate social responsibility, green business, and the triple bottom line, the ethos of sustainability is manifesting itself in profound ways. General Electric's new "Ecomagination" strategy, which among other things specifies an increase in clean technology R&D from USD 700 million to 1.5 billion by 2010 is one example, as is the company's commitment to reduce greenhouse gas emissions in 2012 by 40 percent from projected levels. Not to be outdone, the Goldman Sachs Group, a leading financial capital firm, donated some 680,000 acres it acquired via defaulted loans to the Wildlife Conservation Society. The acreage, mostly forest and peat bog, is located in Tierra del Fuego and the gift was made on behalf of the citizens of Chile. Goldman Sachs Chairman and CEO, Hank Paulson, has also promised a reduction in greenhouse gas emissions from Goldman assets of 7 percent by 2012, and an investment of USD 1.0 billion in renewable energy projects.⁴

It is in the context of the travel and tourism (T&T) industry, however, that the discussion of sustainability is particularly relevant, and for an obvious reason: T&T represents the world's largest industry. According to the World Travel and Tourism Council, in 2006 the direct and indirect effects associated with T&T comprise an economic impact of about USD 6.5 trillion and constitutes some 10.3 percent of world GDP. This supports some 235,000,000 jobs or about 8.7 percent of world employment. As an example of national impact, in Hungary some 336,000 jobs are related to T&T, or about 8.6 percent of Hungarian employment.⁵ In short, if the credo of sustainability is to be successful, sustainable tourism is central to that mission.

This essay explores the theme of sustainability through the tourism market segment known as ecotourism. The International Ecotourism Society (TIES) defines ecotourism as „*responsible travel to natural areas that conserves the environment and improves the well-being of local people*” [www.ecotourism.org]. *In truth, however, definitional uncertainty abounds, yielding speculative demarcations between ecotourism and other forms of nature and/or adventure tourism. And this, of course, renders assessments of ecotourism's economic impact and visitor numbers problematic. What seems to be apparent is that an ecotourism continuum exists ranging from individuals*

⁴ For more details on "Ecomagination" consult the December 10, 2005 edition of The Economist; similarly, the green strategies of Goldman Sachs are profiled in Vanity Fair's Green Issue published during summer 2006. Interestingly, editor Graydon Carter later stated that "...in all [the] years I have never experienced anything like the reception to our 'Green Issue'."

⁵ These stats, and others, are available at www.wttc.org. The World Tourism Organization (www.unwto.org) also publishes yearly statistics on a variety of international tourism indicators. In 2005, international tourism receipts amounted to USD 681.5 billion with slightly over 800 million international tourism arrivals. See UNWTO World Tourism Barometer (2006).

who favor small group, physically demanding excursions into remote, undisturbed locales (hard ecotourists) to those with a bias towards passive, large group nature experiences facilitated by forms of mediation (soft ecotourists or eco-lites).

Indeed, ecotourism has many shades, and to add complexity, ecotourism researchers further delineate two types of sustainability: steady-state and enhancive. The latter implies improvements to the stock of natural capital, while the former signifies maintenance with the existing status quo. The literature suggests that hard ecotourists are more likely to be enhancive sustainers while soft ecotourists typically adhere to steady-state principles. But an interesting study by Weaver and Lawton (2002) offers evidence of a third “cluster” of ecotourists that hybridizes some characteristics of soft and hard ecotourists in a quite distinctive manner. Labeled structured ecotourists, this segment exhibits both soft and hard principles whose potency, in some cases, exceeds that found within the soft and hard clusters, respectively. Thus, the structured cluster is of a non-intermediate variety, displaying overall characteristics that are “as hard as hard” and “softer than soft.”

Since structured ecotourists overlap soft ecotourists in their desire for large group, service-intensive, multi-dimensional trips, we contend that structured ecotourists are oftentimes assumed to be soft ecotourists and are thus under-reported. As a consequence, this hybrid classification represents a vital and under-examined market segment within the academic literature, and more importantly, because structured ecotourists are enhancive sustainers, this knowledge gap serves to understate the true commitment to enhancive sustainability.

In light of this deficiency, this research effort seeks to fulfill two main objectives. First, it is likely that the structured ecotourist segment has driven leisure market demand in specific ways, and accordingly, T&T markets have responded by offering new and/or additional products that cater to this market niche. We argue that the expanding birding and wildlife festival movement in the U.S. provides one depiction of structured ecotourism, and provide a case assessment by utilizing as a template the leading birding and wildlife festival held in the state of Florida. In essence, section three of this paper serves as an informal proof of the festival as structured ecotourism proposition. Second, having asserted and informally proven the aforementioned proposition, we offer a few suggestions on how the academic literature can be extended with the structured ecotourist segment in mind. Thus, section four offers a research prospectus on structured ecotourism, which concludes this work.

2. Background Literature

Conceptualizing definitions of ecotourism has occupied tourism researchers well into its second decade [Valentine (1993); Hvenegaard (1994); Blamey (1997); Acott et al. (1998); Wood (2002)]. Indeed, the maturation of this

literature and its achievement of a certain critical mass is evidenced by several outstanding texts on the subject [Fennel (1999); Honey (1999); Weaver (2001)] as well as an encyclopedic entry edited by Weaver (2001). And while alternative definitions still abound, a convenient catch-all for the description of ecotourism is offered by Vamosi [Slotkin and Vamosi (2006)]: the **Tourism Triple-E** based on environmental, educational, and economic sustainability.

In short, ecotourism involves leisure experiences that are intimately tied to the natural world; moreover, these journeys are interpretive, contemplative, and of a cognitive nature that would readily distinguish eco-travel from the hedonistic experiences associated with adventure and/or surf-n-sun travel. The final pillar, economic sustainability, invokes the credo that ecotourism should benefit host populations and be conducted in a manner that maintains income-earning opportunities for future residents. This, of course, mandates responsible tourism practices and a significant degree of local ownership and control of tourism assets. It also entails a healthy respect for indigenous cultures, which should be left unaltered.⁶

Ecotourism's overriding concern, that environmental capital be preserved for future generations, is reinforced by the existence of feedback loops between these various planks. To illustrate, travel to undisturbed locales provides unparalleled pedagogical opportunities, and those learning experiences reinforce the notion of nature's strategic balance and the imperative to conserve. Similarly, eco-travel can generate sizable economic impacts for regional communities, and the association of income generation with healthy, vital ecosystems also inculcates an environmental mindset.⁷

The Triple-E is effective as a general framework; as a specific delineator of tourism market segments it is inadequate, which helps explain why estimates of global ecotourism expenditures, to the extent they exist, are presented with significant ranges. For example, Brown and Shogren (1998) cite Filion et al. (1994) for a 1988 estimate of \$90–200 billion. In a survey on T&T published by the British weekly *The Economist*, Roberts (1998) states that “the fastest-growing theme in tourism today is the environment.”⁸ The extent of the market, however, is unstated, and the competing interests within the industry, from environmentalists to opportunistic *greenwashers*, provide ample evidence to the reality that ecotourism means different things to different people.

⁶ Of course, it is likely that complete satisfaction of the Triple-E serves as a goal to aspire to rather than a practical outcome. Weaver and Lawton (2002) argue that “intent” is a reasonable criterion.

⁷ Education and economics also reinforce one another. Economic success provides needed funds to enhance and expand interpretive capabilities which serve as a draw to entice additional ecotourists.

⁸ Almost a decade later, the greening of T&T is so pronounced that eco-vacation primers such as Audubon's Green Travel issue are ubiquitous.

A few stylized facts have emerged from the literature. Large sample studies [Wight (1996a); Diamantis (1999)] suggest ecotourists are older, wealthier and better educated than the general population; moreover, gender differences exist when specific activities are taken into account [Wight (1996a)]. To illustrate, specific micro studies of birding festivals in the state of Florida reveal clear female majorities [Chambliss et al. (2003, 2006)] while birding in the U.K. is disproportionately male dominated [The Economist (2005)].

Another generally accepted notion, based on empirical typology research, is the existence of an ecotourism continuum. Weaver and Lawton (2002, hereafter **WL**), citing existing works [e.g., Palacio and McCool (1997); Diamantis (1999)], identify an ecotourism spectrum (see Figure 1) bounded by soft and hard ideal types which they empirically validate with a study of ecolodge patrons at an Australian National Park. Compared to soft ecotourists, hard ecotourists take longer, more specialized trips; are physically active; require few if any services; emphasize personal experience; and have a strong environmental commitment. Moreover, they are enhancive sustainers.

Figure 1: Characteristics of Hard and Soft Ecotourism as Ideal Types

HARD (Active, Deep)	SOFT (Passive, Shallow)
< ----- THE ECOTOURISM SPECTRUM ----- >	
Strong environmental commitment	Moderate environmental commitment
Enhancive sustainability	Steady state sustainability
Specialized trips	Multi-purpose trips
Long trips	Short trips
Small groups	Larger groups
Physically active	Physically passive
Physical challenge*	Physical comfort*
Few if any services expected	Services expected
Emphasis on personal experience	Emphasis on interpretation
Make own travel arrangements*	Rely on travel agents & tour operators*

Source: Weaver and Lawton (2002), Journal of Travel Research

In contrast, soft ecotourists take shorter multi-purpose trips, are physically passive, and desire a service-intensive, mediated experience. And unlike their counterparts, soft ecotourists are steady-state sustainers.⁹ In the WL study the ecotourism continuum was supported through cluster analysis; soft and hard clusters revealed significantly different intensities for all characteristics detailed

⁹ Doubts exist as to whether ecotourism can achieve any sort of sustainability. After all, the introduction of even the mildest impacts is likely to leave residual damage. By definition, however, ecotourism induces mitigating effects through educational legacies and redirected eco-dollars. See Lowman (2004) for interesting case studies on ecotourism's impact on forest conservation.

save the asterisked rows. But perhaps their most intriguing insight concerns the uncovering “of a large and distinctive cluster of **structured** (our emphasis) ecotourists” [WL, p. 278].

This third cluster, with respect to their commitment to the environment and enhance sustainability, as well as their physical activeness, is much like the hard ideal type (see the left-hand side bold items in Figure 1). However, with respect to their desire for service and mediation as well as their preference for short, large group, multi-purpose trips, structured ecotourists are similar to soft ecotourists (see the right-hand side bold items in Figure 1). In essence, the structured ecotourist cluster reveals a non-intermediate hybridized population that may express a soft ecotourism phenotype while carrying strong sustainability genotypes. Another way of stating this, which is central to the overall theme of this paper, is the following: *A large number of nature tourists engaged in what appears to be soft ecotourism activities are much more committed to environmental preservation than is commonly believed.*

This reality has profound implications for marketing, advocacy, and ultimately, sustainability [Singh et al. (*forthcoming*)]. And this point is perfectly consistent with what Weaver (2001) articulates when he opines that properly seen, ecotourism and mass tourism are not contradictory, but rather, offer mutually beneficial linkages. His underlying argument was that the impact of individuals engaged in ecotourism activity in either its soft form or as an offshoot of a mass tourism both numerically and financially dominates hard ecotourism activity.¹⁰ But unlike others who view anything other than hard ecotourism in its purest form as a corrupting influence, Weaver views the large clientele of marginal ecotourists as a revenue generator, lobbying force, and facilitator of scale economies [(2001), p.109].¹¹ All promote sustainability, which reaffirms our italicized proposition. Additionally, it highlights the imperative of further examination of the structured cluster.

With respect to this paper’s aforementioned objectives, the data support the notion of large numbers of tourists interested in service-intensive, mediated ecotourism. In the absence of market failure, competitive markets should yield travel options which satisfy this niche. Rather than view this from the perspective of

¹⁰ Wight (1996b) supports this outlook with her emerging ecotourism market trends that project an increase in soft adventure as well as educational travel. Additionally, Meric and Hunt (1998), utilizing a typology due Lindberg (1991), studied 245 ecotourists with recent travel experiences in North Carolina. Less than half self-identified themselves as hard-core nature tourists (1.3%) or dedicated nature tourists (45%) while about 54 percent self-identified as mainstream nature tourists (6.1%) or casual nature tourists (47.6%).

¹¹ Interestingly, Hvenegaard (2002) found a marginal relationship between birder specialization level and conservation involvement. Using cluster analysis, birders were segmented into advanced-experienced, advanced-active, and novice groups, which entailed decreasing levels of birder specialization. With respect to donation to conservation causes during the past year, no significant differences were found by specialization level.

the individual, we seek to offer a flavor of what we believe exemplifies structured ecotourism: the blossoming birding and wildlife festival industry. In particular, we examine the oldest and most significant festival held in the State of Florida. Thus, section three seeks to prove, in an informal but connotative way, the notion of wildlife festivals as a sub-category of structured ecotourism.

3. Structured Ecotourism

Birding and wildlife festivals (BWFs) have blossomed in the United States during the past decade [DeCray et al. (1998); Kim et al. (1998); DiGregorio (2002)] and manifest many of the characteristics that would be associated with structured ecotourism. BWFs are typically three to five day celebrations of birds, indigenous plants, and wildlife. Organizers utilize National Wildlife Refuges, National Parks, State Parks, and other protected lands, seeking to educate visitors about specie and habitat conservation as well as generate an economic impact for the local community. Activities typically include seminars on various species of birds and wildlife, field trips to parks and refuges, workshops on birding and photography, participatory events such as kayaking, horseback riding, and birding competitions, and activities which showcase much of the local flavor. In practice, BWFs combine elements of nature tourism as well as cultural and heritage aspects.

As stated in section two, WL's seminal piece identifies eight areas that overlap the sub-spectra of harder and softer ecotourists. Structured ecotourists share three characteristics with harder ecotourists: (1) strong environmental commitment; (2) an interest in events that promote enhancive sustainability; and, (3) events that are physically active. The five preferences that equate with or exceed the softer end of the ecotourism continuum are: (4) multi-purpose trips; (5) short trips; (6) larger groups; (7) services expected; and, (8) emphasis on interpretation.

In the conclusion to their paper, WL seek to determine, "How can the preference for observing nature in a wild and unrestricted setting, for example, be harmonized with the desire for facilities, services, escorted tours, and social stimulation?" [WL, p. 279] The source of WL's sample was a pair of Australian ecolodges. We assert and seek to informally prove that Florida-style BWFs, the first of which emerged in 1997, are synonymous with structured ecotourism. The Space Coast Birding & Wildlife Festival (SCBWF), the most significant BWF held in the State of Florida, will serve as a template.¹²

Brevard County, home of the SCBWF, is also home to the Kennedy Space Center and NASA—a unique combination to satisfy those who are interested in

¹² The SCBWF will be celebrating its 10th anniversary in January 2007. According to independent birding expert Pete Dunne who is the director of the Cape May Bird Observatory, the SCBWF was ranked the 3rd best birding festival in the U.S. in 2004.

multi-purpose trips. Dubbed the Space Coast of Florida, Brevard County has the distinction of an unparalleled collection of endangered plants and wildlife. The 2005 SCBWF offered 196 events with 624 persons registered for participation in one or more events. Overall, more than two thousand individuals participated in some aspect of the festival. Focusing on the crossover attributes cited above, we match each outcome identified by WL to the structure of activities for the SCBWF.

3.1 BWFs and the Hard Spectrum Bound

From the hard spectrum bound, WL determined that structured ecotourists possess a strong environmental commitment, support enhance sustainability, and prefer physically active events.

- Strong environmental commitment – Singh et al. (*forthcoming*) determined that festival attendees “were overwhelmingly positive about the need to protect and sustain the natural environment.”¹³

Selected highlights of the SCBWF provide further evidence of the appreciation and appeal of endangered species to festival attendees. The Florida panther, which once roamed vast areas of central and south Florida, is classified endangered and is struggling to survive as a species in the dwindling habitat that is protected from development. As an example of the SCBWF’s environmental commitment, one festival exhibitor, The Wildlife Care Center of Florida, displayed a young female panther which was born in captivity, providing guests a rare opportunity to see this magnificent creature. Another illustration is offered by The Raptor Project, a traveling collection of twenty or so diverse raptors. Many of the birds are handicapped; they were donated to The Raptor Project and serve as educational birds. A star performer, a young Arctic falcon, flew around the Brevard Community College-Titusville campus, the host site of the SCBWF, demonstrating species flight skills to attendees.

- Support enhance sustainability – Singh et al. report “a large and significant segment of the ecotourist market that is engaged in conservation efforts and whose attitudes about the environment influence their behavior towards environmental preservation,” supporting enhance sustainability.

The avid interest of SCBWF attendees in enhancing sustainability is evidenced by the presence and interest in The Owl Research Institute, a festival keynote. The Owl Research Institute is a non-profit set up to primarily study owls and their habitat. Another key note lecturer presented underwater and

¹³ The Singh et al. results are based on data collected from registrants at two Florida BWFs.

nature photography from around the world and emphasized Florida's connection to the rest of the world's oceans and waterways. Discussion centered on "shifting baselines," or how expectations of what we view as normal for an ecosystem is determined by when we see it. Moreover, a renowned documentary filmmaker presented two videos on the enormous impact that developing environmentally-sensitive areas has on the state's natural systems. As one example, excessive road-building accelerates rural land development, promoting urban sprawl at the expense of ecosystems.

- Preference of structured ecotourists to be physically active

The SCBWF spanned five days in November 2005 and included 31 field trips that ranged from passive wildlife observation boat tours to field trips requiring participants to hike for several miles, sometimes through mud and standing water, to observe birds and wildlife. For example, participants were led on a diverse habitat tour in and around Brevard County to see semi-tropical forests, pine flatwoods, freshwater marshes, and coastal dunes. Another group of 30 registrants traversed the Enchanted Forest Sanctuary, Titusville's 423-acre flagship property for the Brevard County Environmentally Endangered Lands Program. A less physically-demanding activity was the Pelagic Birding Tour offshore Cape Canaveral. Led by ten birding experts, the boat sailed a group of 80 registrants to "The Steeples," a productive location of underwater cliffs and seamounts that cause upwellings and current edges, especially along the western edge of the Gulf Stream. Occasionally the endangered northern right whale is spotted as it heads to the wintertime calving grounds. As a final example, SCBWF participants hiked the Lake Proctor Wilderness Area, a six-mile trail system through a 475-acre tract of Central Florida ecosystems ranging from sand pine scrub and bayhead to sandhills, pine flatwoods and wetlands.

3.2 BWFs and the Soft Spectrum Bound

As documented by WL, structured ecotourists share a preference with softer ecotourists for multi-purpose trips of short duration.

- Preference for multi-purpose trips

A sampling of activities available at the SCBWF are the field trips discussed above as well as an art competition, historical walks and seminars, a bird banding demonstration, paddling adventures, and seminars on topics ranging from ocean issues, anthropology, archaeology, paleontology, international travel and adventure, butterflies, wildflowers, birds, and wildlife. Workshops focus on optics, the study of specific species, and birding techniques. A growing interest in nature photography is satisfied with 21 offerings that cover digiscoping,

digital photography, basic bird photography, photography as art, and a photography field workshop. Leading experts and photographers conduct the workshops, bringing together an impressive collection of talent.

- Desire for short trips

The time span for BWFs is typically three to five days. The SCBWF is structured so that ecotourists may attend for one day or extend their stay beyond the formal five-day period of the festival to further enjoy the area on their own. The festival brochure has become a year-round outdoor adventure guide for Florida's Space Coast, enabling visitors to choose from a wide array of activities.

Structured ecotourists also prefer larger groups, expect a higher level of services, and requisite interpretation.

- Larger groups

The 2005 SCBWF attracted more than 2,000 individuals. Activities such as the field trips, seminars, and workshops discussed above are supplemented with social activities, providing people the opportunity to interact with the highly respected key notes, trip leaders, interpreters, and like-minded individuals. The structure of the SCBWF is such that registrants can choose as much, or as little, social interaction as they desire.

- Services expected

The registration process, which can be completed online, provides registrants a user-friendly means of choosing the flavor of their trip to satisfy their desire for birding, wildlife viewing, historical and cultural tours and seminars, or a more scientific choice of activities. The organizers also enhance the ease of travel by recommending hotels, restaurants, and other service providers in the area. The Titusville campus of Brevard Community College serves as the SCBWF headquarters where, upon arrival, visitors check in to receive their registration packets and rendezvous for the seminars, workshops, key notes, and some social events. The campus is the departure point for many of the field trips as well.

- Requisite interpretation

The SCBWF excels in providing interpretation to festival attendees. Due largely to the efforts of the primary festival organizer and entrepreneur, Laurilee Thompson, world-renowned experts participate as keynote speakers as well as

lead and provide interpretation in field events, seminars, and workshops. The areas provided are continuously expanded as exemplified by one of the most popular developments in recent years – digiscoping. Digiscoping combines the technology of the digital camera with binoculars to produce some breath-taking photographs that previously were the purview of dedicated professional photographers.

The SCBWF has evolved into an ecotourist attraction of international note due to the reputation and cache of the interpreters, appealing to the structured ecotourists' desire for service and mediation. This essay now concludes with an examination of three proposals to extend the emerging literature on structured ecotourism.

4. Research Prospectus

This section broadly outlines some proposed research extensions based on WL and an article written by Singh et al. (*forthcoming*) on environmental advocacy and sustainability. Two of these initiatives are intended to validate, from supply-side and demand-side perspectives, the ecotourist typologies established by WL. The objective of the third study is to uncover behavioral differences related to environmental advocacy and enhance sustainability, among these clusters. The latter study will also fully integrate, for the first time, the elements of the Tourism Triple-E into its modeling framework.

4.1 Extension 1: A Case Study of Structured Ecotourism Events

Because of its unique geographical location in the southernmost part of the eastern United States, Florida is endowed with the only tropical habitat (the Everglades) on the North American Continent. Florida's diverse habitats and favorable climate, together with the confluence of two flyways, attract many species of birds and provide spectacular settings for staging ecotourism festivals and events. More than twenty bird, wildlife, and nature viewing celebrations [Slotkin and Vamosi (2006)] combine the elements of the Tourism Triple-E (previously described) to attract ecotourists to their host communities and promote environmental sustainability. The relative newness of these festivals provides an ideal opportunity to study the ecotourism typologies identified by WL from a supply-side point of view.

The first study in the proposed agenda is to develop a case analysis centered on at least four BWFs hosted in the State of Florida. The purpose of the study would be to validate, from the supply-side, the existence of a structured ecotourism market, and to test the thesis that nature-based festivals and events reflect a market-driven response to the structured ecotourist typology. Each festival will be evaluated with respect to the 10 criteria listed by WL (see Figure 1). The information will be gathered using closed end Likert-scaled survey items, in conjunction with extensive interviews with festival organizers.

In choosing the events to investigate, consideration will be given to the strategic mission advanced by the festival's organizers. Doing so would provide an additional dimension on which to evaluate the festivals, thereby increasing the likelihood of reaching generalizable conclusions. The objective is to determine whether strategic missions manifest into significant differences in the types of activities and services offered at these festivals. We expect that they do.

The relevance of strategic mission is highlighted in a case analysis written by Chambliss et al. (2002), which compares economic performance and management planning at the Florida Keys Birding & Wildlife Festival (FKBWF) and SCBWF. Although both festivals adhere to the tenets of the Tourism Triple-E, significant differences exist in the respective missions espoused by the festival organizers. The organizers of the FKBWF agreed on an education-based mission "to create awareness of the unique birds and wildlife of the Florida Keys, particularly amongst locals, through education and conservation." In contrast, Ms. Laurilee Thompson, the chief architect of the SCBWF, espouses an economic-based mission that she believes fosters conservation efforts. So while both festivals champion the cause of environmental conservation and sustainability, the strategy used to promote this vision varies.

4.2 Extension 2: Ecotourism Typologies at the SCBWF

WL have provided a valuable contribution to the literature by identifying the structured ecotourist typology, a market segment that resembles soft ecotourists on some dimensions (trip type and services) and hard ecotourists on other dimensions (attitude and behavior). Analogous to citizens who identify their political beliefs as both "**fiscally**" conservative and "**socially**" liberal, the structured ecotourist displays behavior on the polar ends of the ecotourism spectrum: "**product-type**" soft on one pole and "**environmentally**" hard on the other pole. Structured ecotourists reveal a preference for short, multi-purpose trips, in larger groups, to destinations offering high levels of service and superior interpretation. Moreover, their attitudes and behaviors reveal a strong commitment to environmental conservation and the ideals of enhance sustainability.

WL caution against generalizing these findings without further corroboration, and suggest extending their survey to a broader array of ecolodges and to other "accommodation and non-accommodation settings." The SCBWF presents an almost ideal event with which to validate the ecotourism typologies found by WL, and to examine cross-cultural differences in behavior, attitude, motivation, and activity preference between ecotourists residing in Australia and those residing in the United States. Given our proposition that BWFs are a market driven response to the structured ecotourist typology, our research hypothesis is that the SCBWF attracts a significantly higher proportion of structured ecotourists than softer or harder ecotourists.

WL crafted a simple methodology that avoids biasing the sample frame with people from the general traveling population. They did so by targeting the consumers of a common ecotourism service: overnight ecolodge accommodations at facilities that have achieved advanced ecotourism accreditation status and that are situated within a one-hour drive from the internationally acclaimed beaches of Australia's Gold Coast. The reputation of these two ecolodges, combined with their fortuitous location near the Gold Coast, serves to draw, in total, about 35,000 visitors annually. From this large pool of known consumers, the authors mailed questionnaires to a randomly selected sample of 3,000 individuals (1,500 from each lodge).¹⁴

The SCBWF parallels some key attributes that WL exploit in their sampling methodology. Foremost, the SCBWF is recognized as one of the premier BWFs in the United States, and is the industry benchmark for the more than twenty festivals held yearly in Florida. Second, the host city of Titusville is strategically located near the internationally acclaimed Cocoa Beach (home to Ron Jon's Surf Shop) and Kennedy Space Center, and is only a 45-minute drive from Disney World in Orlando. The close proximity to these venues makes Titusville an attractive, year-round destination for ecotourists of all types. In sum, the coalescing of these attributes, (renowned ecotourism event and favorable location) increases the likelihood of segmenting the ecotourism market into the three population clusters identified by WL.

Following the guidelines of WL, the sample frame for our proposed research will be drawn from a known pool of registered visitors at SCBWF during the past five years. In order to limit sample bias and to focus on the behavior of ecotourism consumers, festival participants who are attending the event primarily to offer some service (festival organizers, vendors, volunteers, tour guides, seminar leaders, etc.) will not be surveyed. A five-year window is chosen in order to increase the population pool of festival registrants from which to sample. Unlike the two Australian ecolodges, which draw thousands of visitors annually, the SCBWF is a short-lived event (five days) that attracts about 600 registered visitors per year.

In terms of validating their findings, there are three notable differences in the proposed sampling frame that should provide a valuable contrast to WL. *First, the ecotourism service consumed by the visitors differs between the two studies.* WL target consumers of an accommodation type, independent of the ecotourism activity consumed, while the proposed research targets consumers of an event type, independent of the accommodation type consumed. *Second, SCBWF draws primarily birders to the event, arguably the largest ecotourism activity in the United States.* Validating the ecotourism typologies to this important sub-group would be a significant contribution to the literature. *Third, the sampling frame*

¹⁴ This is the only paper on ecotourism typology, to our knowledge, that employs a pure simple random sampling methodology.

will be limited to people residing in the United States. Contrasting the cross-cultural differences in behavior, attitude, motivation, and activity preference between ecotourists from different countries (United States and Australia) adds a further, unique dimension to the study.

4.3 Extension 3: Structured Ecotourism and Enhancive Sustainability

Whereas the first two extensions are intended to validate the *soft, hard, and structured* ecotourism market segments from both supply-side and demand-side perspectives, the third extension more fully explores the determinants of environmental commitment and enhancive sustainability for the three ecotourist typologies. The proposed study will build on the work of Singh et al. (*forthcoming*) who use a marketing-oriented theoretical backdrop in modeling the relationship between attitudes, perceptions, and beliefs on environmental activism and enhancive sustainability.

Conceptually, the term environmental activism reflects actions that demonstrate a significant (high) level of environmental commitment. The authors developed an operational construct, ACTIVISM, which includes a) educating others about the relevance of environmental issues, b) volunteering at local wildlife and/or nature festivals, and c) revealing a preference to financially support organizations that address environmental issues.¹⁵

A principle component analysis, applied on a group of five-point Likert-scaled items, uncovered the following six factors, which encapsulate dimensions concerning environmental issues.

- Attitude Towards the Environment—personal attitude towards the preservation of the environment/wildlife
- Environmental Knowledge—knowledge and awareness of current environmental issues.
- Public Policy Outcomes—perceptions and opinions about environmental policy outcomes in the U.S.
- Stakeholder Responsibility—opinions about the role of the individual and role of the government in environmental preservation.
- Personal Relevance—relevance of environmental issues for self.
- Interrelationship—attitudes about the relationship between human and environmental well-being.

Estimates from a multiple regression show that all six factors significantly influence the ACTIVISM construct. Moreover, regressions on the individual and paired-items, which comprise the construct, confirm that the three most significant variables are personal attitude towards the environment, environmental

¹⁵ The three items are each measured on a five-point Likert scale.

knowledge, and public policy outcomes. Environmental activism is positively related to both personal attitude towards the environment and environmental knowledge, but is inversely related to perceptions (beliefs) about public policy outcomes.¹⁶

Turning to the issue of enhancive sustainability, the authors estimate a series of binomial logistic regressions using, as dependent variables, Yes/No responses to the following three statements.

- Within the past two years, I have signed petitions urging government and other organizations to protect wildlife and/or nature.
- I am an active member of a wildlife or nature preservation organization.
- I provide contributions to wildlife or nature preservation organizations.

Consistent with the findings associated with activism, environmental knowledge strongly predicts affirmative responses for all three items. In comparison, personal attitude towards the environment influences contributions only, while public policy outcomes affect both contributions and the signing of petitions, but does not affect active membership. Stakeholder responsibility, not surprisingly, emerges as a significant determinant of enhancive behavior, as reflected by active membership and monetary contributions to wildlife and nature preservation organizations.

The modeling framework used by Singh et al. can be enhanced in a number of ways. First, sorting the sampling frame according to *soft*, *hard*, and *structured* ecotourism clusters would allow for a richer analysis of environmental activism and behaviors that are reflective of enhancive sustainability¹⁷, and perhaps uncover further differences among the three ecotourism typologies. Second, the list of survey items should be supplemented to include the economic element of the Tourism Triple-E. A fruitful approach, grounded in the tenets of the Tourism Triple-E, would be to design survey items that capture attitudes and perceptions of the interrelationship between environment and economy, and education and the economy. Quoting Ms. Thompson, “The only way you can preserve land is to show that the land, in its natural state, has an economic value.” Third, since environmental knowledge appears to be the single most important determinant of environmental activism and sustainability, its relationship to the quantity and

¹⁶ The result associated with public policy outcomes is noteworthy. Negative perceptions and attitudes toward public policy outcomes generate a greater level of commitment to ACTIVISM. Stated differently, when respondents deem public policy initiatives to be inadequate, their commitment to actively engage in environmental preservation strengthens.

¹⁷ Additional elements relevant to enhancive sustainability can also be addressed. For example, citizens of Brevard County, home to the SCBWF, voted to tax themselves up to \$55 million dollars to purchase environmentally endangered lands for conservation, passive recreation, and environmental education. The Environmentally Endangered Lands Program was established in 1990 and reaffirmed by the residents of Brevard County in 2004.

quality of interpretative services provided at ecotourism events (which is highly valued by both soft and structured ecotourists) needs to be more fully explored.

These research extensions would significantly contribute to our understanding of the multi-dimensional aspects of ecotourism. More importantly, the uncovering of the scale and scope of structured ecotourism greatly advances the quest for sustainability.

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MICHAEL CARMONA*

ROLE OF URBAN DEVELOPMENT IN REGIONAL DEVELOPMENT

Does a prosperous city bring prosperity to the surrounding region? Does the wealth of its inhabitants bring wealth to the surrounding villages, towns and boroughs? There is a general trend to answer “yes”, thus considering that the city automatically transmits its own dynamism to the neighbourhood; and yet, this issue is much questionable.

In order to develop a cost/benefit analysis of the problem, I shall use the post-war experience of France in town and regional development.

On the first days of January 1949, a french geographer, Jean-François Gravier, published a book bearing the following, very provocative title: “Paris and the French desert”. At this time, during the immediate post-war years, Paris was swiftly recovering from the injuries inflicted to buildings and factories (notwithstanding the human losses) by the war and the battles for the liberation of the national territory; the governments have been since the end of the war facing the following question: when reconstructing the damaged car manufacturing plant of the Renault company (which had just been nationalized), should the decision be made to reconstruct the plant on the same site, close to the municipal border of Paris, or should it be wiser, easier and less expensive to relocate the plant elsewhere in France, why not at a distance of 300 to 500 kilometers off Paris, where the land costs nothing, and where considerable supplies of cheap manpower are available? The decision was made to reconstruct the plants on the same, historical site, in order not to lose time, and considering precisely the existence, inside Paris and the suburbs of Paris, of a skilled manpower.

The same decisions were taken when the governmental authorities had to finance the reconstruction of truck manufacturing, heavy chemical machinery, paper industry, aeronautic plants, for, mills, slaughterhouses. Paris was before World War II the first industrial region of the country, despite the fact that Paris and its region completely lack any kind of mineral resource, such as coal, iron, gas, hydraulic energy. After reconstruction was enhanced, Paris still remained the first industrial country of France. Moreover, Paris benefitted immediate positive effects of reconstruction which were up-to-date equipments and fittings; much of the corresponding cost was met by the Marshall plan which enabled the

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country, and specially Paris, to implement a large-scale modernization of the industrial tool.

This is what happened from 1945 to 1949–1950, and explains why Jean-François Gravier wrote his book. Gravier understood what the consequences of this rebuilding of industrial Paris would mean.

The first consequence was to attract to Paris and to the neighbouring communities of the capital city all young skilled, learned and ambitious people. There has been indeed a huge brain drain, mainly drawing to Paris youngsters from all other regions of France. Inside the Paris region itself, which accounts for a mere 2% of the territory of France, the same phenomenon happened. Half of the area of this region of Paris is covered by farms, and dedicated to agriculture, one fourth is covered by forests, and one fifth is covered by the city of Paris and its suburbs. After World War II, the agricultural communities, the villages, the small towns all around Paris suffered the same workforce drain; the territories located in the outskirts of Paris quickly became empty, except here and there, when fresh areas were needed for urban purposes. Paris and the neighbouring suburbs, between 1950 and 1954, gained every year a net surplus of 140.000 inhabitants – that is 560.000 inhabitants in 4 years. This was at the expense of all regions of France, but mainly the territories located in a range of about 200 kilometers around Paris, from which a majority of these people originally came.

This workforce drain had in some sense a positive effect for the deserted regions, since the agricultural activities, lacking workforce, had to turn to intensive mechanization, thus accelerating the modernization of the French agriculture, and in turn convincing more young people living in the countryside that they would make a better living by migrating to Paris.

A second major consequence of this demographic tide was that the increase in the Parisian population brought extra customers to the Parisian consuming market, thus favouring the creation of new industries, new services, new shops, and distributing more salaries, more purchasing power, more wealth in Paris and in the communities around Paris. Paris was an overcrowded city, with more than 3 million inhabitants packed on a surface of 100 square kilometers, and the overspill of the population in the suburbs was accelerating, the suburbs of Paris accommodated 2 extra millions before the war burst; the figure became 3, then 4, 5, 6 million; today, the population of the city of Paris has dwindled to 2 million, and the suburbs have climbed to 9 millions, leaving a poor 500.000 inhabitants to the rural part of the region. This piling of inhabitants in the suburbs of Paris produced a downgrading of the quality of life, since housing mixed with heavy industry plants; the absolute priority granted to industrial production allowed environmental conditions to become worse and worse; but the people, as well as the governmental authorities, cared very little for that, since high wages, lively conditions of life and entertainment, were present.

Most of the newcomers were young people, and they married earlier than today, made many babies, fuelling in this way the increase of the consuming market; they needed new housing, with bigger apartments and houses to host their numerous children. Many districts inside Paris had to be renovated, that is, the former old buildings erected during the nineteenth century were pulled down, and new high rise, built after the most modern rules of the realistic socialism style, triumphant all over Europe, were completed. At a time, Paris had little place left for these new built areas, and governmental authorities were looking for spatial extension, that is coveting green areas outside Paris, where corn, vegetables and beets were grown, and which could be bought at a low price in order to be transformed in new urban districts.

As for the elderly people living in Paris or in the dense suburbs surrounding Paris, since the environment was bad, when they retired, they had no need to remain in the bad conditions of life prevailing in the capital city; so they naturally tended to leave Paris in order to settle in the countryside, and, for that purpose, they bought deserted houses in deserted villages all around Paris.

So new inhabitants came in the agricultural territories surrounding Paris: one category was provided by young people establishing in the new buildings which were just dormitories to them; a second category were elderly persons, retired from Paris, and still bearing the habits of a long duration of life in a big, lively city; they quickly were bored to death by the quiet life of the villages.

Urban people and agricultural people really belonged to two worlds which were completely ignoring each other. I have a personal memory which strikingly illustrates this situation. At the beginning of the sixties, the French State had decided to buy a big plot of land in a small community located exactly 14 kilometers east of the cathedral of Paris, the so-called Notre-Dame cathedral, which marks the center of all the French road networks. A distance of 14 kilometers from the cathedral means that this small community is located at a distance of 9 kilometers from the eastern limit of Paris; there is a train going from inner Paris to this small community. The name of the village is Sucy en Brie; the name "Brie" refers to an agricultural and historical region which lies close to Paris, extending eastwards till it merges with the neighbouring region of Champagne. Historically, in Sucy en Brie, there were fields where cattle were grazing – hence a special cheese, very reputable in the wide range of French cheeses, called "the Brie" cheese; in Sucy en Brie, there also were vineyards formerly belonging to the chapter of Notre Dame; and there were three or four properties belonging to rich families which used to go there during the summer, because Sucy lies on the ridge of the plateau of Brie-Champagne and is so close to Paris. So the government had decided to buy two of these big properties in order to build there thousands of realistic socialist blocks for young people with children living and dreadful conditions in Paris. When you say children, you mean of course schools. In 1964, I was starting to work in the office of the Head of the Planning Department in the Ministry of Education, and, to please the

parliamentary deputy of Sucy, the Minister had taken the decision to build in this former village a brand new college. And so I was sent to Sucy to look after possible locations for the erection of the new college. With the deputy, we met the owner of the location which appeared to be the best; it was not very difficult to find out the owner: he was the mayor of Sucy, the owner of a significant proportion of the agricultural areas of Sucy-en-Brie; when started looking for him, were told in which of his fields we could find him, and finally met him in one of his properties; he was sitting on top of his tractor; he greeted us very cordially in the midst of the thick, heavy, drenched mud, and accepted instantly to sell to the State the piece of land needed for the construction of the college. Then we started chatting about his life and experience. He was already an aging man, and was very talkative. The most striking thing was when he told me: Look, young man; I am very proud for one thing; I was born in this small community, and I have been elected Mayor many years ago. During my life, I have been only three times in Paris; once, in the day I was summoned to join the army when started the second World War; the second occasion was when in 1952 the Queen of England, Elizabeth II, visited Paris; and the third time was in 1960 when the government decided to launch the creation of the two new housing districts in Sucy en Brie, and the Minister of Housing insisted on receiving me personally because he wanted to tell me how lucky I was since the government would consequently finance a new town hall, the modernization of the railway, commercial structures, and new plants in the low fields lying between Sucy and Paris. Three times in a whole life.

Which lessons can we draw from the example of Sucy? Paris used this community first, before the middle of the XXth century, for wine and cheese providing, and for the summer holidays of wealthy Parisians. Then, in the sixties, Paris remembered that this community could also provide cheap land to locate in a pleasant environment thousands of new dwellings. And since this region started begin occupied by houses, it made sense to attract, in the area lying between Sucy en Brie and the boundaries of Paris, industrial parks, where plants for the new goods asked for by our modern society could be manufactured, such as electrical bulbs, refrigerators, washing machines, but also a huge garbage disposal area and a big waste water treatment plant.

To tell the truth, Sucy en Brie is nowadays a very nice community, with more than 25.000 inhabitants, with 40% of the surface still remaining in green space and forests, with well-kept streets and public space, a great deal of equipments which contribute in the global welfare. The former parliamentary deputy is now member of the French Senate, he has been elected Mayor of Sucy en Brie ever since the former Mayor has died. No pollution, excellent links with Paris thanks to the railway which has been integrated in the express transit railway system of the region of Paris.

A history of many other local communities around Paris would be very similar to that of Sucy en Brie. Wealthy people from the nobility or the high

bourgeoisie buying properties around the city, and in general taking care of the agricultural production in such a way that the agriculture in the region of Paris is one of the richest and most productive in France. After the industrial revolution starts, plants overflowing past the boundaries of the city of Paris, rapidly surrounding Paris with a continuous ring of factories, a forest of high chimneys spitting smoke and ashes in the sky. Then part of them closing down to reopen farther away, while new houses replace them. In the social geography of Paris, wealthy communities are more numerous in the west, low classes being more densely clustering in the eastern suburbs. In the wealthy local communities, a new phenomenon has developed; these urban suburban locations has started attracting some high level equipments, such as universities, high schools, engineering schools, laboratories. Top managers, because they rather live in the west and the south-west part of the Parisian suburbs, have, after the years seventies, contributed in pushing to this part of the area the new offices in which banks, insurance companies, headquarters of industrial or commercial companies, have relocated when it became obvious that staying in Paris, insided prestigious but inadequate buildings, was no longer a solution for better productivity and efficiency. Logically, a high proportion of the modern office space in the Paris region located in the western suburbs, in spite of all the efforts which the governments have deployed during the last 50 years to impede such locations and encourage relocations also in the eastern part of the suburbs and region of Paris.

An analysis of where the wealth is located shows that it is concentrated in the western half of Paris and of its suburbs; on the contrary, poor people, shabby industries and damaged landscape are concentrated in the east.

This shows that the city does exert a strong influence on its local environment, should it be positive or negative. If you look at figures of population, the north and the east of inner Paris, of its suburbs and of the neighbouring region, accommodate more or less one half of the overall population; but in what conditions of life! Jobs are located in the west, and this means transportation and commuting. These housing districts are often decrepit, and they are the places where hundreds of cars burn every night. Dynamism does extend from inner city to the local environment, but also the negative consequences of dynamism. Can the local authorities do much to impede such effects, to turn them in a positive way? History of the last 50 years shows that it sometimes happens, but in general these phenomenons are much more often underwent rather than asked for and managed by the mayors of these communities.

The same situation can be observed in the other metropolitan regions of France. The weight of Paris and its economy and wealth is overwhelming in France; yet, due to the distances from Paris to the borders of France, a fair number of major cities scattered along these borders have managed to develop, through the natural trends of history, and thanks to tremendous efforts started

after the beginning of the sixties to enhance regional development in other regions than the region of Paris. France has three conurbations reaching or exceeding a million inhabitants, Lyon, Lille and Marseille; others have some 600.000 to 700.000 inhabitants, like, for instance, Bordeaux and Toulouse. These metropolitan areas are significantly named by the name of the main city, and as a matter of fact, the main city is the core of all movement, impulse and attraction in the metropolitan area; there are located the universities and engineering schools, the headquarters of the regional authorities, the regional headquarters of the banks; there are the local stock exchanges, the regional headquarters of the railway company, the most sophisticated commercial structures, the theaters, the finest cinemas, the opera houses and concert halls, and so on.

For instance, Toulouse, some 600 kilometers from Paris, in the direction of the South, has been lucky enough to escape the major injuries of the two World Wars. It has become a capital city for aeronautics and space industries; Toulouse hosts the most important plant of the Airbus plane, and has Universities and research centers enjoying a high international reputation. Moreover, the city is lively, colourful, and its inhabitants are very devoted to the community. So, Toulouse is a dynamic city. Consequently, Toulouse is attractive, and attracting people and companies. Toulouse has such a grip on the regional local communities that economists are now currently describing the relationship between Toulouse and these communities as “Toulouse and the Toulouse desert”; the medium size cities scattered all around Toulouse within a range of 80 to 100 kilometers experience a thorough aspiration of their local activities for the benefit of Toulouse, while Toulouse sends to them retiring people, or low income families in the need of low cost housing with a piece of garden for their two, three or four kids; in many cases, these families are constituted by immigrants, with people facing heavy problems of integration in the French society. The rural districts around Toulouse have all united in a formal league designed to oppose ambitious Toulouse. They constantly strive to direct towards the rural space a fair proportion of the national and European subsidies flowing to the dynamic industries which account for a major part of the dynamics of the city of Toulouse. The local communities complain that local companies leave to re-settle in Toulouse, while Toulouse sends poor people to them, or people who ask for gated communities.

When a local company leaves its settlement to relocate to Toulouse, it is indeed a drama. When, instead, gated communities appear, designed around a golf course, and there are many in the region of Toulouse, what happens? They bring to these rural districts money flowing from the pockets of well-to-do customers. At the same time, these customers seek to have the highest bio quality for the products they eat such as meat, vegetables and fruit; bio products are sold in France at prices at least 15 to 20% higher than the ordinary ones, and this brings again revenues to the local farmers. The same refined customers do not drink, like the workers drank in the old times 7 or 8 liters a day of low

quality wine; they drink perhaps only one or two glasses of wine, but they want this to be good, natural, and thus push higher and higher the quality of the local vintages. They want to use their leisure by rowing on the local lakes and rivers, cycling, riding on horseback, and this, again, provides work to the local companies, permanent jobs and consistent resources to the inhabitants of these local rural communities; even younger people from the city go to work to these new communities because they can get fine jobs in a pleasant environment, and this matches with the general request for a better quality of life, closer to the natural ambient.

Without Toulouse, where would such local economy of the rural part of the region stand today?

So, it is true to say, because reality is there, that the dynamics of the main city can bring many discomforts to the region all around. The region is considered by the city as a waste area where one can dispose garbage, implement water treatment plants, install domestic waste incinerators, develop airports, logistics deposits, freight railway stations, oil refineries, power plants, psychiatric units, lunatic asylums, detention centers, wholesale markets, all equipments necessary for our life but which everybody prefers to veil and, if possible, completely ignore. It has often been said that the suburban area of Paris is the doormat of France. Insulting as this remark can be, it betrays very conspicuously the way urban planners and policy makers consider the surroundings of the city.

But on the other hand, there are benefits for the neighbouring region. With the development of the demand for better landscapes and natural environment, the rural districts inside an urban region can drag money and jobs to enhance the aspects of natural space through national and regional parks creation, through ecotourism activities, through biological agriculture, through leisure, hiking, thermalism. Hosting an airport means cashing incurring resources, even if it brings restrictions to the possible development for housing; but noise and strict regulations regarding the height of the buildings do not impede the implementation of exhibitions facilities, showrooms, marts, hotels, offices, cash and carry stores, and so on. If a rural area, because of the availability of space, is requested to host a research center or a new faculty, this first means money; but it also means, in the medium and the long term, people one day making the decision to establish their living in the neighbourhood of the laboratory or school where they work day after day; and once you have a certain number of scientists and researchers living on the spot, this means that you need people to provide them services for hospital or health cures, take care of their children in the kindergartens, run shops to meet with their daily needs. And all this means incomes, revenues, and more wealth to be distributed throughout the area.

The question now is: how to establish a fair balance between advantages and disadvantages? No mathematical formula can provide the right answer; this is why all countries in Europe try to encourage the constitution of local forums, or

conurbations councils, where people living on the territory of a so-called metropolitan area, around a main city, can discuss about common interest and agree on some common paradigms about how to share the burdens and the benefits of the growth and dynamics. The solution to this problem, which was not unknown in older times, has long been to simply push further away the administrative limits of the growing city; Europeans experienced like this, greater London, greater Berlin, greater Wien, greater Paris, and the creation of Budapest as one city through the merger of three cities, Buda, Pest and Obuda, without forgetting the latest contemporary extension of the boundaries of metropolitan Budapest with its 23 districts. Notwithstanding the fact that Budapest, today, means even more than the metropolitan city alone, but includes communities located in the county of Pest and even further, thus justifying the recent creation of the BAFTA Council.

Such councils have been experienced in many similar situations. Sometimes, they appear then disappear, like what happened to the first GLC, Greater London Council, like things happened with the liquidation of the Urban Community of Barcelona decided by the regional authority of Catalonia. Paris has no such joint committee with its neighbours; there are separate cooperations for domestic refuse burning (but not collection), cooperation for the waste water treatment (but not for the fresh drinkable water production and distribution); public transportation is managed by the State and by the regional authority. Many other examples can be produced, such as those of Istanbul, of the Metropolitan cities of Italy, of Mexico, Djakarta, Cairo, Buenos Aires, etc. They all show that there is a deep concern about the need for joint decision and action throughout a regional space if one wants the benefits of the dynamism of the main city to be better used.

After World War II, a French economist, François Perroux, issued a new theory of development, stressing the key role of so-called "Development poles"; it became a very popular theory of development, for the redevelopment of distressed areas in already developed countries as well as in developing countries. It explained that erecting a major modern pole for instance for shipbuilding, car manufacturing, oil refining and treatment, steel, aluminium, or whatever else, brings modern equipments, habits and mentality to an area, and that development then irradiates all around the neighbouring country. The theory has proved wrong, which does not prevent governments and international institutions to still refer to it because it is easier than starting to scatter smaller actions and initiatives on a wider territory. Experience has proved that development does by no means irradiate by itself, but needs to be organized and channelled, through an accurate governance, taking into account the local traditions, ambitions and institutions if one wants to give way to initiatives aiming at mutual benefit for city and region.

ÉVA ZÁM

The different factors of regional competitiveness; a few characteristics of the North-Hungary region

The regional information sharing has changed greatly over the past couple of decades. From the mid 1990s the content and aspect of the analysis has tried to suit that of the European Union's requirements. In her study the author looks into the dilemmas of measuring regional competitiveness as well as the characteristics of the competitiveness of the North-Hungary region.

She also studies the data in statistical index-numbers used to measure competitiveness, its limitations, calculation dilemmas and the method of multiple variables which is used in regional studies but has been found to have questionable methodological background.

The author studies the North-Hungarian region's competitiveness in the EU NUTS 2 ranking via some pinpointed indicators. She also carries out a comparative comparison on the Hungarian statistical planning regions. Finally, she also studies important characteristics that are deemed such for the growth of the particular region. Resulting from this she concludes that the development of the North-Hungary region is extremely low. The North-Hungary region comes last or last-but-one in nearly all of the analysed areas and shows slight improvements in a few areas only.

The systematization and publication of information based on regional aspects is not a recent development; it has been performed since the foundation of the Hungarian Statistical Central Office (KSH) in 1867. Naturally, the provision of regional information has changed a lot since its beginnings. The fundamental questions of examination, the regional levels and the methodology of examination from descriptive statistics to complex socio-economic analyses have been changing continuously to a significant extent.

The prominence of regional statistics started in the 1970s with the examination of the network of settlements, but the real breakthrough coincided with the new environment (increasing regional differences, rapid increase in the number of business organizations, high number of small companies) that was created by the change of political regime in 1989.

From the middle of the 1990s, the approaches and contents of analyses have been trying to conform to the requirements of the European Union. (Sándor I. 2002.)

There have been significant changes in the research of regional processes not only in Hungary, but also throughout the world. These changes can be explained through the following aspects of the profession:

- globalization (advanced technology, international companies, international money markets and institutions) resulted in a striking polarization between individual regions;
- individual course of development of certain large groups of countries (for example, the former socialist countries, oil producing countries, the quickly developing countries of South-East Asia);
- the process of state decentralization;
- organization of regional networks (mainly economic clusters);
- subsidy policy related to regions.

In addition to the above issues, researchers in Hungary and abroad often raise the question of what it is that lies behind the current boom of regional research. (Nemes Nagy J. 2005.) Is it only the naked interest to acquire new resources, or is it really true that “the new focus on the competitiveness of regions, geographical concentrations and city economies does not stem from a kind of fashion for regional politics or concepts; instead, globalization really has created a new economic space”. (Lengyel I. 2000. p 45)

It is most likely that both opinions have reason for existence. With their purpose-built regional development strategy, more developed regions strive to exploit the advantages provided by the new economic space, while less developed regions primarily concentrate on acquiring extra funds. The latter group is less able to enjoy the positive economic effects of regionality, since these effects only materialize in their interest to acquire regional subsidies, which derives from their relative underdevelopment. However, in the long run, these subsidies contribute to the development of the identity of the regions and can prove to be useful in elaborating regional development strategies; therefore, they eventually promote the socio-economic development of these regions and assist in decreasing the gap that exists between them and other, more developed regions.

In my research, I investigate the dilemmas related to the measurement of competitiveness, and examine some features characteristic of the competitiveness of the North-Hungary region.

Some dilemmas related to measurement

Competitiveness “means an inclination and readiness to compete: the ability to gain positions and to hold them on a permanent basis”. (Lengyel I. 2006. p 131) Regional competitiveness – as formulated by Regional Interim Report No. 6 of the European Union, completed in 1999 – means the ability for permanent development in the global space, i.e. “sustainable regional economic development serving the permanent improvement of living standards, achieved

alongside a high rate of employment.” (Lengyel I. 2000. p 138) Therefore, competitiveness is not only a narrow economic category. It is a complex concept that cannot be measured by only one indicator. Competitiveness is commonly measured by the following index numbers:

- regional GDP per capita and its growth rate,
- level of labour productivity and its growth rate in the region,
- economic activity proportion and rate of employment of the region, and the changes of these indices.

Naturally, researchers engaged in the measurement of regional competitiveness have applied several approaches in recent years. The majority of Hungarian research applies Lengyel’s pyramid model, which by its complexity and through defining the so-called basic factors and success factors provides support for judging the sustainable development of regions.

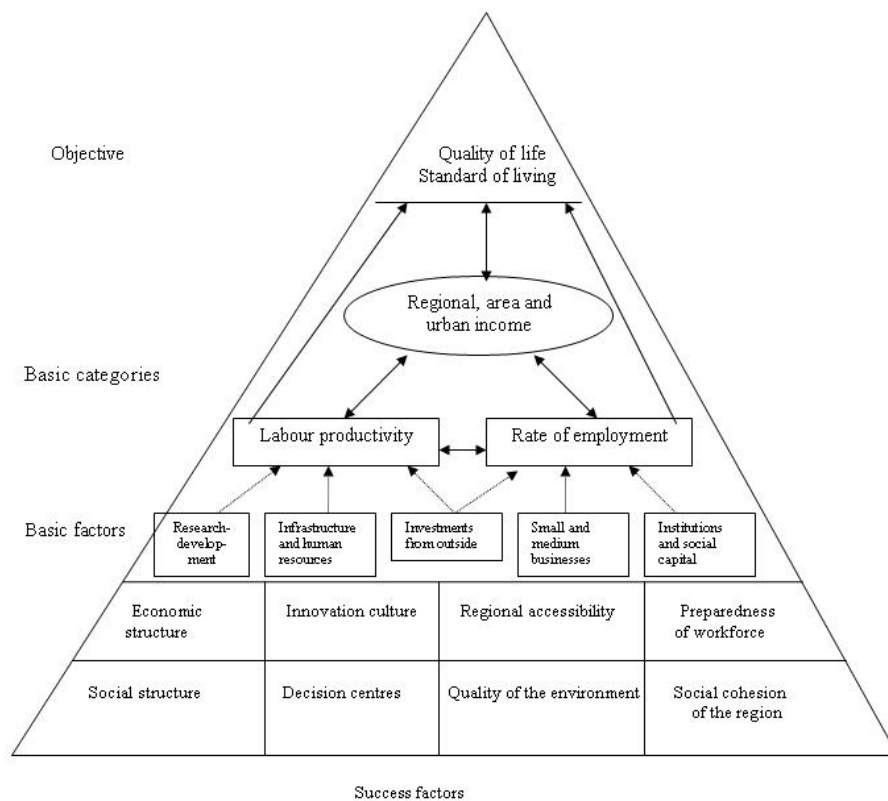


Figure 1. Pyramid model for regional competitiveness

Source: Lengyel, Imre: A regionális versenyképesség értelmezése és piramismodellje. Területi statisztika March 2006, page 139.

Building upon this model, some Hungarian researchers arrive at the concepts of objective and subjective competitiveness. (Barna – Dr. Molnár-Juhász 2005.) By the concept of objective competitiveness they mean competitiveness that can be described by so-called strategic factors, i.e. in this model they strive to identify factors directly affecting the developments of GDP figures.

Besides the above pyramid model, the authors consider Parliamentary Resolution no. 24/2001. (IV. 20.) as a starting-point. The said resolution prescribes economic, infrastructural, social and employment indices for the purpose of determining the micro regions that are entitled to allowances (19 indices).

Based on the contents of this resolution and the available statistical database, the authors considered 17 indices as strategic factors of the model.

Using correlation calculation, they determined the intensity of the relation between GDP figures per head for the years 1997, 1999, 2001 and 2003. Only considering correlation coefficients of 0.7 or greater as defining, the so-called “primary strategic factors” (objective competitiveness) were established, which – according to their calculations – could be approximated with the following seven indicators:

- number of operating businesses per 1000 residents,
- number of cars per 1000 residents,
- population,
- density of population,
- length of sewage system per 1 km of water system
- rate of permanent unemployment,
- rate of unemployment.

Within the scope of the inspection, the strongest link was found between the number of businesses per 1000 residents and the GDP per capita figures. (Barna – Dr. Molnár-Juhász 2005. p 551)

One of the biggest advantages of this model is that it can be used to examine the competitiveness of area levels for which the Statistical Office does not provide GDP data (the smallest regional unit for these figures in Hungary is the county), and can significantly simplify the administrative, excessively bureaucratic preliminary work required for the granting of subsidies.

The other pillar of the model is subjective competitiveness, for which the data to be integrated are collected and processed based on public opinion.

At the same time, we have to understand that this model is peculiarly Hungarian; moreover, it relates to a specific – hopefully short – period within the socio-economic development of the country. In particular, this period is characterized by a great number of necessity entrepreneurs, and the existence of water systems operating without sewage systems, etc. Therefore, in my opinion, this model can be used less effectively for the examination of longer timelines and in international comparison.

We will further disentangle the definition of regional competitiveness using the works of Miklós Lukovics, who relied on the results of empirical examinations in his inspections into the classification of Hungarian counties and Budapest into types based on competitiveness, using cluster analysis. (Lukovics M. 2006.)

By comparing the results of classifications performed so far (Porter–Enyedi–Rechnitzer–Lengyel–Martin), he distinguishes between three types of regions: relatively developed, moderately developed and relatively underdeveloped.

In his measurements of competitiveness, Mr. Lukovics applies the fundamental categories and fundamental factors of Lengyel's pyramid model with approximating and explanatory variables (13 variables are examined in respect of the fundamental categories, while an additional 22 variables are examined in respect of the fundamental factors).

Therefore, Mr. Lukovics defines the indicators of income, labour productivity, rate of employment, global integration (openness), research and development, technology, innovation capacity, small and medium businesses, investments from outside, foreign working capital, infrastructure, human capital, institutions and social capital with a total number of 35 variables.

The examination – relating to Hungarian counties and the capital, Budapest – is closed with a conclusion that – in terms of 2003 data – within the ranking of competitiveness based on fundamental categories and fundamental factors, the rankings only match at the two extremes: Budapest 1st-1st, Győr-Sopron 2nd-2nd and Szabolcs-Szatmár-Bereg 20th-20th. In certain cases, the variations in ranking show extraordinary differences in value (for example, based on the fundamental categories, Borsod-Abaúj-Zemplén County is ranked 19th, while based on the fundamental factors it is ranked 10th, or the case of Baranya County, which occupies a ranking of 16th and 9th, respectively, in the hierarchy based on the categories and factors mentioned above). The importance of having two different rankings lies in the fact that the implemented competitiveness of individual regions (results based on fundamental categories) can be compared with the future possibilities for development of the same (results based on fundamental factors).

Finally, through the complex analysis of competitiveness on the 35 indicators collectively, the author obtains the following result:

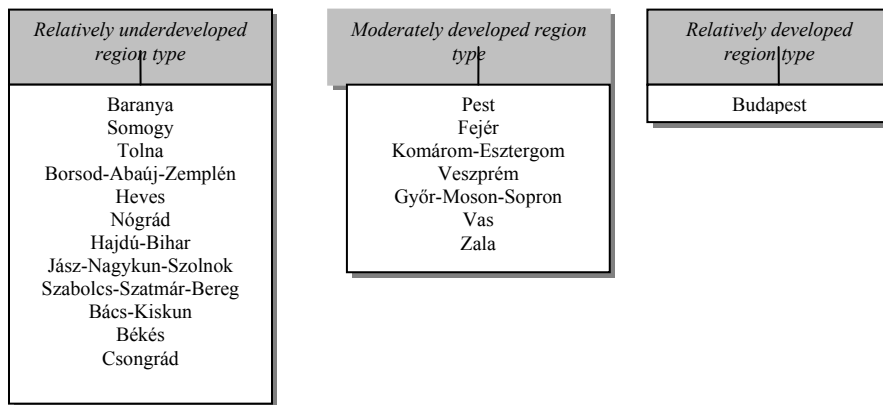


Figure 2. Classifying Hungarian counties and Budapest into theoretical region types, based on cluster analysis

Source: Lukovics, M.: A magyar megyék és a főváros versenyképességének empirikus vizsgálata. Területi statisztika, March 2006, p 163

To tell the truth, the combined results of the examinations conducted based on this methodology does not differ in too many respects from the county-based ranking of GDP per capita.

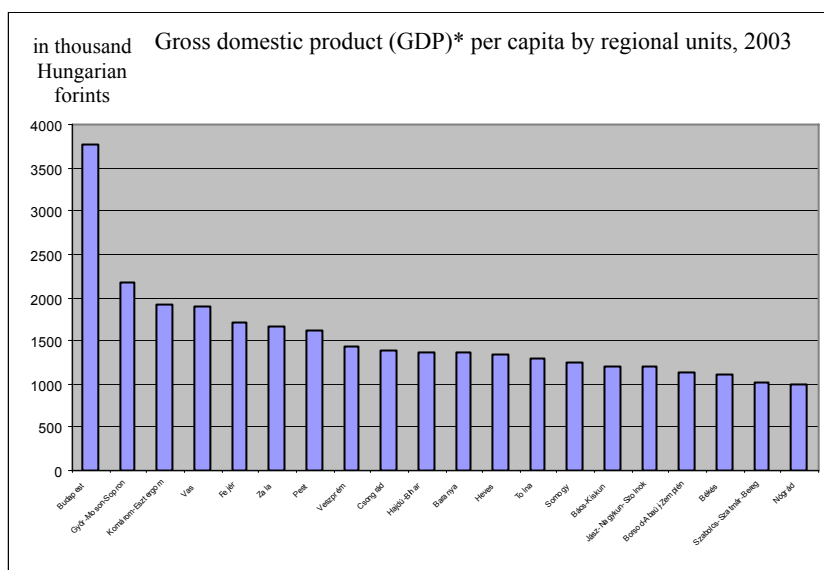


Figure 3.

* taking the resident population into consideration as of the middle of the year
 Source: Magyar Statisztikai Zsebkönyv, 2005. page 178.

As evidenced by the foregoing, the greatest dilemma for the areas of science concerned with regional competitiveness (socio-geography, sociology, economic science and management studies) is how to measure competitiveness.

It is obvious that one single index number is inadequate for the examination of competitiveness, a complex state and process like this cannot be quantified. It is the qualitative features and the components which can be approximated with statistical indicators that would be collectively able to indicate regional competitiveness.

We know that statistical data – by nature – can only have a limited accuracy, meaning that it can only provide comparably accurate and less accurate approximations. Regional competitiveness has some factors that are indispensable for grasping the essence of the processes, but which cannot be quantified or can only be quantified with limitations. The natural environment of a region, the meaning of “livable settlement” – which cannot be quantified, but which everybody is aware of – or the sense of identity are all causes and effects for the competitiveness of a region.

The concept of regional competitiveness (be it at any level of spatial organization whatsoever) carries special features also in this respect, as compared to the factors influencing competitiveness at the corporate, sectoral or even macro level.

The exploration of these factors is a complicated and expensive process. In general, these factors can only be approximated through public or corporate surveys, and can only be demonstrated during the subsequent evaluation of completed processes (for example, in the cooperation of the participants, in the setting of mutual objectives, and in the participation in and commitment to the achievement of these objectives, etc.).

Even if these cannot be described by statistical index numbers or can only be described incurring great costs and often with indefinable uncertainties – these factors can play a significant role in the development of a region and the evolution of its competitiveness.

The data used for competitiveness in international comparison for the above-mentioned, commonly used indices that are quantifiable and accessible in statistical information are themselves also estimates of certain features associated with competitiveness.

It is practical for us to know the limitations of data used for these statistical indices. For example, the area unit of GDP calculation and the problems associated with taking it into consideration: dilemmas of bottom-to-top or top-to-bottom calculation, the place of value creation and the duality created by the residence of income owners, taking multiregional units into consideration by region, international comparisons, addition problems associated with the GDP per capita data measured at purchasing power parity, etc. (Pukli P. 2000.)

Labour productivity, defined by added value per hour worked, is estimated in statistical practice by the GDP per employee figure, although – as we are all well aware – with significant limitations.

Despite of the existence of real problems concerning the index numbers used for the measurement of regional development, it is still expedient to use these indices, and not only because we quite agree with the opinion of József Nemes Nagy, whereas “...there is no doubt that the risks of methodology associated with multi-index analyses using different approaches are significantly reduced in Hungary by one fundamental fact: the regional differences are so sharp today that even incorrect calculations will not result in major errors.” (Nemes Nagy J. 2005. p. 12). Long-term and international comparisons may currently be performed based on these indicators. Undoubtedly, these indices are mainly suitable for static assessment of current status, and less suitable for judging long-term success. The methodology of multi-factor analyses that are based on data available in statistical information – particularly those that would give complex index numbers as a result, making the comparison of regions possible – is presently not developed enough. (For example, the World Bank uses fundamental data consisting of 80 variables to examine the competitiveness of countries.) (Lukovics M. 2006.)

Multi-variable methods are gaining ground in Hungarian regional research (with factor analysis, multi-variable regression analysis and the so-called scoring methods); however, currently these methods are still without standard indices and they occasionally possess uncertain methodology backgrounds. (Nemes Nagy J. 2005.)

In my opinion, the least meditated subject is what indices should be used for certain territory levels; furthermore, methodology, as well as the administrative boundaries of territorial units when establishing fundamental data and the discrepancies of the spatial condensation (clustering) of economic activities also pose problems.

Of course, the necessary depth and detail of the analysis depends on the objective of the examination – whether the examination is used for international comparison or to define the differences in the development of the statistical planning regions in Hungary as compared to each other; even more so, for classification into region types, or possibly for the elaboration of economic development programs aiming to improve the competitiveness of a region.

Naturally, these analyses must be based on a relatively constant system of indices, must be ready to be applied for comparisons in time and space, and must be able to give professionally sound conclusions concerning the applied methodology.

Some features characterizing the competitiveness of the North-Hungary region

Among the 254 NUTS level 2 regions of the EU (July 2003), in terms of its GDP per capita index measured at purchasing power parity, the North-Hungary region reached 37.3% of the average of the 25 EU member states in 2002, positioning itself at no. 249 in the ranking of the regions. 59 regions failed to reach the level of 75%; this group includes six of the seven Hungarian regions (as translated by Sipőcz, B., 2005). At the same time, when comparing the most disadvantaged North-Hungary region with the most developed Central Hungarian region, based on the above index, the North-Hungary region barely reaches above 38%; therefore, the gap between us and our most developed region is roughly the same as the gap between us and the EU average. When examining the development of the economic performance of Hungarian regions, the following comparisons are primarily necessary:

Table 1. Gross domestic product (GDP) per capita as % of the same in 1995*

Region	1996	2000	2002	2004
Central Hungary	125	254	341	405
Central Transdanubia	125	264	296	391
Western Transdanubia	125	262	305	378
Southern Transdanubia	120	216	272	326
Northern Hungary	117	210	267	341
Northern Great Plain	121	210	275	343
Southern Great Plain	120	203	253	311
Country total:	123	238	303	372

* at current price

Source: A magyar régiók zsebkönyve. 2004-2005.

The above growth rates are somewhat encouraging for the North-Hungary region, since – even though the region still failed to climb up in the absolute ranking of Hungarian regions in 2004 and still failed to leave its position of second from the bottom – in terms of growth rate compared to 1995, it managed to overtake both the Southern Great Plain and the Southern Transdanubia regions.

Table 2. Gross domestic product (GDP)** per employee*

Region	1997	2000	2002	2004	2004/1997 (%)
	million HUF				
Central Hungary	3.2	4.9	6.4	7.4	231.3
Central Transdanubia	2.2	3.2	3.6	4.8	218.2
Western Transdanubia	2.2	3.4	3.3	5.0	227.3
Southern Transdanubia	1.9	2.7	3.4	4.0	210.5
Northern Hungary	1.8	2.5	3.1	4.0	222.2
Northern Great Plain	1.9	2.5	3.2	3.9	205.3
Southern Great Plain	1.8	2.5	3.1	3.9	216.7
Country total:	2.3	3.4	4.3	5.2	226.1

* persons employed aged between 15 and 74

** at current price

Source: based on data from "A magyar régiók zsebkönyve. 2000, 2004, 2005"
(Own calculation)

In terms of the level of GDP per employee, the North-Hungary region produced the same value in 2004 as the Southern Transdanubia region, and surpassed the values of the Northern and Southern Great Plain regions; therefore, as compared to the figures in 1997, we recorded a really favourable growth rate.

Table 3. Economic activity rate and employment rate of the population aged 15 to 74 per region (2005)

Region	Activity rate (%)	Unemployment rate (%)
Central Hungary	59.6	5.2
Central Transdanubia	57.2	6.3
Western Transdanubia	58.3	5.9
Southern Transdanubia	51.6	8.8
Northern Hungary	48.8	10.6
Northern Great Plain	49.1	9.1
Southern Great Plain	51.6	8.2
Country total:	54.5	7.2

Source: A magyar régiók zsebkönyve, 2005.

Among all Hungarian regions, the North-Hungary region showed the smallest economic activity and the highest rate of unemployment in 2005; this position

has not changed since 1999. Back then, the activity rate showed 48.5%, and the rate of unemployment reached 11.5%.

After the comparative examination of the fundamental categories of regional competitiveness pertaining to Hungarian regions, I wish to highlight only the factors of competitiveness that I consider significant in terms of the development of the region, and which represent particularly outstanding value/values considering the figures of Hungarian regions.

Table 4. Some characteristics of registered businesses per region in 2005

Region	Number of businesses per 1000 residents (pc)	Proportion of companies and partnerships (%)	Foreign capital per inhabitant* (thousand HUF)	Share of the industry in businesses with foreign interest* (%)
Central Hungary	170	50.8	2239	8.9
Central Transdanubia	111	31.0	903	24.9
Western Transdanubia	119	29.6	1156	23.1
Southern Transdanubia	113	28.8	151	24.9
Northern Hungary	81	30.7	324	35.6
Northern Great Plain	86	31.9	301	8.9
Southern Great Plain	101	28.9	168	25.1
Country total:	120**	38.3**	983	13.7

* date from 2004

** including those operating abroad

Source: A magyar régiók zsebkönyve. 2005.

When considering the outstanding figure for the share of the industry in businesses with foreign interest in Northern Hungary, let us not forget the fact that the industrial production of our region dropped to 65% in 2001 compared to 1985, while the relevant figure for Hungary was 123.1%. (Illés I. 2006.)

In 2005, in terms of the value of industrial production per inhabitant, Northern Hungary occupied the third spot following the Central and Western Transdanubia regions, reaching 90% of the Hungarian average.

Table 5. Investment by material-technical composition (2004)*

Region	Total	of which: the proportion of machines, equipment and vehicles (%)	Investment per inhabitant (thousand HUF)
Central Hungary	968.1	60.1	341.4
Central Transdanubia	370.0	59.0	332.7
Western Transdanubia	295.9	49.6	295.4
Southern Transdanubia	241.8	34.0	246.6
Northern Hungary	332.0	57.8	260.2
Northern Great Plain	254.0	44.4	164.4
Southern Great Plain	240.3	43.2	177.0
Country total:	2702.1**	54.5	270.8

* based on the location of investment

** including activities outside Hungary

Source: A magyar régiók zsebkönyve. 2005.

Considering the absolute value of investments in 2004, it is apparent that the North-Hungary region strives to improve its disadvantageous situation displayed by the GDP per capita figures. In terms of the value of investment per inhabitant – although it does not reach the Hungarian average – the region takes the no. 4 position in the ranking of Hungarian regions, surpassing the Northern Great Plain, Southern Great Plain and Southern Transdanubia regions.

As to the material-technical composition of investments, the proportion of machines, equipment and vehicles – bearing significance in terms of technical-technological development – amounts to 57,8%, which is significantly higher than the Hungarian average.

Since 2003, the industrial production of the region has shown a growth rate exceeding the average of the region by far. In 2004, the volume index of industrial production in the North-Hungary region compared to the previous year was 114.9%; the identical total for the country was 107.5%. Indices for the year 2005: Northern Hungary 114.5%, country total: 107.5%. (Source: A magyar régiók zsebkönyve, 2005.)

Besides industrial production, it is also expedient to examine the so-called “guest hosting capacity” of the region – its commercial accommodation and tourist traffic. The North-Hungary region provided 11,1% of the country’s

commercial accommodation in 2005, but generated only 5,5% of the revenue coming from commercial accommodation.

On the contrary, three of the eight world heritage sites of the country are located in the North-Hungary region, which also possesses almost one fourth of Hungary's castle hotels (Péter Zs. 2006.). Three outstanding wine regions are situated within its territory and its medicinal waters are similar to the average of the Hungarian regions, which are very-well supplied this respect; moreover, Northern Hungary surpasses the other regions by far in terms of the potential and variety of the medicinal effects of these waters (Miskolc-Tapolca, Eger, Egerszalók, Zsóri fürdő, Bogács, Bükkszék, Parád, Mátraderecske).

“The proportion of foreign guests decreased from 17% in 2000 to 15%. In 2004, the number of foreign visitors to Heves County decreased by 27% compared to 2000, which largely contributed to the 11% decrease in the number of foreign visitors coming to the region.” (Szilágyi Ferencné: 2006.)

The distribution of accommodation by type has not changed significantly since 2000. The proportion of commercial accommodation provided by hotels is particularly striking; this figure only amounts to 19,3% in the North-Hungary region (the country average is 33.5%). On the other hand, the figure below is worth taking into consideration as well:

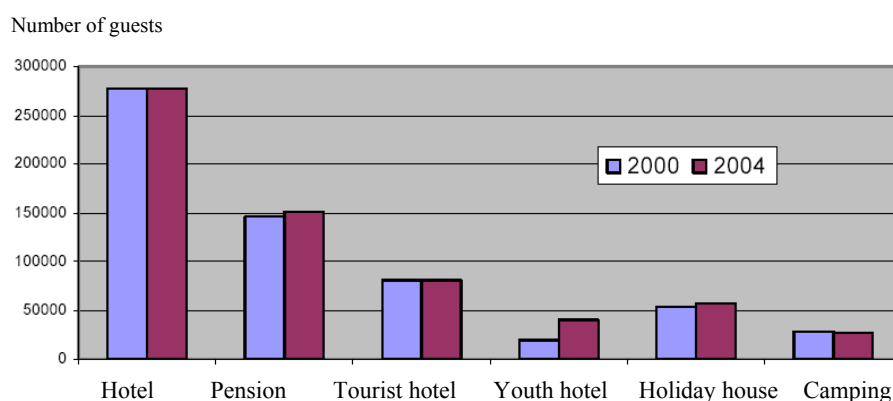


Figure 4. The tendencies of the number of guests staying at commercial accommodation facilities within the region, by type of accommodation

Source: Szilágyi Ferencné: Az idegenforgalom alakulása Észak-Magyarországon. Területi statisztika, May 2006, page 279

The fact that the number and proportion of hotel accommodation, which generally represents a higher standard of quality, significantly lags behind the other regions – together with other factors such as a lack of adequate information, foreign language skills and adequate programs, etc. – is responsible

for the region not being competitive in the market of quality tourism. (Zsúgyel J. 2006.)

Among the areas under examination, the North-Hungary region shows the biggest shortfall in the area of research and development, which significantly influences the competitiveness of the future.

Table 6. Main proportions of research and development, 2004

Region	Research and development locations		Researcher/developer per 10.000 employees (number of persons)
	investments thereof as % of national economy investments	expenditures* thereof as % of GDP	
Central Hungary	0.71	1.28	79.8
Central Transdanubia	0.70	0.50	17.3
Western Transdanubia	0.65	0.39	14.1
Southern Transdanubia	0.18	0.40	20.7
Northern Hungary	0.13	0.27	16.1
Northern Great Plain	0.86	0.72	22.3
Southern Great Plain	0.35	0.63	24.4
Country total:	0.61	0.84	38.2

* includes the costs of related activities (scientific services, production)

Source: A magyar régiók zsebkönyve, 2005. (Own editing)

The regions can also be compared by using the rates of participants in higher education. Only 6,4% of full-time students – 10% of all students – studying in higher education are trained in the North-Hungary region. Using data based on the residence of the parents gives a more positive result: 11,65% of full-time students are from Northern Hungary. Whether they (will be able to) return to the North-Hungary region after graduation is another issue.

The North-Hungary region is a low developed semi-periphery, where generated income is low and the education level of the workforce is also low, but not strikingly bad. 81,5% of inhabitants of 17 years of age has participated in

education within the school system in 2003, in Northern Hungary (the average of the 25 EU member states is 86,3%; the Central Hungary region shows a value of 92,49%).

The proportion of those with a degree in higher education as compared to the working age population surpasses two regions and amounts to 11,4%, but even this value scarcely exceeds 50,0% of the value shown by the Central Hungary region. (Zsúgyel J. 2006.)

The region shows promising characteristics implying dynamization in only a few areas (transport network, growth rate of industrial production, foreign capital per inhabitant, growth rate of GDP per employee).

Therefore, the question is what kind of regional policy is needed for a region capable of producing such level of development and having this type of social, economic, environmental and settlement structural factors.

We do not have to be “imitators”, just as we have to avoid joining the group of “utopians”, who – mainly in their rural development strategies – trust that change can be brought by going back in time to conditions that are closer to nature. There is no realistic chance of success for the “lone knight”, either. No matter how new or modern an idea is, being isolated dooms it to failure. (G. Fekete É. 2006.)

Previously, we concentrated on the development level of transport infrastructure, “accessibility”, the state of human resources, the degree of capital supply and opportunities for economic cooperation. Today, this process can be characterized by new approaches. “Among the factors of development potential, concepts like knowledge concentration within a region, social capital and the quality of the environment have emerged. As opposed to mass production presuming large structures, individuality favouring smaller structures is coming to the front and communication is gaining a defining importance within an information society. In addition to competitive advantages, co-operational advantages are being considered more and more valuable. Partnership is being reevaluated, just as its prerequisite: solidarity.” (based on Bauhaus Foundation 1996., by G. Fekete É. 2006. p. 61). This is what a number of researchers recommend both in Hungary and abroad. There is no other way! Our recommendations are worthy of meditation in order to shape them into a strategy.

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GÁBOR PAPANÉK – BALÁZS BORSI* – TAMÁS TOMPA***

Competitiveness of Hungary and the Hungarian regions

Based on a paper presented on a conference of the EK College
(16 November 2006)

In the paper we present the results of two recent research projects. First we show an international comparison of the factors that influence the competitiveness of the Hungarian economy. The data source of this work was the World Competitiveness Yearbook 2006 database, published by the Institute for Management Development (IMD), Switzerland. Then we review the competitiveness of Hungarian regions with the help of statistics from the Eurostat's Regional Yearbook.

1. Introduction

In the first part we review the factors that influence the level of GDP per capita, the most important composite index of a nation's competitiveness. In the research¹ we used mathematical-statistical methods on the database of the IMD's World Competitiveness Yearbook 2006. We compared 100 variables of 39 countries, so nearly 4000 data items were used. For the sample small and large developed economies, Central European countries and a few developing countries were chosen. In the first step we selected variables that strongly correlate with the GDP per capita. Then, due to the lack of longer time series for this group of variables, a cross-sectional factor analysis was carried out. The principal components method was used with varimax rotation.²

The analysis of Hungarian regions is based on performance indicators.

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¹ The first part of the paper presents some results of the research *Borsi – Papanek – Viszt – Tompa* [2006].

² More methodological details can be seen in SPSS Base 8.0 Application Guide. (SPSS Inc, Chicago. 1998).

2. Factors determining national competitiveness

Competition, competitiveness are traditional topics of the economic literature.

According to many classic authors of economics the profit (the cash-flow, or, by *Rappaport* the growth of proprietary value) is the main indicator of enterprise success. Others say that competitiveness, i.e. the gaining or keeping good market positions (or even the survival) is the real success criterion.

M. *Porter* [1998] defines the competitiveness of nations (and regions) as well. According to his latest, but world-wide accepted conception the main goals or tasks of a national economy (or a region) are to achieve high levels of economic development and rapid growth, so the main indicators of national competitiveness are the GDP per capita and/or its growth. If these indicators, which are counted by summing all added value, are accepted, we do not restrict the measurement of economic results to enterprise profits only, because salaries and taxes are also accounted for.

We also accept that the GDP per capita is the main aggregated indicator of a nation's competitiveness. Unfortunately the performance of the Hungarian economy, as it is well-known and can be seen in Figure 1, is quite low.

As Figure 1 shows, the Hungarian economy, as always in the latest centuries, today also suffers a double (moreover, in some regions a triple) backwardness. (1) As the Lisbon Program and many other related documents states, the US is more competitive, than the EU. (2) The Hungarian economy has competitiveness problems as compared within Europe as well. (3) The GDP per capita in the majority of the Hungarian regions is much lower than the national average. The performance of some East-Hungarian regions is one of the lowest in the Union (*Eurostat* [2005]).

In the following the causes of national development differences are examined from two points of view:

1. First, we study the volume of labour needed to attain the per capita GDP level (i.e. the number of **working hours per capita** and their influencing factors).
2. Second, we examine the value added per working hour in the economies analysed (i.e. the **productivity** and its influencing factors, such as the effects of R&D and innovation on the national performance).

The correlation coefficients in Table 1 show that there is close relationship between the factors and the per capita GDP. They also indicate that in the developed economies the level of GDP can increase by rising productivity levels (which sometimes helps to reduce the number of working hours per capita as well).

Table 1. The level of correlation between the per capita GDP and his main influencing factors

	GDP per capita	Employment rate	Number of working hours	Value added per working hours
GDP per capita	1	0.40	-0.64	0.96
Employment rate		1	-0.26	0.18
Number of working hours per employees			1	-0.70
Value added per working hours				1

Source: Borsi – Papanek – Viszt – Tompa [2006].

The more detailed factor analysis showed many influencing factors of the employment rate, number of working hours and value added per capita as well. In accordance with economic theories,³ three large groups were distinguished.

³ (Neo-)classical authors claim that main factors of economic growth are labour, capital and innovation. Two of these (labour, innovation) were shown to be important by our empirical research. As *Hodgson* [2003] underlines, institutionalism highlighted the importance of institutional factors, too.

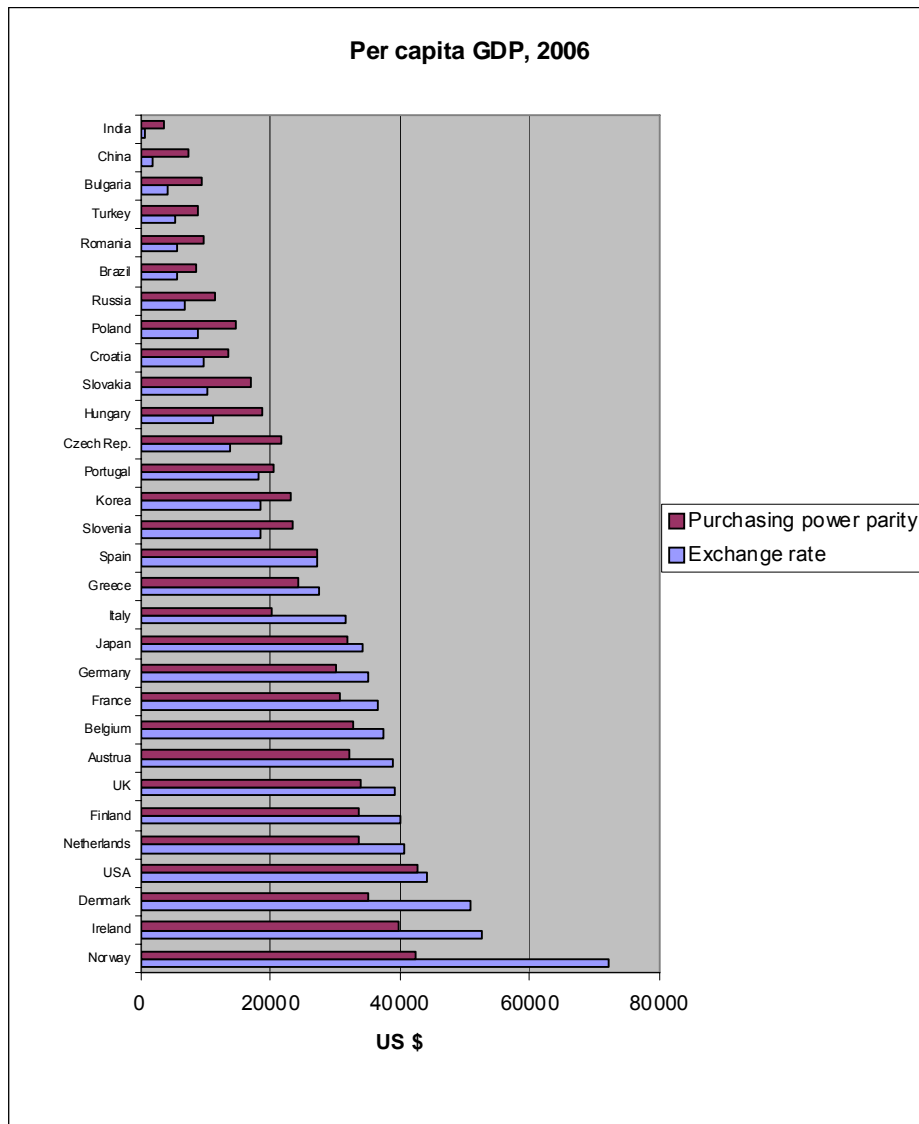


Figure 1.

Source: IMD (Institute for Management Development): World Competitiveness Yearbook 2007. Lausanne.

a/ Problems on the Hungarian labour market

The relationship between national economic performance and the number of working hours per capita is well-known by the classic authors. So it is not surprising when some US authors say that an important cause of the European – and Hungarian – competitiveness problems is that **European people work less** than the competitors. This statement is only partly supported by our research. Some data (the negative correlations in Table 1) show that in the majority of developing countries the number of working hours per employee is higher than in the USA, and only a few European countries have a lower number of working hours than the USA. Some other data prove that the rate of employment - and the **activity rate**⁴, i.e. the willingness to work – is much lower in many European countries and Hungary as well. Especially young people and people above 55 are not active on the labour market.

Table 2. Activity rate (%) by age groups and genders

	Male			Female		
	15-24	25-54	55-64	15-24	25-54	55-64
USA	63,6	90,5	68,7	58,7	75,3	56,3
EU-15	51,8	92,4	55,2	44,4	75,5	34,5
Hungary	26,3	80,5	36,4	24,3	71,0	25,8
Czech Republic	40,0	94,6	60,1	31,5	80,8	31,3
Poland	37,7	88,0	41,3	29,9	76,4	23,3
Slovak Republic	43,1	93,7	51,9	35,6	84,0	14,8

Source: OECD Employment Outlook, 2005

According to the results of our factor-analysis, some institutional characteristics of the **labour market** also influence economic performance. These are given in Table 3.

Table 3. Variables of the labour market factor

Influencing factors	Correlation with the labour market factor
Relations among colleagues	0,92
Employees' motivations	0,91
Regulation of labour market	0,77
Unemployment	-0,69
Activity rate	0,63

Source: Borsi – Papanek – Viszt – Tompa [2006].

⁴ It is the number of employees plus unemployed per total number of age group people.

Calculations showed that in developed countries the atmosphere in the workplace (e.g. the relationship between managers and employees), the employees' motivations and up-to-date labour market regulation improve competitiveness, and in the developing countries their lack is an obstacle to development. According to some research, in the US for example, the managers of the most successful firms are modest, they usually claim that corporate success is accounted for by the employees (*Collins* [2005]). In contrast, Hungarian managers do not accept this statement and declare that the manager is always the most important, which causes many problems at the firm level (*Tököli* [2005]). The two different concepts of the managers' role influence the national performance as well.

b/ Poor willingness to innovate

There are many definitions of innovation. A recent definition of the European Union is as follows: "Innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations" (*EC* [2004]).

To improve the EU competitiveness, the Lisbon Programme calls on the increase of R&D, the acceleration of innovation diffusion, and the development of university-industry relations. Being a member state, Hungary should also take up the Lisbon agenda. Nevertheless, in Hungary the gap between R&D and "practice" is larger than in the EU. The job to be done is enormous. Although there are no obstacles to technology transfer, in some scientific fields Hungarian research institutes have great international reputation, and many important innovations have been realised by foreigners, indigenous business innovates less than in other EU countries and much less than in the US or Japan.

According to the computations with the database, R&D can really influence competitiveness. High factor-averages show that in the developed countries quality R&D helps, and in the developing countries (also in Hungary) slow implementation of scientific research results restrains progress.

The analysis shows however, that the companies' **willingness to innovate** – and the business environment determining that – are more important factors of national performance than R&D. High level innovations are advantageous for the small developed economies first of all. However they are missing in the catching up and developing group of countries. The further investigation showed that there are many important preconditions for successful innovations. Innovation-friendly management, qualified specialist teams, close links (cooperation) between research institutions and enterprises, the developed

system of financing innovation projects etc. are equally indispensable for economic development.

According to statistics, the poor performance of Hungary in regard to the above considerably worsens national competitiveness (Tables 4-5). As the tables show, in the Hungarian economy many results of the R&D sector are not used by enterprises, because a great part of them do not want to innovate.

Table 4. Share of research institutions distributing their research results in a given manner, %

Techniques of distributing research results	R&D institutions owned by			Total
	universities	the Academy	enterprises	
Sale of patents etc.	17	18	57	20
Sale of new products, services	12	14	57	17
Sale of machines, equipments	6	14	36	11
Study for a state institution	42	46	36	43
Study for enterprises	39	39	64	41
Study for an international organisation	19	29	14	21
Publication, paper for a conference	90	89	71	88
Education	62	50	43	58

Source: Survey of BME HFI and GKI in spring 2002.

Table 5. Share of innovative enterprises, %

Enterprise groups	European Union		Hungary	
	industry	services	industry	services
Small enterprises	40	36	26	11
Medium size enterprises	63	54	33	17
Large enterprises	80	69	47	28
Total	47	44	29	12

Source: EUROSTAT: Community Innovation Survey 3. (2003),
KSH: Innováció 1999–2001. (2003).

In the 1980s the US economic policy wanted to speed up the diffusion of innovations first of all by strengthening the enforcement possibilities of intellectual property rights. This policy was successful. By contrast, thinking that problems of intellectual property rights are not too important, the Hungarian economic policy made efforts first of all to subsidize some R&D institutions. This policy was not too successful, the willingness to innovate remained low.

c.) Institutional environment hampering entrepreneurship

Finally, according to our research productivity and some institutional factors of **economic policy** are closely linked, more closely than the previously mentioned factors. The following have the largest influence on competitiveness: the level of **corruption**, enforcement of intellectual property rights, and enterprise efforts to run ethical business. According to correlation calculations a favourable level of these factors improve competitiveness in the small developed countries, and unfavourable levels significantly worsen the progress of developing ones.

According to renowned international sources, the level of corruption is “medium sized” in the Hungarian economy, higher than in the developed economies. In up-to-date reports Hungary ranks 41 out of 163 countries (Table 6).

Table 6. Level of corruption in some countries, 2006

Country	Rank	CPI*	Country	Rank	CPI*
Finland	1	9,6	Hungary	41	5,2
Iceland			Italy	45	4,9
New Zealand			Czech Republic	46	4,8
Denmark	4	9,5	Slovak Republic	49	4,7
Sweden	6	9,2	Greece	54	4,4
Austria	11	8,6	Poland	61	3,7
Germany	16	8,0	Croatia	69	3,4
USA	20	7,3	Romania	84	3,1
Estonia	24	6,7	Ukraine	99	2,8
Slovenia	28	6,4	Russia	121	2,5
Botswana	37	5,6	Haiti	163	1,8

* Corruption Perceptions Index

Source: Transparency International, www.transparency.hu

Other research shows the unfavourable Hungarian situation in some further institutional spheres as well. Although the majority of the intellectual property regulations are EU-harmonised, there are many problems with their enforcement (e.g. there are only a few qualified specialists in criminal investigation and jurisdiction). Further, it was shown that in the Hungarian economy unfair competition often causes substantial damage to companies (Table 7).

Table 7. Share of firms that suffered damage because of their business partners, %

Type of unfair action	Damage caused by the given action is			Total
	greater than 1 % of one year's costs	important	small	
Abusing not reliable company or land registers	2	8	11	21
Infringement of intellectual property rights	1	3	6	10
Black market competition	19	28	15	62
Inaccurate, or missing performance of suppliers and (sub-)contractors	6	19	35	60
Default payment, non-payment	19	34	28	81
Negligent, defective administration in public institutions	7	15	17	39
Other	10	23	26	59

Source: GKI survey in spring 1999.

Our calculations showed that the regulatory environment, which discourages entrepreneurship and innovation, could also hamper Hungarian economic competitiveness. According to the World Bank's Doing Business database, in Hungary a lot of time and money is needed for founding a company (Figure 2), getting credit, capital re-allocation, layoffs and many other general business practices.⁵

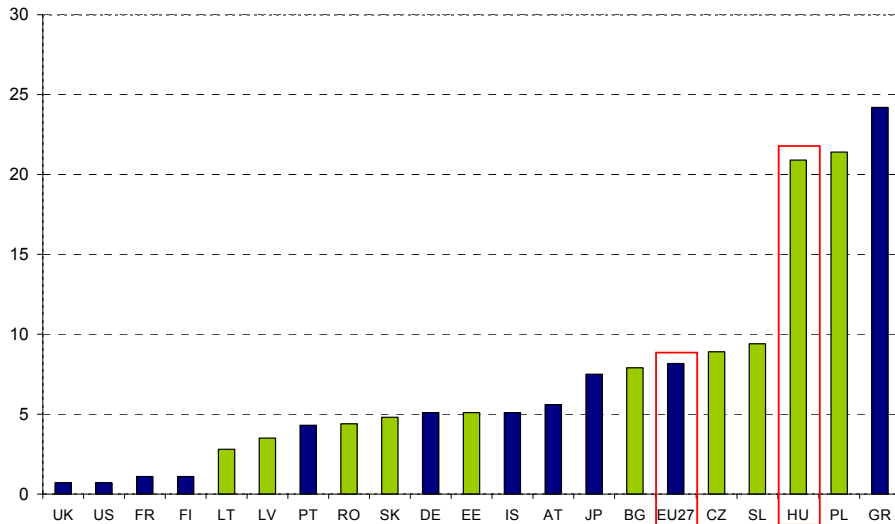


Figure 2. Cost of for firm foundation in percentage of GNI

Source: IMD (Institute for Management Development): World Competitiveness Yearbook 2007. Lausanne.

Based on the above mentioned we think that improving the institutional context and practices are the most suited tools to help competition and competitiveness in Hungary. This has to be stressed, because in many cases this

⁵ Many administrative duties are useless, in some cases ridiculous. When a company is founded, why is it obligatory to send an expensive certification of founders' signature from the notary public to the Court of Company Registrations, while the deed of association has to be signed by a lawyer? (this regulation is being changed at the time of writing this article). It is not quite common in other countries that if someone wishes to buy an invoice book, he/she has to present an extract from the Court of Company Registrations or the deed of association. There are no real arguments why – after a mission, for instance – the presentation of a railways ticket is not enough, why a receipt which proves the purchasing is needed. We doubt if it was rational to oblige companies to add only one letter (Ny or Z) to their names and to modify the deeds of association etc.

improvement would cost much less money than e.g. highway constructions (the realisation of which is in progress).⁶

3. The competitiveness of Hungarian regions

In the following we try to show some regional differences behind the general competitiveness of the Hungarian economy presented by the previous analysis. We have to stress that the competitiveness of many Hungarian regions is poor both on the world market and on the domestic markets. In international comparison their GDP per capita is very low. Two Hungarian regions are among the poorest EU regions (Table 8).

Table 8. GDP per capita in some EU regions (PPP, 2002, EU25 = 100)

Rank	Region	GDP per capita	Rank	Region	GDP per capita
1	Inner London (UK)	315	246	Vychodne Slovensko (SK)	39
2	Brussels (BE)	234	247	Észak-Alföld* (HU)	38
3	Luxembourg (LU)	213	248	Opolskie (PL)	37
4	Hamburg (DE)	188	249	Észak-Magyarország** (HU)	37
5	Ile de France (FR)	176	250	Swietokrzyskie (PL)	36
6	Wien (AT)	174	251	Podlaskie (PL)	35
7	Berkshire et al. (UK)	162	252	Warmińsk-Mazurskie (PL)	34
8	Provincia Bolzano (IT)	160	253	Podkarpackie (PL)	33
9	Stockholm (SE)	158	254	Lubelskie (PL)	32

* North of Great Plain, **North Hungary

Source: EUROSTAT: New Release 2005 No. 13.
www.epp.eurostat.ec.eu.int/2-25012005-eu-ap.pdf

The reasons for poor regional competitiveness and the main tasks for catching up will be shown in the structure of the previous chapter. First, as Table 9 shows, there are large differences between Hungarian regions.

⁶ More details can be seen in Papanek [2006].

Table 9. Some economic characteristics of Hungarian regions

Characteristics	Western	Central	Southern	Central	North	Northern	Southern	Total
	Transdanubia*			Hungary		Great Plain		
Population, 1000 capita	1.000	1.112	979	2.839	1.271	1.541	1.354	10.196
GDP per capita, 1000 Ft	1.955	1.679	1.301	2.927	1.162	1.187	1.236	1.807
Rate of unemployment, %	4,9	5,7	7,2	4,9	9,5	7,5	6,5	6,3
FDI per capita, 1000 Ft	1.026	773	160	1.911	374	281	149	861
Share of industrial value added, %	37	38	24	18	33	26	24	25
Number of R&D personnel, FTE, capita	879	1.248	1.084	15.119	956	1.894	2.113	23.311

*West-, Central and South Transdanubia, Central and North Hungary, North and South of Great Plain.

Source: National Statistical Yearbook of Hungary 2005.

Low employment is a great problem in the Northern Hungary, Northern Great Plain and Southern Transdanubia regions. One of the main causes is the supply of unskilled labour concentrated in these regions. This problem can not be solved without special education of the social strata in question.

Poor willingness to run business and to innovate is a problem in all Hungarian regions, with the exception of Central Hungary. It is a long-term problem and appropriate policy responses include the (re-)building of the economic stability and trust, support of entrepreneurship and small business efforts.

A lot needs to be done to **develop the business environment** in regions. Criticism to the overwhelming weight of Central Hungary is traditional. However, in our view the real problem is the unclear economic role of the other six regions, which are small in international comparison.

In the US economically homogenous were determined: the borders were set at territories from where the given region attracts labour. In these regions the economic relations between firms are relatively close. Altogether 172 regions of very different surface area were determined. Some of them are the economic peripheries of a state's capital, in others the centre is a smaller town, but there are regions without any bigger centre as well.

In Hungary, like in Europe, the regions are administrative. Giving recommendations about the border of regions has not become easier after EU accession, when national borders are becoming less and less visible. E.g. the economic impact of Budapest goes beyond the borders of the Central Hungary region. According to some analysis Wien is the rational economic centre for the Western Transdanubia region. Some researchers think that the area of the Northern Hungary region will be greater than today and the centre could be the Kosice-Miskolc (or perhaps the Kosice-Miskolc-Debrecen) axe. After the last EU enlargement the economic area of the Great Plan and South-Transdanubia regions may also surpass the national borders etc.

The under-development of Hungarian regional centres (with the exception of Budapest) is a clear sign of the bad spatial structure of Hungarian economy. For example Gy. Horváth [2006] showed that after the First World War, when today's borders were determined, a decentralisation process started and developing Debrecen and Szeged as new regional centres had begun. However, after the Second World War this process slowed down, because industrialisation did not go in parallel with the decentralisation of the political power. The centre role of larger Hungarian towns (the two mentioned above and Győr, Miskolc, Pécs) is traced back to some earlier, e.g. educational traditions and not on the impact of up-to-date industries. The indicators of competitiveness show for instance the under-development of Pécs (Table 10).

Table 10. Infrastructural background of competitiveness in some European regional centres

	Pécs (HU)	Graz (AU)	Triest (IT)	Montpellier (FR)	Groningen (NL)	Liverpool (UK)
Population, 1000 capita	158	226	208	245	181	469
Number of foreign consulates	1	18	16	5	-	-
No of airport travellers, 1000 capita	-	860	670	1750	180	3200
Capacity of congress centres, capita	-	1200	2300	2000	1100	2500
Surface of fairs, 1000 m ²	-	110	87	120	46	79
Students in tertiary education, 1000	23	40	27	58	40	46
Employees in scientific parks, 1000	-	8	17	14	8	6
Share of employees in services, %	67	62	76	69	80	66

Source: Gy. Horváth: *Növekedési központok és a régiók*. In: MKT: A Magyar gazdaság fenntartható növekedése. 2006. p. 374.

The above mentioned justify the need to define real economic borders, which means the definition of (maximum 3-4) towns that have real possibilities to be the centres of these regions. The preferential development of these towns could then be justified. Since these tasks are relatively urgent, it is unfortunate that in Hungary the views on spatial development are clarified only slowly and there are no definite concepts as how to develop the system of regional institutions.

Spatial development is often hampered by the weakness of Hungarian services supporting the creation of new SME's, and the **lack of effective start-up incubation**. The so-called incubators (which offer office space in the first place) usually assist in administration, like book keeping. Their computer network is often partial, their database, consulting, training, tender, partner search, R&D, innovation or project-management services are usually insufficient (and expensive). In industrial parks the problems are similar. These problems are disadvantageous for those entrepreneurs, who want create new high-tech (service) firms such as bio-technology, info-communication etc. companies.

According to the GEM report (*Szerb* [2005]) many Hungarian **firms are not satisfied with business services**, which they can get in their area (offered usually by local firms in the region's centre). Although they think that during the past years significant improvement took place e.g. in financial, book keeping and legal services, a further development is still needed in quality, price and supply conditions. The development of business networks (clusters) is hindered by the under-development of the info-communication infrastructure, especially the lack of experts, who are able to use modern tools at a high level.

In Hungary the most important problem spatial development is that **regions do not have institutional systems, financial sources etc. which are able to help local development**. There are substantial resources in the hands of the central government and (large multinational) enterprises. Local and counties' organisations have much more limited access to these. From the innovations point of view it is disadvantageous that in majority of regions universities do not undertake the role of a scientific centre, and their relations with SMEs are poor. Financial difficulties appear in spatial development, because according the EU rules co-financing is often obligatory, but own sources at SMEs and local authorities are often not enough. Decentralisation of central funds continues only slowly despite past promises. Therefore, the weakness of regional institutions endangers the expected EU sources as well. In any case it would be very important to strengthen the regional institutions so that they can co-finance EU supported developments.

4. Conclusions

The presented research results show that Hungary can continue successful integration to the developed EU countries only if its competitiveness increases. The following are among the most important tasks to increase the economic performance:

- **Increase the activity rate** in the working age groups of the population by supporting employment of the young who start work, entrepreneurship, training for unskilled people who live with multiple disadvantages and fighting the black market.
- **Accelerating the diffusion of innovation** by recognising creativity, better enforcing intellectual property rights, changing the institution-financing of state-owned R&D institutes and changing the laws and internal rules limiting the researchers' rights to create spin-offs, developing incubation facilities and the venture capital market, support to bridging institutions that really mediate between science and industry.
- **Creation of a favourable institutional environment for the economy** by limiting and fighting corruption and unfair competition, radically decreasing bureaucracy, setting stable government policies and behaviour, supporting SME networks, strengthening professional organisations.
- **Speeding up regional development** by creating regions that are real economic areas, development of their centres and institutional systems.

Unfortunately we cannot state that today's trends in Hungary are in line with the above-mentioned recommendations.

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ADAM NOVOTNY*

Enhancing Public-Private Technology Transfer in the Netherlands and Hungary

Abstract

The EU and many national governments have realized the importance of an innovative business sector, and accordingly introduced a number of policy instruments to increase the translation of knowledge from public research institutions (PROs) to business enterprises. After presenting some theoretical aspects of academia-industry technology transfer, the paper deals with the Dutch innovation system, which has been successful in meeting the challenges of the knowledge economy, Hungary is facing at present. Leading Technology Institutes (LTI), one of the best practices of the Dutch innovation system and that of the EU is examined in comparison to a similar Hungarian initiative, the so called Regional Knowledge Centres (RKC). The author incorporates some experiences gained from a Dutch-Hungarian technology transfer training into the paper.

Key words: innovation system, technology transfer, the Netherlands, Leading Technology Institutes, Regional Knowledge Centres

1. Introduction: Technology Transfer and Competitiveness

There is hardly any communication published by the European Commission that does not mention the concept of competitiveness and the Lisbon Strategy. But why is competitiveness so hard to achieve for Europe that it has to be addressed by a multitude of communications and other policy documents? And why does it happen with ease in the US, without piles of competitiveness and innovation programmes?

This paper certainly does not intend to answer these questions entirely, but it agrees with the EU in considering innovation as the key driver of economic growth, job creation and competitiveness in the knowledge economy. This approach is based on the presumption that macroeconomic competitiveness correlates (to a high degree) with technological development, the knowledge intensity of businesses, the level of entrepreneurial spirit, and people's

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willingness and competence to modernize and innovate in business and personal life. This relationship between these variables is supported by empirical evidence as well. If we look at Employment in Europe (EC, 2003) for example, we can notice that countries with prevalent high-tech industries and knowledge intensive services (e.g. Ireland, Sweden and Finland), also experienced a higher increase in their employment level in the past years. Moreover, 70 percent of the two million jobs created in the EU between 1997 and 2002 took place in the high-tech sector and especially in the field of knowledge intensive services, which mostly relies on R&D and innovation.

A very important result of this strong bond between knowledge intensity and competitiveness is that countries with relatively high labour costs can also be competitive in the global economy, if they specialize in knowledge-intensive industries that require highly trained workforce (EC, 2003). However, generating knowledge without putting it into practice (in the form of products or services) is considered to be in vain nowadays, at least from the aspects of competitiveness and immediate social well-being. The notion of “European paradox” was introduced by Commission (EC, 1994) in the mid-1990s. It refers to the contradiction that in spite of its scientific potential, Europe lags behind the US, Japan and some other Asian countries in innovation and overall competitiveness. Although the Barcelona target of increasing the expenditure on R&D to 3% of the GDP has been widely quoted in the EU, innovation indicators has been stagnating since the mid-1990s. In addition, spending on R&D is highly fragmented in the continent, resulting in even lower efficiency. Europe can only close the competitiveness gap if it better coordinates its R&D activities and gears up the transfer of technology from public research labs to business organizations.

2. Technology Transfer in University Settings

The concept of technology transfer has been defined by many. Veres and Buzás (2005) put forward a broad definition by saying that technology transfer can be interpreted as the exchange of tangible technologies, detailed processes, technical information and their related procedures. The authors, referring to foreign sources (Cova et al., 2002), emphasize the *tailor-made* nature of technology transfer, which implies that the market cannot price technology effectively. Normally, it takes a relatively long time until the actors can finally come to an agreement on the value of a certain technology. Láng (1985) emphasized the common interests of the parties involved in the transfer: Both the buyer and the seller are investors at the same time, as the latter obtains a share of the profits earned by the former, so they become long-term partners with mutual goals. Gibson (1997) considers communication as the most vital aspect of technology transfer for two reasons: On the one hand, as a result of the intangible nature of technology, the supplier and the user may have different

perceptions about the same technology. On the other hand, as the supplier (sender) and the user (receiver) often differ in many aspects (structural, cultural and organizational), technology transfer becomes a highly complex and subtle process of intercourse between two or more organizations.

According to the Association of University Technology Managers (AUTM), technology transfer means the process of transferring scientific findings from one organization to another for the purpose of further development and commercialization (AUTM, 2007). The most important steps of the process are identifying or disclosing new technologies, protecting them (by using patents and copyrights) and commercializing innovations (licensing the rights to the industry). Commercialization can take the form of licensing, selling patents to an existing firm, or setting up a company based on the technology. AUTM stresses that the ultimate benefit of technology transfer is that of the society, who can finally obtain the products and services on the market, and take the jobs resulting from the development and sales of technology transfer.

Universities are important sources of fundamental knowledge and sometimes of industrially relevant technology as well. Several revolutionary innovations, such as the Boyer-Cohen gene-splicing technique, diagnostic tests for breast cancer and osteoporosis, internet search engines, music synthesizers, computer-aided design and environmentally-friendly technologies were born by university-industry technology transfer (UITT) (Siegel et al., 1999). To link universities more closely to industrial innovation, UITT has been backed by many government initiatives in the past decades, many of which seek to boost economic development based on university research (e.g. science parks and business incubators in university campuses, seed capital funds and “bridging institutions” such as technology transfer offices) (Mowery and Sampat, 2005). Mowery points out that most of these initiatives consider patented discoveries as the primary source of UITT, and the formal channels of patent licensing and the formation of university spin-offs as the most important channels of university-industry interactions.

The Spin-Off Movement

Basically, technology created at universities can be transferred to the market by (1) newly launched small firms (start-ups or spin-offs depending on the stake of the university) and by (2) existing companies. Typically, spin-offs are technology intensive enterprises set up and run by employees (mostly researchers) of either a for-profit or a non-profit organization, in order to exploit the intellectual property (IP) formed on the grounds of the mother organization. The international approach permits spin-off to become completely independent from the parent organization. The Hungarian law uses a more narrow scope. It specifies spin-offs or “utilizing enterprises” as firms established with the aim of marketing IP developed at public research organizations (PROs), while the PRO

has to hold a stake or play some role in the utilizing company. Hence, spin-offs in Hungary are supposed to be university-researcher co-owned enterprises. University spin-offs can be defined by the different types of relations they have with the mother university (Kondo, 2004):

- (1) *technological relations*: the spin-off is founded on the grounds of research carried out at the university or technology acquired at the university;
- (2) *human-resource relations*: faculty members are deeply involved in the foundation of the spin-off; and
- (3) *capital relations*: the university provides capital or play an intermediary role between founders and investors.

The spin-off movement was launched in the US by the Bayh-Dole Act in 1980. The Act made it possible (it was not an obligation) for universities and other PROs to patent solutions developed by government funding. According to Mustar et al. (2007), the massive increase in the formation of university spin-offs in the recent years has been accelerated by three key factors:

- (1) *The ownership of IPR by technology-transfer organizations* (relative to that of faculty) has increased as a consequence of introducing Bayh-Dole-like legislation in many countries (OECD, 2003).
- (2) There is a mounting *institutional pressure* on PROs to commercialize research results by licensing or academic spin-offs.
- (3) The availability of *public funds* for narrowing the so-called financing and knowledge gap (Wright et al., 2006).

In spite of these trends, the spin-off movement has not sprouted in Hungary so far. The major obstacles hindering its growth, as identified by Buzás (2004), are as follows:

- (1) The *motivation barrier* refers to researchers' low tolerance of risks as well as to their fear from failure, business ties and insecurity.
- (2) The *competence barrier* points to the lack of business administration and management knowledge of researchers, and also draws attention to the fact that it is very demanding to do well both as a researcher and a lecturer at the same time.
- (3) The *confidence barrier* refers to universities that tend to license patents to existing firms rather than new ones that lack the vital relationship capital.

Gatekeepers of University Knowledge: University Technology Transfer Offices

The main task of university technology transfer offices (UTTOs) is to protect and to profit from the IP owned by the university (Siegel et al., 1999). UTTOs usually assist the transfer process from the birth of the idea to its utilization on

the market (*Figure 1*). In other words, they bridge the gap between academics and the industry.

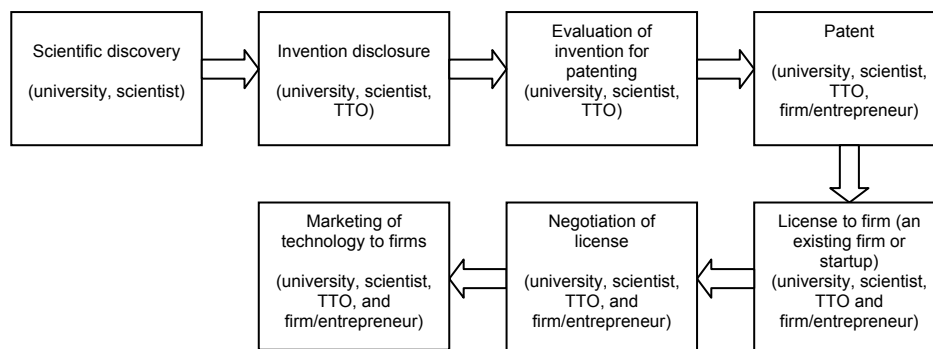


Figure 1. An example of technology transfer from a university to a firm or entrepreneur (contributors of the different stages are indicated in brackets)

Source: Siegel et al. (1999)

As patents are issued only to solutions of practical problems, the university has to find a way for the invention to improve the human condition. The role of UTTOs in the technology transfer process begins with understanding and determining the potential use of the solution in the market. If the solution seems to be promising, the UTTO brings the idea in front of a patent board, comprising of faculty members, investors, technology transfer specialists and legal advisors to decide whether to pursue a full patent or not (GV, 2007). If they decide on applying for a patent, the UTTO should start searching for similar inventions to obtain information to assist the application process. Although it is common for universities to provide companies a list of available technologies, they often target those companies that can benefit from the patent more actively. If the UTTO's efforts bear fruit, a private company buys the permission to use the IP, and the university receives royalties in exchange for the license.

In the UTTO at the University of Amsterdam, five employees help academics in tackling legal and administration procedures. Researchers can get advice on financial, management and legal issues or on current funding programmes. Another outstanding example of Dutch UTTOs is the Innovation Lab at the Eindhoven Technical University (TU/e). The primary aim of the Lab is technology transfer through stimulating the creation of start-ups. The initiative was evoked by the fact that only five percent of Dutch university graduates start their own business, much less than the EU15 average (12%).

3. Boosting Public-Private Research Collaborations in the Netherlands

The Dutch Innovation System

The Dutch economic growth slowed down considerably in the beginning of the new millennium, marking an unusual trend after the lavish growth rates of the 80s and 90s, when it exceeded that of the EU and the OECD throughout. The economic prospects have recently improved, partly because of the reforms in the framework conditions (e.g. improving the business climate) and tertiary education, as well as the restructuring of the various forms of government support to innovation (EC, 2007). Although the economic trend is now upward and the private sector innovates relatively effectively, there remain some worrying factors in the national innovation system: The number of graduates in science and technology, the level of private investments in R&D and the magnitude of joint public-private projects are still considered to be inadequate (see *Table 1*). When governments wish to accelerate innovation in order to revitalize economic growth, they primarily seek opportunities to intensify knowledge transfer (Papanek, 2003). The most explicit aim of the government in the Netherlands is also the improvement of knowledge translation into new products and services.

Table 1. SWOT-analysis of the Dutch Innovation System

Strengths	Weaknesses
developed ICT infrastructure high level of technology readiness sufficient quantity of venture capital	high costs of patent application low number of high-tech enterprises low number of PRO- and university spin-offs weak public-private mobility of researchers low R&D intensity (esp. that of businesses) lack of seed capital low number of researchers
Opportunities	Threats
improvement of IPR management cut on administrative obstacles promotion of PPP brain drain establishment of knowledge intensive companies more innovation initiatives improved cooperation of ministries	enduring shortage of researchers low number of science and technology graduates R&D intensive companies leaving the country

Source: Compiled by the author on the basis of OECD (2004)

Note: The bond between the public sector (and especially universities) and the industry was seen as the most fragile element of the national innovation system. Only

one percent of the Dutch companies regarded universities as generators of valuable knowledge (4 percent in the EU), while the number of university spin-offs was also found to be relatively low (only 30-40 percent of the EU15) by the OECD study in 2004.

The Dutch government presents its ideas on knowledge and innovation in four key policy documents:

- (1) The Innovation Letter (2003) issued by the Minister of Economic Affairs;
- (2) The Science Budget 2004 prepared by the Ministry of Education, Culture and Science;
- (3) The Higher Education and Research Plan (HOOP 2004); and
- (4) The Policy Document on Knowledge Workers (Delta Plan for Science and Technology).

All these documents highlight the importance of cooperation between public and private entities for R&D and technology transfer from PROs to business enterprises. As a prerequisite to these goals, the constant supply of top-grade science and engineering graduates and researchers should be maintained. Thus, attracting more students to sciences (communication can play an important part in this) and providing more favourable employment conditions for researchers became top priorities as well. The main objectives of the Dutch research system can be summarized as follows (EC, 2006):

- (1) *Increasing focus and concentration* to achieve critical mass in research and in the cooperation between the business sector and knowledge institutions. In order to achieve this goal, three priority areas (ICT, genomics/life sciences and nanotechnology) have been selected.
- (2) *Promoting the utilization of research results*. Tools to achieve this goal include the establishment of Innovation Platforms, more flexibility given to excellent partnerships (consortia, networks, “hotspots”), better access to venture capital, and investment grants for PP research consortia funded by income from natural gas (Bsic).
- (3) *The training and retaining of researchers and other knowledge workers* to provide adequate human resources for top-grade research and innovation.
- (4) *Promoting top-quality research*, guaranteed by a new quality assurance system, performance evaluations and performance-based funding schemes for universities, as well as by more incentives for PP research. As only a small proportion of university funds are subject to competition at present, research institutions are not really enforced to meet industry requirements (OECD, 2004).
- (5) *Improving communication on science and technology*, to make career in science more attractive for students.

Regarding the Lisbon agenda, the main challenge for the Netherlands is to increase the overall spending on R&D (1.7%, in 2004; 1,9% in the EU15) and in particular that of the business sector (1% in 2003) (EC, 2006). The resolution that fifty percent of the additional income from natural gas will be allocated to education, knowledge and innovation through the FES funds (Fund for Strengthening the Economic Structure) well indicates the commitment of the government to the Lisbon goals.

The Netherlands contributes to the ERA vision in two important ways: (1) It focuses its research activities into a limited number of key areas and (2) it stimulates international research collaborations to allow Dutch researchers to access knowledge created elsewhere as well as to maintain the position of Dutch research in the world (EC, 2006).

The Dutch research and innovation policy is based on a systematic evaluation of the Dutch innovation system. Various studies have been carried out both by internal and external experts to analyse the different aspects of the research and innovation (e.g. the rationale for policy, governance, possibilities for streamlining various programmes, interactions between universities and firms, etc.). (EC, 2006)

Despite its weaknesses, the Dutch innovation system is one of the most successful ones in the EU, with a number of good practices to examine more closely.

A Best Practice of Public-Private Research Cooperations: Leading Technology Institutes

There are several policy instruments in the Netherlands that facilitate collaborative public-private research. IOPs¹ (1993), LTIs (1997), the Bsik programme² (2003) and the recently introduced Smart Mix³ (2006) all bring companies, scientists, universities and other non-profit research institutes together and support their joint research efforts to boost the country's innovative capacity and competitiveness. Perhaps, the most unique instrument of these are the Leading Technology Institutes (LTIs), two of which the author visited in the framework of a technology transfer training in April 2006. The participants of the training were recruited from Hungarian universities where a similar initiative, the so called Regional Knowledge Centres (RKC) had been launched

¹ In recent years, 24 IOPs (Innovation Oriented Research Programmes) have been initiated in areas of strategic interest to industry. The main goal of the IOPs is to increase the accessibility of the public knowledge infrastructure for industry and to increase and intensify interactions between industry and public knowledge institutes.

² Bsik (Investment Grants for Knowledge infrastructure) provides funding to consortia of up to 50 percent. A EUR 802 million budget showed the government's great ambitions.

³ Smart Mix represents additional funding (100 million euro per year) by the government for PP research consortia.

at that time. LTIs are considered to be a best-practice model of PP collaboration both in the Netherlands and abroad. In the followings, their characteristics are discussed in comparison to that of RKC's, where possible (see *Table 2*).

LTIs are virtual networks of different partner institutions, performing industry-relevant strategic basic research in specific areas. Recently, this instrument has been renewed and combined with IOPs. Public and private stakeholders can decide together which form of organisation (IOP, LTI, or another form) is the most appropriate for them, thus each programme will be unique and custom-built. Originally, four LTIs were established around different knowledge intensive industries⁴:

- (1) *Dutch Polymer Institute* (DPI), Eindhoven: polymer producing and processing,
- (2) *Netherlands Institute for Metals Research* (NIMR), Delft: metal science, production and engineering,
- (3) *Telematica Instituut* (TI), Twente: telematics, ICT
- (4) *Wageningen Centre for Food Research* (WCFR), Wageningen: food and agriculture

Hungarian RKC's have been set up with the primary aim of improving academia-industry cooperation and strengthening regional innovation systems. Circa twenty universities and colleges benefited from RKC grants in the past three years, hence research grants and efforts should be concentrated around less but more viable projects in the future.

Table 2. Comparison of Public-Private Research Programmes: the renewed IOP-LTI (NL) versus the new Regional Knowledge Centres at Universities (HU)

	IOP-LTI (Netherlands)	RKC (Hungary)
main aim	Establish long-term strategic R&D collaboration between companies and publicly funded knowledge institutes	Same as IOP-LTI
background	Restructuring and renewal of financial innovation instruments and lowering administrative burdens	Week academia-industry co-operation and regional innovation systems in Hungary
research policy priorities	Policy mix to increase private investment in R&D; Grants to public sector research institutions; Strengthen and create centres/networks of excellence; Developing public-private partnerships for R&D; Improving R&D co-operation and technology transfer; Grants to support business R&D, and R&D collaboration; Enhancing the mobility of researchers	Same plus Promotion of R&D services to enterprises (esp. SMEs); Promoting regional research-driven clusters; Raise interest of the young in science and technology; Develop more favourable employment conditions to attract researchers
target groups	All companies; Higher education institutions research units/centres	Same plus Other non-profit research organisations (not HEI); Technology and innovation centres (non-profit)
duration	2006- (no end date foreseen)	2004-2008

⁴ Recently, another four LTIs have been founded (DSTI, TI, Wetsus and TTI).

research themes targeted	Health; Environment; Energy; Mobility/transport; Security and space; ICT; Biotechnology, food and agriculture; Socio-economic sciences and the humanities; Nanotechnology, nanosciences, materials and new production technologies	The scheme is not theme specific.
research activities targeted	Basic research; Problem driven (basic) research; Pre-competitive research; International research collaboration; Networking	Same plus: Applied industrial research; Knowledge transfer (between researchers); Human research development
structure of implementation	The scheme is implemented as a "module" in the new framework regulation of the Ministry of Economic Affairs for programmatic research (a.k.a. the "innovation omnibus"). IOPs or LTIs can be selected as appropriate instrument within a broader bottom-up and interactive process of programme formulation. LTIs operate more autonomously than IOPs, and do not work with calls.	The scheme is implemented via competitive calls which are published annually. The measure provides support via competitive grants.
openness to EU and third countries	Foreign parties can participate. Each IOP network should involve at least two Dutch business enterprises and one Dutch publicly funded knowledge institute. Each LTI should involve at least three Dutch business enterprises and three Dutch publicly funded knowledge institutes. International participation is considered a sign of strong international positioning.	Only universities and companies located in Hungary may apply.
eligible costs	Labour costs (including overheads); Equipment; Training (including study trips)	Same plus Infrastructure (buildings); External expertise (consultants, studies, etc.); Other: Organising seminars, conferences; purchasing books, journals, databases; auditing of the Centre.
sources of co-financing	Co-financed by the private sector	Same
overall budget	approx. 34 million euro per year	36, 24 and 10 million euro during three years resp.

Source: EC (2007)

Note: The major difference between the two instruments is that an LTI involves several universities and multinational companies, it is primarily a virtual organization⁵, and is engaged in a multiple of research projects and programmes. In contrast with RKC, an important wish of LTIs is to grow internationally as well, to outsource to or purchase research from research groups abroad. Foreign expansion would strengthen the reputation and position of both LTIs and Dutch companies on the global map of R&D and innovation.

Government funds cover up to 50 percent of LTI budgets (15-25 million euros p.a. through 4-8 years), thus the consortia partners have to provide the remaining half. Each RKC receives around one billion forint (4 million euros)

⁵ We can say they are virtual, as researchers work closely together for various lengths of time on different programmes and projects. Once their work is complete, the external researchers return to the company or institution where they came from, or they may be hired by another LTI.

for the duration of three years, and it is still uncertain what will happen after the expiration of the grants, if there will be other relating funding schemes available to promising RKC's to carry on.

Consortia with strong industrial partners were favoured by the Dutch jury.⁶ TNO, an independent research and innovation NGO, was also involved in all LTIs. Long term market orientation was assured by the dominance of industrial partners in selecting research directions. In Hungary, as it was feared that the name and fame of the applicant institution would divert attention from the research idea itself, Hungarian experts living abroad were also involved in the evaluation committee.⁷

A further advantage of LTIs is the increased creation of spin off companies, especially in the region they operate. In Hungary, spin-off creation around RKC's is still not very dynamic, mainly because of the early stage of the research projects. However, it is to be feared that spin-offs will be set up only to satisfy statistical tables and project reports and not by the urge of real market needs.

As LTIs are involved in pre-competitive, non-specific research, the involvement of SMEs in the consortia was restricted to 10 percent by the Dutch government (LTI Evaluation Report, 2001). SMEs participate in the formula largely as end-users. There is an increasing funding on knowledge transfer from LTIs to SMEs. TU/e for example gives home to a consulting body called United Brains, which provides information to SMEs on different academic research results and their possible applications on the market. TNO also helps innovative SMEs in several ways, such as testing products and services, providing independent quality controls, consulting with experts and granting licenses of patents. An interesting Dutch initiative is the so called innovation voucher, which fosters the ties between SMEs and higher education. Vouchers, issued to SMEs in the value of 2,500-7,500 euro, can be exchanged for research or consulting services at private or public research institutions.

The knowledge generated by the LTIs is available for any companies, but primarily for consortium members, who have the privilege to license a patent. None of the LTIs apply comprehensive regulation regarding IPR, but in most cases the LTI files the patents, while other IPR activities are carried out on an *ad*

⁶ Selection criteria for LTIs: (1) focus and coherence of the research programme; (2) quality of the research; (3) prospect of value creation for the Dutch economy; (4) added value with respect to the existing publicly funded knowledge infrastructure; (5) commitment (content, financial, and governance) of entrepreneurs and the publicly funded knowledge institutes; (6) strength and effectiveness of management; (7), international dimension of the research area, (8) publicity of the knowledge created, (9) attention for, and set up of, reporting on sustainability at the project level.

⁷ Selection criteria for RKC's: (1) scientific content of the proposal (max. 5 points); (2) significance of the knowledge centre with respect to the competitiveness of the region (max. 30 points); (3) professional and financial feasibility of the proposal (max. 20 points); (4) number of consortium members (2 points per member, max. 10 points); (5) in case of companies, number of post-docs newly hired for the project (max. 5points).

hoc basis by the partners (OECD, 2004). The importance of IPR is often underestimated by researchers as well, while the lack of detailed government regulation also increases uncertainty and transaction costs. LTIs therefore have to pay an increasing attention to regulation concerning IPR, such as the rights and obligations of partners, the ownership and transfer of patents, licensing, settling of disputes, etc.⁸ In Hungary, only very few RKC's have licensed out technology so far, hence there are no such experience concerning IP protection. More and more RKC's realize though, that the formal rules of university IPR codes of conduct are not flexible enough to readily utilize market opportunities.

Eventually, the success of LTIs can be traced back to the following factors:

- (1) Considerable government funding, which kills competition;
- (2) Stringent selection criteria⁹ and the involvement of "heavyweight" multinationals¹⁰;
- (3) Dominance of industrial partners in deciding research directions;
- (4) Customized and flexible management and organizational structure;
- (5) Employing managers with extensive experiences and relationship capital in both industrial and academic fields (uncharacteristic of RKC's); and
- (6) Institutionalizing research networks and virtual organizations to make PR and other promotion activities more effective.

Some criticize the top-bottom approach that was employed during the foundation of RKC's and the introduction of innovative thinking into Hungarian universities. Instead of binding universities to government will, which can in fact give rise to a numerous unfeasible research projects, a bottom-up approach, as used by LTIs and also in the US, might have been a more effective method to change the attitude of universities towards entrepreneurship.

4. Conclusion

Undoubtedly the US is the classic example of how small technology intensive businesses can grow up to make the most competitive economy in the world. These start-ups have played a key role in the emergence of Silicon Valley and Route 128, the most dominant technopolis in the world. Productive university-industry collaborations, market driven university research, innovative mentality and greater tolerance of risks all contributed to the much admired competitiveness of the United States. The EU has been making every effort to

⁸ The increase of litigation costs had a negative impact on technology transfer in the Netherlands. Companies, and especially SMEs, who are more sensitive to transaction costs, have become more cautious and tolerate only a small risk of having to go to the court

⁹ 17 proposals and six detailed business plans were eventually turned down, and only four LTIs were founded in 1996.

¹⁰ Philips, DAF, Unilever, IBM, ING, ABN AMRO, Bayer, etc.

catch up with the New World, but its enterprises and people seem to lack that inherent innovativeness and pragmatic thinking that results in a naturally competitive economy. In Europe, it is the government who has to take the initiative and encourage economic and social actors to collaborate, innovate and develop.

The first part of the paper dealt with the characteristics and channels of university technology transfer. Although university spin-offs are still uncommon in Hungary, their number, or rather the income they generate should be treated as a measure of (regional) innovation and competitiveness. Technology transfer offices assist academics to evaluate, protect, market and profit from their inventions. The university also gains from the UTTO's efforts in the long run, both in a direct (e.g. income from licenses and spin-offs) and indirect (e.g. improved image, attraction and retention of researchers and students) way. Thus, Hungarian universities should not regard the development of technology transfer offices and the employment of skilled staff merely as a cost item, but like universities in the Netherlands, as an investment into the future of the whole institution.

The second part summarized the main features and difficulties of the Dutch innovation system, with special emphasis on a best practice of PP research partnerships, the Leading Technology Institutions (LTI). The OECD (2004) extolled LTIs as "one of the purest forms of PP cooperation", and they indeed, play a major role in increasing the relation between public and private actors of the national innovation system. Although RKC's live on a much smaller budget, their size, industrial support and organizational structure are far more modest than that of LTIs, they are very important milestones of university-industry relations in Hungary: They encourage researchers to work in teams, to pursue common goals and to use government funding in line with market mechanisms. In the consortia, companies share their well-guarded technologies, and what is most important, the cooperation finally results in products and services that improve the well-being of the society.

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LÁSZLÓ VALKÓ – MÁRIA CSETE

SUSTAINABLE CONSUMPTION

As a result of processes in the past decade, the concept of sustainable development – initially much too general and global in scope – can now be represented at specific well-defined levels (global, regional and local community) and with meaningful content (social, economic and environmental dimensions).

The main message of sustainable development – generational responsibility – can not but affect the everyday forms of life and movement of individuals (households), the process of consumption among them. In our opinion, this is the field where collective and small community (individual) responsibility for sustainable development can be linked best. Worldwatch Institute – engaged in studying interactions between global and regional processes – published an essay book in 2004 focusing on the analysis of consumer society, analyzing if of the two bottlenecks of sustainable development (population growth and consumption), the latter seems less manageable **(1)**. Indeed, *consumption is the area where the conflicts of interest between the three pillars of sustainability are the most significant*.

1. The interpretation of sustainable consumption

Environmental regulation systems responsible for communicating current environmental policies and basic expectations to all stakeholders set their sights more and more on households, the micro-level economic operators. It is a fact that the effects of mass consumer decisions may significantly impact the environment as well as players of the economy. It has also been proved that these *consumer decisions can be directed and influenced*.

The concept of “sustainable consumption” was first introduced into environmental policy debates by the AGENDA 21 document accepted at the UN Conference on Environment and Development in Rio de Janeiro. Chapter 4 of the document (“Changing Consumption Patterns”) considers changing established consumer patterns and structures to be a fundamental precondition for moving towards sustainable development **(2)**. The point of the question referring to the problem is this: which is the “consumption pattern” that does not come at the expense of future generations? Experts on the subject agree that the consumption standards of wealthy developed countries, altogether high despite existing inequalities, are not the road to be followed for the whole population of the planet.

The focus of environmental policies is finding balances among the following factors: (a) present and future needs, (b) consumer and environmental goods, (c) available goods and their equitable distribution.

It is common knowledge that raw material and energy consumption is constantly growing, driven by the expansion of private (household) consumption. One of the most recent UN reports demonstrates this numerically by stating that private consumption in 1998 was 24 billion dollars, which is twice as much as in 1975, and six times as much as in 1950. Mankind – in a financial sense – is living better and is growing richer. On the other hand, this enrichment comes at the cost of extraordinary inequalities: the wealthiest 20% of the population (1.25 billion people) benefit from 86 % of consumer goods while the poorest 20% only get 1.1%. The wealthy consume 9 times more fish and meat, and 15 times more energy than the poor, they use up 84% of all paper and own 84% of all vehicles. **(3)**

The above inequalities exist not only between developed and developing countries; the gap is huge and growing in wealthy countries, famine is on the rise, and the number of homeless people can be estimated at 100 million.

It is obvious that the lifestyle of wealthy nations is not sustainable, nor compatible with the idea of sustainability. Accordingly, developed countries and their citizens bear a much greater responsibility for following a lifestyle and consumer style that harmonizes with sustainable consumption. **(4)** The subject of sustainable consumption must therefore be considered as one of the key questions when drafting sustainability strategies, still an immature area today.

The concept of sustainable consumption is twofold: on the one hand, and in a narrower sense, it covers the efforts to reduce the amount of consumed goods and to change consumption patterns, and on the other hand, it endeavors to establish a new, lasting approach to consumer value priorities and welfare that takes into account all three pillars and dimensions of sustainability.

One of the paradigmatic tenets of theories on sustainable consumption is that it is *not only the responsibility of the individual consumer*. Economy as a science considers the concept of consumption to include private (individual, domestic), collective (institutional, state), and producer consumption (i.e. material and energy consumption needed for creating a product). Although in many respects, consumption is driven by private consumption, it is an erroneous approach to simplify sustainable consumption to private consumption and to only stress the responsibility of the individual and the household. In our opinion, the right approach – also followed by the VI. Environment Action Programme and the environmental control practice of the EU in recent years – is to emphasize *product, and product responsibility*. Consumers can only choose environmentally friendly customer and consumer alternatives if offered the appropriate product selection.

We believe the following conceptual approach to be the most complete:

“Sustainable consumption is the use of goods and services that responds to basic needs and brings a better quality of life while minimizing the use of

natural resources, toxic materials and emissions of waste and pollutants over the life cycle, so as not to jeopardize the needs of future generations.” (5)

Next we would like to present an example from German practice that is founded on the basic concept of sustainable consumption and can be applied universally. (6)

2. “Sustainable consumer basket” programme

The German Council for Sustainable Development, operating with the Sustainable Goods Project "Sustainable Shopping Basket", (the Council) illustrates possibilities and advantages of sustainable consumption. The project is therefore purposely aligned to the Statistical Shopping Cart of the Federal Office for Statistics which measures the extent and structure of the expenditure by private households. For as many as possible of the 750 products and services, the sustainable shopping basket offers sustainable alternatives or suggests sustainable consumer behavior. In this phase of the program, the Council has enlisted the expertise of an institution analyzing connections between the environment, the market and society. The new shopping basket contains products and services exceptionally sensitive from the aspect of sustainability. The products come from the following consumption areas: foodstuffs, textiles and clothing, living and household, mobility, tourism and financial services.

The implementers of the program highlight the general aspects of sustainable consumption for each product range and the relevant product list, breaking them down by the three dimensions of sustainability.

Economic aspects: Products and services should provide a greater use-value to the consumer both in price and in collateral costs without going against health and security aspects.

- *Economic aspects:* The ecological advantages of products and services must be obvious in comparison to products of similar use-value (lower raw material demand in the production and consumption phase, avoiding pollutant transfer, etc.).
- *Social aspects:* Products and services must show obvious social advantages compared to other products, such as better (fair) working and living conditions during production than is usual with products made in the Third World.

Products in the “Sustainable Consumer Basket” can only carry product labels and other information that are frank and objective beyond doubt and take sustainability criteria fully into consideration. The creators of the basket preferred eco-labels for their widespread use and recognition to labels that assess the quality of products (the information distributed to consumers provides a detailed list of the eco-labels that products in the “Sustainable Consumer Basket” may use).

The testing of the “Sustainable Consumer Basket” program has been completed. The *experiences* presented below have been formulated based on interviews and “household expense records” of households participating in the test phase.

- After one month of testing, more than half of the participants noticed changes in their buying and consumption patterns and realized that *even a little attention to eco-friendliness makes for more responsible purchases and consumer patterns.*
- *Sustainability criteria can be applied to most of our consumption (buying) patterns.* With the right behavior and discerning buying everyone can contribute to sustainable development. There is a general “pressure” towards buying energy-efficient devices, or to rent and share them instead of re-buying. At times we can forego buying (using) certain products altogether without a decrease in our standard of living...
- The information background provided by *the program proved to be the most useful in the case of the food and nutrition product group* (the program in itself attributed an inferior role to product groups representing non-everyday purchase/consumption.)
- *Consumption and shopping that reckons with the aspects of sustainability* – mostly its planning, but also its execution – *is more time-consuming* and, based on the experiences and feedback from participating households, *more expensive*. Participants rightfully missed labels pointing out this fact. In other words, the organizers of the program did not, in the accompanying documentation, give this information the attention it deserved.
- Participants mentioned the following shortcomings in the infrastructure of sustainable consumption: *poor product offerings* and *missing information in the labels* of environmentally friendly products.

3. The environmental attitude of Hungarian “consumers”

In Hungary – apart from several admirable, yet isolated initiatives – statistics and marketing are yet to provide a fine-grained analysis of the size and structure of the environmentally conscious general public. At the same time, before working out and applying scenarios meant to encourage environmentally conscious consumption (buying) patterns, exploring the target group is essential. This means collecting information on what the – in this case Hungarian – population thinks about the general questions of environmental protection, and how willing the population is to cooperate with the creators of the program targeting them. This positioning phase can not be avoided, and any strategy must be based on its results to be at least somewhat effective.

In this part of our presentation – based on our own studies – we will attempt to introduce several environmental attitudes characteristic of the entire adult

population of Hungary and the student age group between 13 and 18 years of age. (7) Our starting point was the simple realization that people's relationship to environmental problems is reflected in their everyday lives and can also manifest itself in their consumption/buying patterns. /The column numbers in the tables below identify the following statistical populations: 1. = base population of student age group, (2.) = population representing the adult population, 3. = control group of the student age group, (4.) = control group of the adult population./

Sensitivity to environmental problems, source of environmental information

Every survey on the topic begins with a question about the gravity of environmental problems. According to the data of our assessment, nearly 15% of students in the 13-18 age group take interest continuously in environmental protection issues, 77% have been intrigued by an environmental event, and only 8% are unmoved by the subject. It is not surprising that 60% of students in environmental education showed continuous, while 40% showed occasional interest. The standpoint of students in the latter group – in their opinion – mirrors a deeper commitment to a special field of environmental protection and not shallow interest in the problem.

Do you take interest in environmental problems?		Base (%)		Control (%)	
		1.	(2.)	3.	(4.)
A.	Yes, continuously.	14.6	(49.7)	60.0	(89.0)
B.	Yes, but only in connection with certain events.	77.5	(31.7)	40.0	(11.0)
C.	Not at all.	7.9	(16.7)	-	(-)
D.	Other, no answer	-	(1.9)	-	(-)

It is perhaps natural that the distribution of answers from the adult population differs from that of the student age group: nearly half of the Hungarian population shows continuous interest in environmental problems, close to a third only in connection to certain frequented events and approximately 17% takes no interest at all.

Analyzing the views expressed on the issue of environment we would also like to underline a few characteristics referring to the fine-structure.

The 30-49 age group has the best indicators from the age breakdown: 55.4% percent indicated continuous interest and only 11.4 was not moved at all. It is surprising that the youngest adult age group in the survey (under 29) have the worst indicators (nearly 24% marked "not at all", 43.3% answered "yes, continuously" to voice their opinions on their interest in environmental questions) and this is to be reflected upon. We believe – although more careful consideration of the results was not on the agenda and we could not undertake it – that this age group is preoccupied with starting a career and making a living and this competition marginalizes interest in environmental problems.

According to our survey the most important sources of information for both the student and the adult population are television and radio, before school lessons and subjects. “Talking to friends, parents and acquaintances” is similarly important in both age groups as an environmental information source. It is fortunate that our control groups (reminder: they are students in environmental education!) consider “school lessons and subjects” to be their primary source of information on environmental protection.

Environmentally friendly/sustainable consumption

In the course of our work we have presumed that the essential element of moving towards sustainable consumption is establishing consumption (buying) patterns that reckon with environmental conditions and their limits. According to relevant scientific literature, 30-40% of environmental problems can be attributed to reigning consumption structures and patterns. Realizing and “confessing” this is the first step towards reducing stress on the environment from individuals and households. This is why we consider the relevant results of our analysis significant. We wanted to know, as a kind of self-control, what significance respondents attribute to their consumption (buying) patterns in the intensification of environmental problems and if they strive to enforce environmental criteria.

Do you think that consumption (buying) patterns contribute to the intensification of environmental problems?		Base (%)		Control (%)	
		1.	(2.)	3.	(4.)
A	Yes, I believe the stress on the environment from consumption (buying) patterns is considerable.	39.8	(51.9)	86.7	(77.0)
B	Yes, consumption (buying) patterns can sometimes create stress on the environment.	51.3	(39.3)	13.3	(23.0)
C	I do not think consumption (buying) patterns create stress on the environment.	8.9	(6.0)	-	(-)
D	Other, no answer	-	(2.8)	-	(-)

It was expectable that our *control groups* can connect consumption (buying) patterns with environmental problems. It is somewhat surprising, however, that (1) the majority (87%-77%) of respondents think that the connection is significant. Furthermore, (2) students are more convinced than the adult population control group. Naturally, environmental view and environmentally conscious behavior do not coincide completely. *Proclaiming yourself to be environmentally conscious does not mean that you can (want) to enforce this view in practice.* In general terms it can be stated that the so-called “latent

readiness” for using (buying) products that create less stress on the environment is relatively high in the population, so if the accompanying conditions (consciousness, supply factors, incentive parameters) are present then environmental view can definitely be converted to environmentally conscious everyday practice more easily.

“Institutions” of environmental responsibility, willingness to pay

No-one has ever doubted that both pollution and environmental protection are multi-stakeholder processes. *Ascertaining the responsibility of stakeholders has always been important in defining the regulation factors* (legal-regulatory, economic-area of interest, ethical-voluntary, etc. means and methods) of environmental protection.

On a historical scale: in the era of growing conscious of environmental problems (at the turn of the 60s and 70s) the state defined the protection of the environment as its monopoly, in the 70s and 80s this monopoly was split between the state and economic organizations by dominating environmental strategies, at the turn of the 90s the reworked international environmental policies also emphasized the importance of public participation, and in present versions of environmental strategy the responsibility of the individual (household) is also expressed.

Through the questions in the survey we also wanted to assess who the respondents think is *primarily responsible* for the protection of the environment in the country (settlements).

Students think that the responsibility for solving national and local environmental problems belongs to governmental (municipal) bodies (57%). We are happy to state the fact that individual (family) responsibility also received a very significant value (27%). On the other hand, the low rating given for the responsibility of companies and economic organizations by the student age group is food for thought (9%).

Most of the opinions characteristic of the student age group appear in the survey conducted among adults, with a few exceptions: they rate the responsibility of governmental bodies lower (41%), and economic organizations higher (19%).

Who do you think is primarily responsible for the protection of the environment in the country (settlements)?		Base (%)		Control (%)	
		1.	2.	3.	4.
A.	The government (local municipalities).	56.9	(40.6)	45.1	(34.0)
B.	Companies and economic organizations.	9.3	(19.1)	17.6	(13.0)
C.	Civil organizations (associations, foundations, etc.).	3.9	(9.3)	9.8	(-)
D.	Citizens (families).	27.3	(27.1)	27.5	(43.0)
E.	Other	2.6	(3.9)	-	(10.0)

Every survey so far has placed the responsibility of governmental bodies before the other stakeholders. The responsibility index of companies is 19%. The responsibility of civil organizations (nearly 9%) and the “common” responsibility of individual citizens (27%) come right after governmental bodies. Thus, the responsibility of citizens for environmental protection approaches that of the government nowadays, as is mirrored in the public opinion. *Emphasizing the growing responsibility of citizens reflects a correct realization that should be leveraged in the future in the areas of responsibility and requirements as well as those of incentives and support.*

Working out the strategy of sustainable consumption assumes taking into account numerous economic circumstances. So it is extremely important to know the degree and extent to which, depending on their income, people are able/willing to pay the higher price of environmentally friendly products manufactured to production specifications more stringent than with conventional production.

A question on willingness to pay was included in our questionnaires. International surveys have proven that in times and places of socio-economic depression, environmental protection is pushed back on the social priority list, and willingness to pay also decreases.

26% of respondents representing the student age group between 13 and 18 years of age have indicated that their family would definitely be willing to pay the higher price of products that are guaranteed to cause less pollution than their alternatives. 62% were uncertain, 12% rejected the idea. Answers were of course more positive in the control group.

We experienced higher values with the adult population in terms of extremities and the number of uncertain answers decreased accordingly. 41.2% of respondents declared their willingness to pay, 35.6% was undecided and 20.9% answered no. Results from the answers of the control group show that among participants of environmental education – that focuses primarily on environmental economics and environmental management – the willingness to pay is firmer: 54% answered with a definite “yes” and 44% were uncertain (2% gave no answer).

We think that the above ratios- in the current socio-economic situation – are realistic, maybe even a bit “flattering”.

Stricter environmental regulations can result in higher production costs and thereby raise the price of products. Do you think that you/your family/ would be willing to pay a higher price for products so that the producers would endanger the environment less?		Base (%)		Control (%)	
		1.	(2.)	3.	(4.)
A.	Yes, definitely.	26.5	(41.2)	40.0	(54.0)
B.	I am uncertain.	61.7	(35.6)	56.7	(44.0)
C.	Definitely not.	11.8	(20.9)	3.3	(-)
D.	Other, no answer	-	(2.3)	-	(2.0)

From the aspects relating to the fine-structure, *breakdown by educational level shows the greatest difference in willingness to pay between the groups of society.*

61% of highly qualified people show a definite willingness to pay higher prices, among people with a secondary/primary school degree this number is only 39.0% and 36.8%, respectively. Usually people living in Budapest (44.85%), men (43.9%) and the age group 30-49 (45.65%) show higher willingness to pay compared to other groups in the given structure. These domestic trends are in accordance with international experiences.

The value of the *price increase threshold* where consumers still buy environmentally friendly products is also an important carrier of information.

When buying environmentally friendly products, 39% of consumers willing to pay can only tolerate less than 5% price increase, 20% accept increase between 6-10%, and 9.9% are willing to accept even 11-15% representing the Hungarian “threshold” in our opinion (this value was 19% in the control group).

There is a peculiar asynchrony between willingness to pay and age: younger people are represented in a higher ratio on the “threshold of willingness to pay” than other age groups. A minor price increase is more accepted by people over 50.

Another interesting conclusion of our survey is that *the price increase for the extra services provided by environmentally friendly products is more acceptable to people than paying higher taxes/fees needed to finance the increased amount of environmental tasks that the government (municipalities) would otherwise have to solve.*

25.4% of the population show willingness to pay higher taxes to prevent the deterioration of Hungary’s environment (higher prices were accepted by 41.2% as we have seen). 35.2% were uncertain (this is nearly the same as with the question about prices), and 36.5% were unwilling to pay higher or new environmental taxes (this is much higher than with the question about prices – 20.9%).

People living in rural cities are represented in a higher ratio among those willing to accept higher environmental taxes and charges. This category usually consists of men, the younger age group and, most of all, highly qualified people.

According to our survey, the threshold for willingness to pay higher taxes - accepted by approx. 10% of the population – is at 6-10% additional tax.

To sum up, it can be stated that the environmental preferences of the Hungarian population – measured through willingness to pay higher taxes and prices – reflect expectations derived from the socio-economic situation, and more or less match international trends.

Resources

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MIKLÓS FÜLE*

A Sustainable Program of a Small Region in Hungary

A change of paradigm in the aims of regional development in Hungary

In the last decades of the 20th century threats coming from our environment became an everyday topic of public opinion. The environmental crises as a global problem may be featured by the tight position of resources as well as the limited capacity of absorbing our output. The typical answers given to these problems by states proved to be insufficient in solving the questions raised.

The **global answer** arrived relatively soon; however, one should think over the order of our answers given to the decline in our environment. **The first warnings came from individuals.** The researches of some influenced (or unfortunately of some less influenced) scientists called our attention to the fact that even the industrialized countries shall soon pay the price of the growth of well being that occurred after the Second World War. The measures of Keeling made in the 50s about the concentration of carbon dioxide of the atmosphere, may have been taken as a research of a cranky scientist made for his own sake. But when analysing climate reaction coming to light, a scientist may assume the role of a guru whose early results are often quoted.

But even after the sporadic warnings answers came not from decision makers responsible for these affairs but from everyday people who as simple newspaper readers recognized the side effects of the victorious march of our civilisation. The victims of chemical industry, our strikingly declining forests, the deaths due to smog, and the terrible devastation of tanker's accidents made people realize that they were not able to enjoy the advantages of economic development without disturbances.

It was only at this moment that the so called „professional society” made some steps foreword, governments made laws into force and new organizations were founded. The arrangements introduced by the participants of economic life demanded less resources than before while reducing the push on the absorbing capacities. But these steps were taken unwillingly. Later on –following the example of the United State - more emphasis was given to seeking new answers, going beyond the regulation of laws, and declaring Corporate Social Responsibility.

In our region the process described above had effects of its own on the different ideas of development. The conscious ideas of area development focused

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on decreasing the differences in the level of development of the regions and they made efforts to support economic development of unhindered regions and tried to handle –if they were able to do so – the problems of migration. **In the past decades, due to these processes, the handling of the challenges of environment problems gained the greatest attention of area development.**

In the EU the concept of sustainability appears in the different fields of economics and at the same time the principles destined to integrate these ideas put great emphasis on environment problems. In Hungary, even in the period of catching up to the level of EU, the concepts of regional development when drawing up the legal background tried to meet the demands of the EU. We can state that for today treating the problems of environment has become an integral part of decision making.

However there are some warnings concerning the integration ideas of environmental protection suggesting that the realization of these ideas may be controversial. Ex. the Environment Protection Law (1995) provided that every settlement has to make an environment protection program, but this was not fully met, not even after some initiative has been introduced. These programs are good starting points for elaborating one part or another of the regional development ideas as a whole.

In case we regard the question from the point of view of environmental policy and not from that of regional development, it becomes apparent that the former way of thinking characterized as a „tube” way of thinking is followed by a new aspect which is called social activity (especially economic activity) which is the driving force of regional development.

We may say that barriers **between environment protection and regional development are getting looser step by step.** This is well described by the fact that in recent years university and high school departments specialized for environment economy and environment management have widened their education and research activities by acting the questions of regional development.

The positive changes were slowing down because the change in focus to a whole region instead of a simple settlement did not go on smoothly. I think the question should not be put up as a simple choice between a county or a region. Wide strata's of society having strong emotional feelings concerning the county system which can be managed delicately and by rational considerations as well. The parallel existence of the two systems may contribute to manage cooperation between the regions or emerging at the frontiers of two regions. A region does not mean an inflexible territorial entity, and really it should not function that way but on the contrary other counties situated on the same territory can cooperate fairly in elaborating interregional problems instead of a continuous rivalry.

I think that the slow advancement of the regional system (in Hungary) is due to the lack of interest groups in this field who can cooperate without any force

so that it is hard to draw up the interests of a given region. (Moreover in case once a day such an interest policy comes to light one has yet to face how the solve common problems, e.g. everyday financing) It is a positive change that driving forces (who generate burden, a change in condition and the effects of the latter) has a consequence not only bearing in mind the problems of a single branch or of an absorbent but one can meet with complex development considerations of a region.

And here we arrive to the question of comprehensive region – small region (comprehensive here means nation wide) If I see well, nowadays activity on small region scale exceeds that of the big scale. I think it is due to the fact that small regions can articulate better their interests in comparison to big ones. Development concepts connecting to a group of settlement - because of their more concert and well defined way- can be better shaped, the groups to be reached can be identified easily, persons interested in the projects can be found easier (ex. in case of tourism a restaurant, an accommodation site, or simply persons giving different kinds of services).

Programs of small regions – because of their size- can operate at a lower cost; one can insure his own resource to the projects easier. A group arriving from Florida told us at this conference that the cost of the „bird investigation festival” now going on for eight years in the Merrit Island Region was collected by local businessmen interested in extending the tourist season there.

It is easier to ensure the inhabitants activity on a small area and it has of vital importance when speaking about environment sub regions of development. A certain portion of inhabitants always take part in programs related to their work, or place of living. However people not taking part directly in a given project, some way or other come to hear of its present forgoing, and in case they take it good and sympathize with its targets then they help to realize it. Developments in small regions are not so apparent as an investment of a big one, but the former are more individual and may strengthen the desirable local patriotism.

As a consequence it becomes obvious to put up the question: If for the time being in Hungary chances of small regions to enforce their interest are better than that of big ones, than what measures do we have to manifest the idea of sustainability?.

Sustainability in regional development, LA21 and Leader programs

The Brundtland Report (Our Common Future, 1987) emphasized the idea of sustainable development as an answer to environment crises. The report says that every generation is responsibly for ensuring an acceptable life for the generations coming after him.

To realize these ideas, those in power thought to put in force international projects first of all in the field of energetic, transport and agriculture. We cannot say that these programs are unsuccessful; however they have not fulfilled

entirely our expectations. So even at the Conference of Rio, 1972 the question came up that we should emphasize the problem of sustainability not only from a point of view of great regions but from the other side as well. So let us say we shall build on small local communities, it is especially their activity which can help to realize the generation aims mentioned above. If these projects getting the initiatives from small groups are going on for a time long enough and at the same time development concepts will not get lost, but on the contrary they became an integral part of the community, **than during some decades they may promote to develop a network built up from below helping to realize sustainable development in practice.**

Among these projects coming from below one of the first one is the so called Agenda 21 which may be translated into Hungarian as „local sustainable script „. One of the main characteristic of these scripts is the idea that it does not define itself as an environmental program, but keeps in mind the original idea of sustainability and takes social changes, economic activity and changes in nature as a complex entity.

The harmony of this threefold division was offered as a way of thinking. According to the narrowest point of view LA21 is a written development idea, a special kind of written document giving a detailed description of realization. The second level of LA21 is the process of preparing and realizing development concepts. The widest interpretation of the question regards LA21 as a way of thinking, taking in mind sustainable principles of economic life and every day life as well.

This threefold attitude is reflected by the strategic aims of LA21 forming the foundation of its concrete all-round realization. The strategic aims are as follows¹:

- *A well focused policy integrating "environment and development" problems, aims and values of planning, decision making and execution mechanism of the different economic sectors,*
- *It commits itself to recognizing and solving local problems on a large scale comprehending ecological and regional question for a period of at least three generation,*
- *Consciously connects environment affects of economic and political forces standing beyond them (these forces are: bringing political decision, the lack of bringing them and the insufficiencies of the markets),*
- *It intends to try to find the real connection between local problems, decisions and measures irrespective whether they are of environment, global or solidarity origin,*
- *Tries to motivate hard the contribution of a given community. It intends to involve man in the streets and the main interest groups in the planning*

¹ Guide to Elaborate Local Scripts of Sustainable Development (LA21) pp 4. Ministry of Home Affairs, a Special Municipal Bulletin, 2002.

and execution process concerning „environment and development” problems,

- *It refers to the Rio Conference and Agenda 21.*

We have to point out that an initiative can be taken as a case of LA21 if it contains the six strategic aims mentioned above. It means small settlements can have their sustainable programs contain one or more elements of these strategic aims, but we can take them as LA21 only in case they fully suit the requirements of the Rio Conference and the guidelines of Agenda 21.

The **structure of the program** has a threefold division: nature-economy-society- with special respect to the questions as follows²:

From the point of view of ecology by protecting local environment against harmful materials, effectively utilizes natural resources, secures the welfare of people, living condition and diversity of flora and fauna for a long time. Namely:

- *it guarantees protection of air, water and soil,*
- *makes use of efficient and renewable possibilities of energy supply,*
- *protects people from noise and other damaging influences,*
- *ensures the natural surrounding of flora and fauna,*
- *protects the productivity of soil suitable for agriculture,*

From the point of view of economy it relies to a great extent to manpower, to renewable resources and to optimal producing forms of economic life. It means a local economic system is sustainable if it

- *makes efforts to realize the division of labour the more reasonable possible,*
- *motivates economic activities promising good perspectives for the future,*
- *prefers local possibilities, conditions and resources,*
- *environment and other social costs are integral part of economic planning,*

From the point of view of society one should arrive at local consensus whether which values he or she takes of first importance, about healthy living conditions, about ensuring necessary living conditions for the present generations and for the generations coming after him. It means that

- *Social equity and solidarity exists,*
- *that the socio-cultural possibilities available for citizens can be improved*
- *the settlement tries to form its environment having in mind architecture and aestatic values*

² Guide to Elaborate Local Scripts of Sustainable Development (LA21) pp 10. Ministry of Home Affairs, a Special Municipal Bulletin, 2002.

- *the technical and social infrastructure it operates is society and environment conform,*
- *authorities encourage and protect the development of a healthy place of living which is giving insurance and is attractive as well.*

These are the main points of the program declaring its philosophical aspects and giving clues which the program makers can make use of when taking the first steps.

The main concept of LEADER (Liaison entre Actions pour le Développement de l'Economie Rurale – Initiatives for Rural Economic Development) as is evident regarding its name is a development program of the country side, but it has a lot of common with LA21. Unlike LA21, one will not find the word sustainability as a criteria of first importance in LEADER programs, but strategic goals - maybe not in a direct way - prove that „LEADER” acknowledges the philosophy of sustainable development.

LEADER has **four strategic goals**. These are as follows:

- protecting natural-cultural heritage,
- to make use of local resources, and spreading them,
- to improve self organization skill of teams taking part in the programs,
- urge cooperation instead of fitting away local powers.

Goals mentioned above are tried to be satisfied by the help of a well articulated method. Its main elements are as follows³:

Settlement aspect. Its basis is the cooperation of settlements to be found on the same territory, it defines **size limits** on the ground of which the program can be operated. It means the number of inhabitants is between 10.000 and 100.000. (In Hungary the lower limit may be 5.000). There is a size limit; the program allows the involvement of settlement having less than 10.000 inhabitants and a density of population below 120 members/km².

It is a good example for programs developing from below based on common interests of local groups while forming their decision and execution methods.

As to the financial questions local banks and groups possessing capital play an important role there. The main goal is not only to make use of local resources but to give rise to organisation which can compensate the influence of the biggest banks.

LEADER tries function to realize cooperation between the three decisive segments of local society. To present successful tenders the will of cooperation

³ LEADER An Community Initiative for the Shake of Rural Development pp.8.

A Central and Eastern European Workshop to maintain biodiversity 2005. Support of KŐVICE.

of public sphere, business life and local civil groups should be present at the same time.

There is a great emphasis paid on innovation, because economic activity of the country side based mainly on agriculture is not sufficient to ensure the livelihood of people. It means we have to look continuously for new ways of living which prove to be sufficient to maintain the standard of living in a given region.

We have to form an integral intersectoral method maintaining economic activity. It is a point rather vulnerable. It is so, because local programs can realize this kind of integration if intersectoral cooperation takes place by harmonizing the different sectors of economic life.

LEADER demands cooperation between groups utilizing the programs, so here we can meet the idea of a network making its connections from below. The target of setting up a network is not only to help to realize sustainability built up from below but to make it possible that the participants shall adopt ideas already proven.

I hope you can see now that the two kinds of programs LA21 and LEADER have a lot of common concerning the aims and resources. As a matter of fact both of them intend to foster a way of living relying on local resources, on keeping the number of inhabitants, and sustaining them for a long period.

Concerning the differences we shall mention that at the very beginnings LA21 was based on settlements while LEADER on groups of settlements. As to the financial questions LEADER has concrete solutions when it combines local financial resources and national support. The participants of LA21 have to do a lot to find the necessary resources to realize their ideas. Strategic goals of LEADER require fewer criterions so LA21 allows more space to realize their concepts.

To sum up it is good that the principle of sustainability appears in a variety of ways in the development of small regions; however we have no illusion about the fulfilment of the real nature of the idea of sustainability. The process is on its way now; we have some well functioning programs and must be on the point of speeding them up.

„The impulse giving” A development plan of a special local group⁴

„Living homesteads, flourishing cultures built on sand soil” this was the philosophy of ten small settlements belonging to the small region „Cegléd” who won a LEADER tender in 2006. The region called „Homokhátság” lies at the frontier of the meeting point of three counties „Pest, Bács-Kiskun and Jász-Nagykun-Szolnok” It involves 10 settlements whose contacts were determined by the common history, public transport, administration, health care and working

⁴ Using up the tender of the „Impulse Giving” local group.

possibilities. The settlements having got their living mainly from agriculture and trade in the past became independent villages in the 50s of the last century, but their interrelation even today shows the signs of having strong attachments to their mother settlement.

Economic life of the settlements was based mainly on agriculture which resulted in forming strong multilateral economic and cultural connections. Nagykörös with its vocational training and food industry has a central role in the small region of Cegléd. Dánszentmiklós is the centre of apple growing while Nagykörös and Nyársapát take the role of vegetable cultivation.

In the downtown of each settlement we can find parks and garden landscape. The outskirts are characterized by a rich flora and fauna. There are nature reserves to be found in the region (ex. the boundary of Csemő is a part of the „Duna-Ipoly National Park”. Some rare natural resources are to be found there as well (primordial grass, residues of forest-steppes and orchid settled areas etc). The environment is now **medium polluted**. Below the downtown the polluted groundwater stands high and it shall be vanished only by developing sewing works and by ceasing drying of the soil. The present situation of garbage treatment, the lack of local garbage depots and that of selective recycling of garbage is a great problem. The third sore point is the level of ground water of Hátság region situated in the Duna-Tisza space.

Table 1. Demographic situation of the small region of Homokhátság

Name of the settlement	Number of inhabitants 2005.01.01.	Density of population Member/km ²
Ceglédbercel	4 480	159,131
Csemő	4 306	54,206
Dánszentmiklós	2 769	72,857
Jászkarajenő	2 987	45,849
Kocsér	2 014	29,934
Kőrösetetlen	855	26,187
Mikebuda	807	19,139
Nagykörös	25 089	110,058
Nyársapát	1 795	32,219
Törtel	4 482	53,254
Number of inhabitants in total	49 584	68,962

It is one of the small regions of Hungary which has **lost its inhabitants since 1970**. The reason of demographic decline was due to migration, to the ageing of society and to the permanent decreasing reproduction rate of the population. The continuous migration of the years between 1970 and 1990 was a consequence of the development policy of these years, condemning to death the structure of

settlements namely the living homesteads and agriculture towns together with their way of living and economic life.

The devastation of living homesteads in the 60s of the last century meant the recultivation of land suitable for agricultural production before, it meant the devastation of grape and fruit plants, the administrative prohibition of building up new homesteads, the liquidation of small schools of the area. These administrative measures resulted in the reduction of the living space of the natural and social environmental and the negative society selection which formed an obstacle for the development of homesteads.

If we get to know the concepts referring to the development programs of the small region of Cegléd, we can see a twofold motivation. The first is an unfavourable change in the settlement structure of the region, namely the decrease of the importance of farmsteads. This process went on up till now. In the recent years the process seems to have reserved. The value of real estate of the outskirts of some settlements – mainly that of farmsteads - has revived. Its worth mentioning that the relevant migrations data of some settlements indicate that more than 10 % of the new comers settled there were leaving Budapest for the farmsteads. (These are the data of the past 5 years). People arriving from a surrounding of housing estates try to build up a new life making benefit of the low real estate prices.

The plan of program of the small region claims among others: *“Farmsteads are mainly a burden for the small region but in case we turn back to the past and adapt them to the requirements of our age they may serve as new resources, as key issues of the development programs of the country-side”*.

The second question is the unfavourable demographic situation of the settlements. Having a population getting older and older together with the slow but continuous migration makes the region to look for new possibilities which can persuade people to remain at their present living space.

If we regard **economic activity** playing a key role in stabilizing the population, the data show the dominancy of agriculture. In the region enterprises are of small and medium size, only 10 out the total have more than 50 employees, and one will not find any which employs more than 250 people. In agriculture, legal successors of the former cooperative farms have the most employees; enterprises of the region get their living mainly from agriculture and from trade of agricultural products. If we have a look at the employment data it turns out that agriculture provides a way of living for more people than statistical data indicates. It is so because of illegal employment on one hand and of having supplementary activity besides being employed somewhere on the other.

Employment is determined by the comparatively few number of workplaces and by manpower of low skilled people. Ratio of unemployment has decreased in recent years, but this was not due to the improvement of local employment but to the fact that a great part of people commute to towns (Budapest, Szolnok, Kecskemét).

That is all we can say in a brief review about the realization of the local LEADER program. It was the starting point of the program containing the requirements of sustainability. It was declared clearly **what kind of changes they expected to be happening** during a period of two years. Among the goals we can find the objective to lay down the foundation of the so called „**cultural economy**”. Cultural economy means to bring about the circumstances of farming (first of all of organic farming), and to put the result on display for those interested in it. There is a good example: the organic farm of István Nagy not far from Törtel was developed with EU support. He built up „display path” which is visited by the pupils of the surrounding areas who make organized tours there and who at the same time improve their knowledge of biology and get to know a new kind of farming as well.

With regard to the rather old fashioned way of thinking of the people concerning farming one of the changes to be reached is **to strengthen the innovative way of thinking** on one hand and to enlarge **R+D capacities and abilities of educational institutions on the other**.

There are two questions enjoying priorities regarding the course of change. One of them is the development of human resources while the other –due to the traditional way of thinking in agricultural problems – to give birth to the so called pilot farms.

Now I shall cite the explanation given to the improvement of human resources (pp.30 of the tender) „... Every kind of change is unthinkable with the quality of manpower now available. The skill of people is behind the times, and is not compatible with the market. Our schools go on „producing” young manpower with a skill inefficient for today’s economy. On the other hand the skill of manpower available now has depreciated an innovative economy can’t make use of them. We haven’t got yet a new kind of education system; school-centres educate student’s heart pour heart without to be aware of the demands of the market”.

In order to correct the deficiencies mentioned above, there is an intention to establish an educational centre in the region possessing the necessary authorization. This centre will have the task to arrange adult education suitable for local demands. Education programs are going to start for children of kindergarten age so that they shall get to know their close surroundings, their landscape and be aware of environment protection.

In those elementary schools ready to introduce it, a special subject will be taught under the name „education for a self-supporting life”. Secondary schools will be involved in the process of developing the structure, the subject matter and the form of education suitable for market demands. It is planned to set up a special group to shape the education for the representatives of local governments, for members of the mayor’s office, for the representatives of small and medium size enterprises, and local farmers as well and last but not least for civil organizations. Special emphasize will be placed on making use of

communication opportunities so that these groups get accurate and adequate information, helping to reach their goals and support social usefulness to put them into practice.

Another important question is bringing about 10-15 **model farms** in a small region whose infrastructure is above the average level, who have a method of production and trade already proven, and who play the role of catalyst there. Those who intend to develop their business can contact model farms applying their new methods and making connections with trade firms, with authorities and institutions. At the same time they shall make advantage of the characteristics of their own which may serve as targets of the tourism especially of ecological tourism and may serve the goals of education and popular science lectures: Mr. Mihály Marosi a farmer in Csemő has been working about for two years now to build up a cottage museum where result of plant improvement of native species – among others that of water plants - will be on show.

Limits of realization

When demonstrating the concepts of the development of the countryside – which due to the size limit of this writing was a short and of course not a fully comprehensive one – we have to take into account the obstacles, otherwise our concepts will remain no more than a set of written ideas.

A cardinal point of LEADER is the continuous cooperation of three equivalent partners: that of local governments, the business sector and the civil organizations. According to our experience – apart from making coarse generalization – the existence of some civil organizations depends to a high extent on the support coming from local governments, because they have no income of their own. **This questions the independent status of these organizations** in the process of working out and executing development goals.

Financial dependence brings some technical problems. Civil organizations can apply for support only in case they have a contribution of their own or the support coming from local governments is sufficient enough. Furthermore in case of a support or tender of a great sum, you should apply to a firm specialized for this purpose. Small civil organizations have not got enough money to pay for or have not got any connections with an organization like that.

In the hierarchy of LEADER the so called gestor organizations play an important role. As to the original concepts it should coordinate the work of cooperating settlements, give advice for making and presenting the tenders, while in case of success it manages the programs of people, enterprises and organizations. Sometimes it occurs that the gestor organization attempts its task without being aware of local problems. This means that the gestor organization has neither affection nor real knowledge on the problems of the small region.

It also may happen that the co-worker of the gestor organization is a young man in the beginning of his career without the experience necessary for making

such a program or he is not fully aware of functional, legal and organizational questions. If this is the case you can not speak about giving real advice which otherwise would form an important factor of LEADER programs. Participant arriving from small villages have their own ideas they aren't experts concerning the regulations of the program.

LEADER depends on local initiatives but it is in conflict with the fact that verdicts awarded **are not brought on the spot but it is the National County Development Office** which brings decisions and allows financial support. Even if we accept the professional skill and honesty of the office it is the very construction which questions independent decision making.

The transfer of money is going on rather slowly due to the present state of affairs of our economy. But the problem remains that the present system seems to be circumstantial and sophisticated, which frightens away a great number of potential candidates.

To sum up, we can say that in Hungary the concept of sustainability of regional development is already present and new mechanisms are under way, helping the responsibility felt for the generations coming behind us to be present. Now we are at the very beginning of the process, because it goes back only a few years so it is obvious we have to face some obstacles. We may even accept it, however, we have to feel sorry when we realize that the restraints affect the future of people who won't be able to take advantage of the projects. These people do not look for long but they keep in view earning their living and that of their families on a short term. **This is the reason we think it is indispensable to point out the obstacles of the good concepts, hoping those in the position of decision making answer rather soon to our propositions.**

HAJNALKA CSÁFOR*

Corporate Social Responsibility in Central and Eastern Europe

1. Introduction

Corporate Social Responsibility (CSR) has only a short past in the former socialist countries of Eastern Europe, but growing demand for CSR can be felt in these states as well. In my paper I would like to give an introduction to the present situation and the attitude of the citizens and the business sphere toward CSR activities in Hungary, Poland, Slovakia and Romania. I'm going to explore the common factors and further possibilities of developing voluntary CSR in these countries with taking their distinctiveness into the consideration.

The examined Central and Eastern European countries need a business environment in which entrepreneurs are appreciated not just for making a good profit but also for making fair contribution to addressing certain societal challenges. This business environment cannot be achieved without developing and spreading CSR in the given member states of the EU such as Hungary, Poland, Slovakia, Romania. "The European Commission strongly believes that CSR matters to each and every European citizen, since it represents an aspect of the European social model. CSR can contribute to sustainable development, while enhancing Europe's innovative potential and competitiveness, thereby also contributing to employability and job creation." (Commission of the European Communities, 2006)

The concept of CSR was originally developed in the United States for corporations to strengthen their reputation by the society. According to the definition of CSRwire¹ "Corporate Social Responsibility aligns business operations with social values. CSR integrates the interests of stakeholders – all of those affected by a company's conduct – into the company's business policies and actions. CSR focuses on the social, environmental, and financial success of a company – the triple bottom line, with the goal being to positively impact society while achieving business success." By the definition of the European Commission CSR is "a concept whereby companies integrate social and

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¹ CSRwire is the leading source of corporate social responsibility and sustainability news, reports and information in the USA. CSRwire members are companies and NGOs, agencies and organizations interested in communicating their corporate citizenship, sustainability, and socially responsible initiatives to a global audience through CSRwire's syndication network and weekly News Alerts. www.csrwire.com

environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (Green Paper, 2001).

According to this European concept, the final long-term role of CSR of the corporations and SMEs is to get sustainable economic development by involving all the stakeholders from the governmental institutions through the civil organizations to the local communities. CSR is one of the tools which can help European countries to reach the Lisbon Strategy objective: to become the most competitive and the most dynamic knowledge based economy in the world by 2010. (Szlávik, 2005)

2. Latest CSR Developments in the Former Socialist Countries

In this chapter of my paper I would like to collect the characteristics of current CSR situation and existing CSR activities in the mentioned countries. For giving this overall analysis I use the results of my own research on CSR activities in North-Hungarian Region; the results of the Rhetoric and Realities² EU research project (RARE, 2005) ; the World Bank Study: What Does Business think about Corporate Social Responsibility? Part II. (World Bank, 2005); and the results of the UNDP-EU research project titled “Baseline study on CSR practices in the new EU member states and candidate countries” (UNDP 2007) completed with the information given by the keynote speakers of the international conference “The Way It Works” – Corporate Social Responsibility in the Carpathian Euroregion held in September 2007 Presov, Slovakia, and some other sources listed among references. I focus on the activity of companies (CSR practices, reporting, standards), the aspect of Civil Sector (NGOs, Media, Education), and the role of public administration in case of each countries of the Region.

2.1. CSR in Hungary

Hungary became the member state of the EU in 2004. The private sector accounts for over 80% of the GDP and foreign ownership and investment in Hungarian firms are widespread (World Bank, 2005)

In Hungary – as in other Eastern European countries – there is only a short past of corporate social responsibility. The concept is not well known by the companies, mainly large corporations and subsidiaries of multinational

² RARE: Rhetoric and Realities – Analyzing Corporate Social Responsibility in Europe funded within the Sixth Framework Program of the EU. The RARE project is researching the extent to which companies’ voluntary activities in corporate social responsibility and related activities really contribute to sustainability and in particular to sustainability goals set by the European Union. 2005-2007 www.rare-eu.net; Baseline Study on CSR Practices in the new EU Member States and Candidate Countries: funded by the European Commission and the United Nations Development Program. 2007 www.acceleratingCSR.eu

companies adopt CSR policies, which are mainly concerned with their reputation and image. They believe that “socially responsible activities” are linked to complying with existing regulations and behaving ethically with the stakeholders (UNDP, 2007) Most of the **companies** focus on the employee-protection and organize or finance education for them. Environmental protection programs also exist, and recycling programs are widespread as well. Many companies have codes of conduct, but there are no anti-corruption policies at all. (World Bank, 2005)

Hungarian SMEs are not familiar with CSR philosophy at all. The majority of the entrepreneurs have never heard about even the expression of CSR. However in spite of this fact a growing number of SMEs occasionally carry out socially and environmentally responsible activities related to their business strategy, without knowing that is CSR. Mostly those CSR instruments are used among Hungarian SMEs, which do not cost anything for them and with which they are able to reduce their risks and costs, and are able to manage their reputation. (RARE, 2005)

Hungarian companies don't report their CSR activities; only 15 **CSR reports** were released in 2006. (UNDP, 2007) Only 35 Hungarian corporations made environmental or sustainability reports – including CSR – at least once in the last 5 years. The first sustainability report was made in Hungary in 2002. (DEMOS, 2006) ISO 14001 **Standard** is widespread in Hungary, but the Global Compact is not so popular.

Among Hungarian **Society** there is a low level of consumer awareness. The good examples of Western European countries also show that spreading corporate social responsibility cannot be achieved without the pressure of consumers. CSR activities of the companies don't play a significant role in decision making of the Hungarian consumers. The other characteristic feature of the Hungarian society is lack of commitment to the global social and environmental problems. There is a growing demand for CSR in Hungary as well. The Hungarian citizens are open to the problems of society and environment, but mostly just in mind and not in action. They are dealing with only those problems which endanger directly their local community and environment. (Csafor, 2006)

Civil Sector in Hungary is not really developed; most of the **NGO's** are funded by the state. The other thing which makes it more difficult to get information about CSR activities of the corporations in Hungary is the problem of **Media**. According to the current Media Act, the corporations have to pay the rate of the commercial advertisement even for the public-purpose announcement or news. If a broadcasting company reports – among the news as factual report – some CSR activity (for example a charitable event) mentioning the name of the responsible company, it can calculate on 20-30 thousand Euro fine from the National Radio and Television Commission, because the announcement is identified as a hidden advertisement (Üzleti Etika, 2006). Because of this

regulation – which doesn't meet the EU directive of media regulation – the responsible companies have no chance to publicize their CSR activity without paying the high rate of commercial advertisement. On the other hand there are a growing number of articles in connection with CSR on websites and in newsletters.

Almost all the **universities** have business ethic courses, but the number of research projects on CSR is relatively low. Besides the adaptation of EU directives there are also Hungarian legislative initiatives and proposals in connection with corporate responsibility concerning the Hungarian Public Procurement Act. (Csáfor, 2006)

The role of the national **government** in developing CSR has been limited in Hungary, but recently, a growing number of companies recognize its importance in governmental decision-making to promote CSR, in giving rate and tax allowances, in labor law reform, in supporting national CSR research projects or in establishment of CSR-awards and reconcilements. The governmental emphasis is on providing incentives for responsible production and responsible business behavior without any interventions to preserve its voluntary nature. The Minister of Economy and Transport appointed a CSR director in 2006. Governmental encouragement helps Hungarian corporations in shaping partnership relations in order to make their social responsibility more successful and more targeted. (DEMOS, 2006)

2.2. CSR in Poland

Poland is a good example of how to change from state-directed economy to a privately owned market economy. Today the country has modern economy and globalized commercial activities. Poland joined to the EU in 2004.

Majority of Polish **companies** believes that corporate social responsibility means ethical and transparent business behavior mainly with the shareholders, customers and employees which are the most significant stakeholders for the Polish companies. Polish companies don't think that addressing stakeholder concerns, conducting public relations, and correcting social inequalities can be considered CSR. Polish companies consider complying with the legal framework and avoiding child labor the most important social roles of a company. A majority of Polish companies have codes of conduct, and anti-corruption policies are also widespread. (World Bank, 2005)

Most of the Polish companies are engaged with environmental projects, but half of them have no environmental certificate. 20% of the companies are certified to ISO 14001 **standard** and some of the largest companies are signatories to Global Compact. Only 10 companies issued a CSR **report** in 2006. (UNDP, 2007)

There are only a few **universities** with research programs in the topic of CSR, and the **Media** doesn't report social responsible activities of the

companies. The CSR and sustainable consultancy have no active market. **NGOs** are largely or wholly reliant on company or direct state financial support. The **political environment** is underdeveloped in Poland in connection with CSR; there is no governmental department dealing with CSR issue. The Sustainable Development national strategy has been published and that is the main strength of this domain. The government doesn't build partnership relations with the private sector or NGOs in order to raise awareness and understanding the social and environmental problems and ethical issues. (UNDP, 2007)

2.3. CSR in Slovakia

Slovakia also had undergone a difficult transition from socialist economy to market economy. Slovak government made progress in 2001 in macroeconomic stabilization, but they pay the cost of increasing unemployment. In the last few years macroeconomic developments are favorable and with rapid growth, the decline of unemployment and easing inflation (UNDP, 2007) Slovakia became the member of the EU in 2004.

In Slovakia most **companies** consider shareholders, customers and employees as well as top management to their most important stakeholders. Generally they don't consider the local communities to be stakeholders. According to their opinion the social responsible behavior of a company means to address the needs and concerns of the stakeholders, to behave ethically in business, to operate transparently and to comply with the regulations. Most of them are avoiding the child labor – as in other European countries – and they consider protection of employee health and the environment to be important problems. Some Slovak companies are also engaged in social projects, and they are also active in building local community relations. They support mainly health care institutions, education, and local community. (World Bank, 2005)

In 2006, less than 10 companies issued CSR reports in Slovakia, and these are not regular structured **CSR reports**. Slovak companies have not yet been reported by independent assurance companies. The 20% of the companies are independently certified to the ISO 14001 **standard**, but less than 10 to the Global Compact. (UNDP, 2007)

The campaigning **NGOs** are not independently funded, but there are a large number of international and national organizations promoting CSR. They concentrate on networking and exchanging information among companies. **Universities** of the country offer specific courses in the field of CSR, and a large number of academic researches are available. National **Media** is active in publishing CSR articles and news. The national **government** has published a Sustainable Development Strategy, and there is also a wide range of legislation to promote CSR in Slovakia. There is no any CSR related governmental department in Slovakia.

2.4. CSR in Romania

Mainly on the basis of the information of the Country Report about Romanian CSR situation³, an essay written by Romanian university lecturers and CSR researchers (Vuta, et. al. 2007), the CSR activity in Romania can be summarized as follows.

Romania joined the EU in 2007, and the Romanian economy is one of the fastest growing ones in the Union. The national currency is strong and the development of the economy is regarded by the analysts to be sustainable. In 2006 the GDP growth was 8.3% and the amount of foreign investments reached 8 billion Euros. (Euractive, 2006) On the other hand corruption, bureaucracy and the large differences among salaries are still serious problems of the Romanian economy. (ITD, 2005)

Companies – mainly multinationals – are more and more inclined to trying CSR programs, mostly corporate community investment programs. In Romania, the CSR concept was imported through international companies that operate locally. Multinationals have the capacity to generate community interest for community projects through large visible initiatives. Most of all corporate community initiatives are even-based in Romania. At local level CSR practice is defined by individual values of the decision makers, and the way they perceive the role of the company as social change factor. (Brasovean, 2007)

The total investment of the firms in CSR activities in 2006 were over 10 million Euros. In Romania the most frequented fields of CSR are programs of social assistance, supporting relief agencies, corporate events, financing research projects in CSR, supporting disfavored persons, educational programs, programs for protecting environment and supporting sport clubs and events. Target Groups are primarily children or persons with special needs, churches and monasteries, NGOs, employees and local communities as well. (Brasovean, 2007)

The communication of CSR practices depends on the internal motivation of the companies. In 2006 23 firms issued their **CSR reports** (programs) without signing the budgets. The implementation of **standards** as ISO 14001, or Global Compact is not widespread. (Vuta, et. al., 2007)

Sustainable development – including the CSR concept – is mainly promoted by elites and NGOs with a weak feedback of the great majority of the **society**, whose goal is still to reach income level that would allow a more decent way of living.

NGOs are primarily beneficiaries of the companies, and perceive themselves as partners trying to transmit the needs to the decision makers. There are many visible national events related to CSR concept: conferences, Galas, PR-Awards,

³ Ioana Bresovan – Association for Community Relations Romania: Country Report about Romanian CSR, presented on conference „The Way It Works” 25–27th September, Presov Slovakia

and thematic homepages⁴, but the mass **media** reaction to the social initiatives is not positive and cooperative. (Brasovean, 2007)

There are deficiencies in the interaction with public authorities, for example the national **government** has not yet named a governmental department leading on CSR issues, that make difficult spreading CSR in Romania.

3. Distinctiveness of CSR of the Central and Eastern European Countries

Each country has different characteristics in national and cultural context, which they should take into the consideration in creating their national CSR strategy. Central and Eastern Europe is a specific area with significantly different economic, cultural, social, demographic and ethic characteristics. But there are also common factors which are similar in the four countries in connection with CSR. In the following I try to give a list of these common factors in order to give overall recommendations for developing CSR:

- All of the countries have strong economic dependencies on different business sectors which are dominant. The development of CSR in these countries primarily depends on the contribution of these dominant companies.
- Corporations don't use the wide range of CSR practices, ad hoc philanthropic activities are typical.
- CSR practices are common among large corporations in almost all the countries. However SMEs play important role in the economy of these countries. They are the biggest employers, and the joint impact of their operation is also considerable.
- During the socialism in all of the countries there were generous social benefits. As a heritage of welfare economy there is funded by skepticism from the side of the business sector regarding the efficiency of public services as tax revenue allocation.
- Many of the corporations apply CSR only for marketing and PR purposes, and long-term thinking is missing from their CSR activity.
- NGOs don't use efficiently their capacity to play a role in social dialogue between society and the business sector.
- Only a few companies report their CSR activity, and the issued reports rarely are structured CSR reports.
- Only Hungary has a governmental department with responsibility for CSR issues.
- Planning an economy without taking the needs of the society and the environment into the consideration has the result of serious inefficiencies.

⁴ www.csr-romania.ro; www.responsibilitatesociala.ro; www.donatiionline.ro; www.dezvoltareurabila.ro etc.

- The attitude of the media to CSR issues in the countries is not satisfying and positive.
- The awareness of society is at a rather low level. While the consumers and the business partners don't force business actors to reduce or compensate for negative effects of their economic activity, we cannot expect self-restrictive business operation from them. The CSR practices of Western-European countries also show that spreading corporate social responsibility cannot be achieved without the pressure of consumers.
- The issues of CSR don't appear as separate subjects in educational programs, but in most of the countries environmental, sustainable development, and other business ethics related issues are built into the programs of grammar schools and higher educational institutions.
- The national governments of the countries issued Sustainable Development Strategies, but the governmental decision making and the legal system of the countries don't give incentives to CSR actions.
- The number of the companies that are certified ISO 14001 or Global Compact standards is low.
- The rapid political changes in the countries in the 90s created a strong distinction between the "dark communism" and the "sunny capitalism", which led to negative image of the Trade Unions, public works, or even the older generation.

4. Proposals for Developing CSR in the Former Socialist Countries

In this chapter of my paper I collected some important ones from the recommendations resulting from the discussions of the thematic working groups of "The Way It Works" international conference for developing CSR in the countries. These recommendations are addressed to the business sector, to civil society organizations, to public administration, to media and to the education systems of each country.

4.1. Proposals for the Business Sector

One of the most important tasks of the business sector is to understand the real needs in the community, and working for creative and innovative solutions to build up partnership relations with NGOs in order to make their CSR activity more effective. The role of large corporations is to promote SMEs' involvement in CSR with relevant information (good practices, research, media). They should spread CSR concept via donor company events as well, like open doors day where lots of people and the media visit the company premises.

The companies should conduct quantitative research projects of their CSR activity to demonstrate its benefits to the other businesses, and they should also

monitor the impacts of their CSR events beyond just the quantitative aspects. They should develop a thorough follow-up system for supported projects.

The members of the business sector should also share their experiences on CSR with other businesses, e.g. within business associations. They should engage media, make an effort to publicize the achievements of CSR activities and use arguments of competitive advantage and reputation building (mitigating reputation risk) to make the business case for CSR. Besides giving financial support, the companies' managements should involve employees in CSR activities whenever it is possible.

Finally the most important thing in the CSR activity of the business sector is the authenticity, which should be put high priority in each case.

4.2. Proposals for the Civil Society Organizations

Civil society organizations also should build up creative and innovative partnerships with the business sector. NGOs with understanding of the real needs of the society can be those actors in economy that transmit these needs to the decision makers of the companies. They should consider not to ask solely for money, but to offer some kind of service for the company. NGOs should also guarantee visibility of the projects they run, and to present the results of their work. Citizen groups should build their accountability to be trustworthy for the business sector.

NGOs also have important role in engaging media by building good relationship with them on the local level. They should promote and disseminate feedback of CSR projects mentioning both good and bad experiences.

By promoting specific issues, the civil society organizations make it possible for companies to join in. They can also help create CSR partnerships with long-term sustainability. NGOs can have an important role in organizing and contributing to public debate about CSR at all levels, and in promoting dialogue on CSR related issues – everything should be agreed through the dialogue.

NGOs should always be care for not to make business feel to as if it is forced to do something, business must feel free in promoting them.

4.3. Proposals for Public Administration

The most important role of the public administration (national and local governments) in the five countries is to provide endorsement or even legislative support to CSR activities while preserving CSR's voluntary nature. Local governments also can help to make better dialogue between all actors under the umbrella of local administration. They should organize cross-sector groups to conduct community needs assessment and they should organize and contribute to public debate about CSR concept at all – especially at political – levels as well.

Local governments also have a role to play in raising awareness, namely transmitting CSR campaigns of the European Commission to the citizens and also to the companies with even the help of the local media. They should enlighten and promote feedback of projects, promote good examples, ideas, benefits of CSR for business while operating in a socially responsible way.

4.4. Proposals for the Media

The most important role of the **media** is in communicating the right message about the CSR initiatives generated by the three partners (business, NGOs, national and local governments) and sustaining the concept in the community. The media has also a very important task in raising awareness of CSR by giving publicity to good examples and benefits of being responsible.

The media should promote the value of volunteering as an important aspect of CSR beyond philanthropy. Above all, the media has role to play in organizing public debate about CSR at all levels, and in publicizing good and bad experiences of CSR projects while emphasizing the benefits of CSR activities especially for business and all the society.

4.5. Proposals for the Education Systems

Finally there are recommendations for the **educational systems** of the countries. Their most important role is in implementing CSR concept according to the specificity of Eastern European Countries, and developing proper education in this regard at high school and university level as well. They have also a leading role in managing scientific research projects on CSR, and creating measurements (qualitative and quantitative ones) for evaluating CSR performance. They should also continuously disseminate the results of their CSR research in order to demonstrate its benefits to all parties involved. They should publicize more information about CSR, especially about CSR activity of SMEs by mentioning the good examples of the neighboring countries that are on higher level in implementing CSR. The comparison of legislation systems (taxes and law reforms, etc.) given by researchers would provide useful information especially to the public administrations, but to all parties as well.

Besides the scientific research, the education system has an important role in raising awareness of the young generation by building sustainability and responsible thinking into various subjects of their curricula.

5. Conclusion

The purpose of fostering corporations and also SMEs to integrate CSR activities into their operations cannot be achieved without raising the awareness of society and without effective governmental support, but the most crucial

question concerning the expansion of corporate social responsibility is whether players of the Economy of the five countries will recognize those forms of CSR that can be beneficial and easily harmonized with their business interests.

The citizens have a significant role with making the companies do voluntary actions, because the companies become responsible just in that business environment where this behavior is appreciated by the local community. This is the field where changes are required first. The behavior of the customers is the most important barrier of spreading CSR. While the man in the street doesn't know the meaning of CSR and while he thinks that charity is the only tool of CSR he won't understand its contribution to Sustainable Development and he won't be able to pressure the companies in the fields of green and social inventions, product quality, resource efficiency, and ecological production as well.

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NOÉMI CSIGÉNY NAGYPÁL*

Corporate Social Responsibility among small and medium-size companies

Introduction

As for the origins of Corporate Social Responsibility (CSR), it was introduced in the 1970s as the role of corporate enterprises in the global economy expanded and the trust in them receded. According to the statement issued by the European Commission in 2002, the European Union regards CSR as an essential corporate tool of sustainable development.

CSR is the voluntary integration of environmental and social considerations into business operations, over and above legal requirements. It is an activity integrated into company strategies as well as the relation between the company and its stakeholders.

While CSR has been widespread in Europe since the 90s, the same activity regarding small and medium-size enterprises has only become the center of attention in the past decade along with the increasing role of SMEs in the competitiveness of the European economy. What follows is an overview of the most important results of past research projects and a presentation of the results of a corporate survey that has been carried out in the course of a three-year project financed by the European Union.

A survey of CSR of small and medium-sized enterprises

In order to survey the CSR of SMEs, we have made an overview of all the researches that focused on CSR activities of SMEs. Beside the most significant European studies, we have summarized the results of a Canadian and a UN survey as well.

The most extensive survey was carried out by the Observatory of European SMEs in 2002 (European Commission, Observatory of European SMEs, 2002). Apart from the 15 contemporary EU member states, the survey included Norway, Lichtenstein, Switzerland and Iceland. However, this expansive survey had one fault: it dealt only with external CSR factors that are not integrated into the operation of the company. Not only does it give a narrow picture, but also distorts the outcome regarding motivational and restrictive factors. However,

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primarily because of the large scale of the survey, the results are worth observing. The most significant conclusions drawn were: half of the surveyed companies engaged in external CSR activities. The rate of active companies depends on size, as among larger companies there are more active ones. A significant difference can be observed among companies from northern and southern countries. While among northern, especially Scandinavian countries there is a higher rate, activities are not influenced by the actual sector an individual company engages in. The CSR activities of firms are irregular and not integrated in company policies. The the most common forms of CSR among SMEs include supporting sport and culture. On the other hand, support of environmental protection is not common. The most important motivating factors include ethical consideration, indicated by three quarters of the respondents, while the possibility of improving community relations and increasing customer loyalty came second. Among the perceived advantages, improvements in customer loyalty and the relationship with both the community and the authorities were the most popular choices. Another crucial conclusion of the survey was that it is difficult to identify activities of SMEs that are above regulations, because they are usually not aware of relevant environmental and other regulations. The other interesting result is, although one of the best known obstacles of CSR activities of SMEs is lack of resources, the responding companies indicated the attitude factors as the major problem.

Within the European Multistakeholder Forum on CSR, one of the round table discussions was about the options of supporting CSR among SMEs (European Multistakeholder Forum on CSR, 2004). Participating in the discussion were representatives of companies, civil organizations and trade unions as well as international organizations as observers. According to the final statement, relatively little is known about the social responsibility of SMEs but, - as among corporations – there are stories of success. Owing to their role in the economy and employment, increasing the activity and commitment of SMEs is essential. However, due to the wide range of businesses, finding the right tools is demanding. Factors that could encourage companies' environmental and social responsibility include the fact that CSR can make companies attractive for well qualified motivated employees, improve customer satisfaction and loyalty as well as the reputation of the company. It can also decrease expenditure on environmental issues and the company can meet the strict regulations easily. The most important blocking factors include lack of resources and slow adaptation to perceived and actual expenditures and changes. In Great Britain where there is an individual ministry in charge of CSR, a research project to analyse CSR of SMEs was initiated in 2001 (DTI/BITC/IOD/BCC/Accountability, 2002). After the overview of the relevant literature, roundtable discussions followed, a survey of 200 as well as company interviews. Of the companies surveyed, 90 percent claimed to be responsible. The vast majority of respondents was not aware that their activities should be considered CSR. The most important

motivating factor is commitment on behalf of the owner, while the greatest obstacle is fear of bureaucracy among companies in Great Britain.

The Canadian survey (Canadian Business for Social Responsibility, 2003) claims that SMEs do not usually have enough resources to identify their stakeholders and keep in touch with them. Recommendations were made for SMEs, supporting organizations, and the relevant corporations. The most important recommendations include: SMEs should pay more attention to their stakeholders and achievements, while corporations are advised to admit that their suppliers are committed, but operate a different management system, and as a result, corporate enterprise practices can not be applied without alterations.

Another relevant survey was carried out by UNIDO among companies participating in the Global Compact programme. Although the questions mainly concerned with why the company joined GC and what difficulties and prospects were expected, general conclusions can also be drawn. The most important being that the macro-economic and political situation largely affects companies, the effect of which on European level must be taken into consideration.

Based on the results of previous research projects, we can conclude that small and medium-sized enterprises are engaged in CSR, but their activities are less striking than those of the large enterprises. This is explained by the differences in external factors, regulations, the power of stakeholders as well as the internal factors such as organizational structure and management.

Presentation of the survey

'Rhetorics and reality – analysing corporate social responsibility in Europe' is a three-year project aimed at examining the development of CSR in Europe with respect to the Union's specialized policies. Fields of study include climate policies, resources management, fight against corruption, and gender equality. The research consortium examined the following sectors: fishery and fish-processing, oil and banking and prepared a study to present CSR of SMEs. In the following section we represent the most important results of this study.

The questionnaire survey was carried out among suppliers of the automotive industry in Austria and Hungary in 2006. The countries have been selected so that the survey could examine companies of a leading CSR country and those of one that joined the Union in 2004. This particular industrial sector has been selected because of its significance in both countries with SMEs. Since corporate social responsibility is not as known and common among small enterprises as with multinational companies, we surveyed companies that are engaged in environmental management, support or donation, or have recently been awarded for their environmental or social commitment.

In the course of the project – contrary to previous research studies – we examined what particular tools these enterprises know and apply, and examined in detail how they manage the mitigation of climate change, the risk of using

dangerous chemicals as well as other environmental effects. We also examined how respondent companies handled the problem of corruption and creating equal opportunities for both sexes, and what results the applied tools achieved in particular fields.

The pattern of the survey applied the logical assumption that corporate responsibility contributes to environment-social performance following the stages of corporate planning and practical implementation.

In the first section commitment was examined, with regard to its role in environmental and social responsibility.

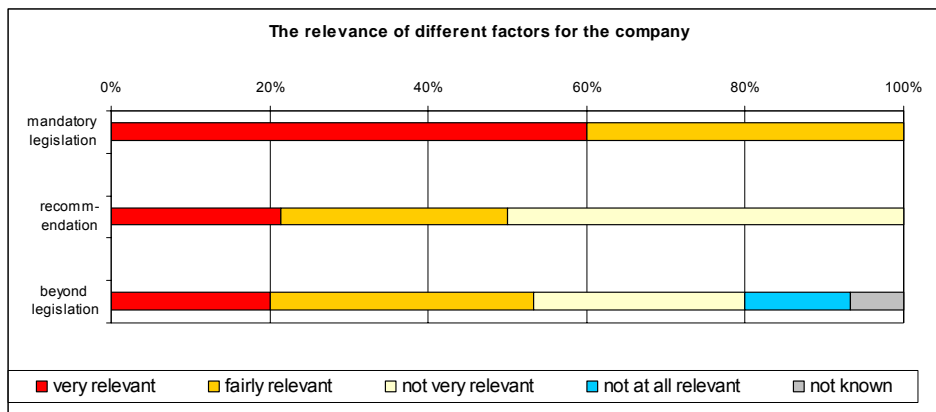


Figure 1

60 percent of respondents indicated that meeting non-mandatory government recommendations is very relevant to the company, while others thought it was fairly relevant. This uncertainty is partly due to the fact that companies are not aware of relevant legislations. 20 percent of respondents thought that going beyond mandatory legislation is very relevant. All in all, half of the companies indicated that it was fairly or very relevant. The question of going beyond legislation showed the most significant differences in the answers. However, more than half of respondents indicated that it was fairly relevant. The following question was about the aim of the company with accepting responsibilities, that is, what are the most essential motivating factors.



Legend:

- | | |
|---|---|
| 1. Meet a fundamental value of our business | 9. Improve access to capital |
| 2. Contribute to sustainable development | 10. Prevent or obviate anticipated legislation |
| 3. It's the right thing to do as an ethical company | 11. Benefit from public programmes and subsidies |
| 4. Manage reputation | 12. Benefit from networking activities |
| 5. Reduce risks to our company | 13. Trigger innovation of products and services |
| 6. Attract, retain and motivate employees | 14. Expand our customer base or develop new markets |
| 7. Responsibility to stakeholders and the local community | 15. Manage resource constraints |
| 8. Meet the expectations of our customers or supply chain | 16. Generate cost savings |
| | 17. Others |

Source: RARE Project

Figure 2. The aim of the company with accepting responsibility

Most companies indicated generating cost reduce as one of the three most crucial aims. Other essential aims include meeting the expectations of customers or supply chain, accomplishment of a fundamental value of business and contribution to sustainable development. The latter shows that sustainability is becoming better known by companies and is becoming an essential aim. However, what respondents mean by sustainable development is questionable. Questions regarding commitment included one on how the company benefits the community it works in. The question implicitly dealt with the assumption that SMEs are more closely integrated into local communities than corporate enterprises. The most significant community responsibility among respondent companies seemed creating job opportunities. Respondents also indicated

reducing environmental impacts; however, making the local economy more competitive and serving as an example to other companies was not considered relevant.

The second section of the survey dealt with strategies and – since smaller enterprises are not likely to make strategies – with planning processes. We tried to find out how important certain areas surveyed by the RARE project as well as other environmental impacts were regarding company strategies.

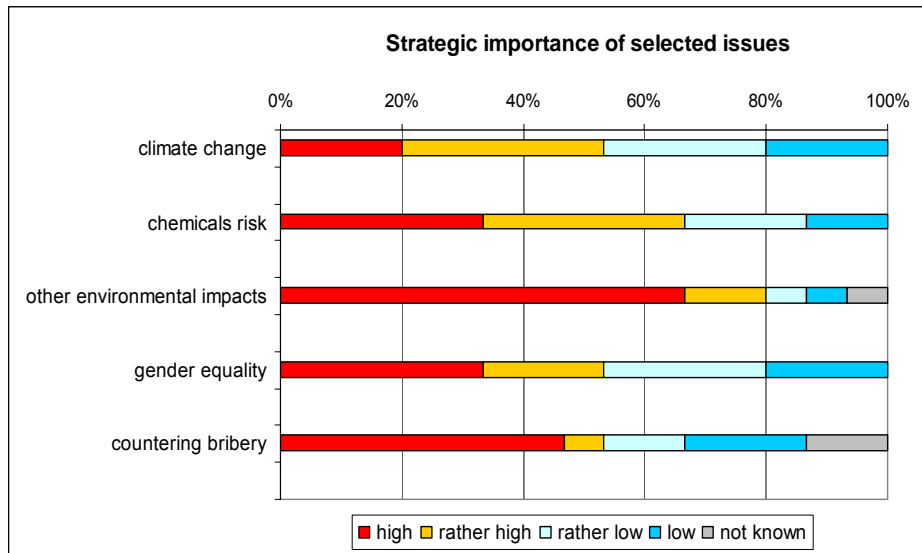


Figure 3. Strategic importance of selected issues

Source: RARE Project

Among fields of study in the project, reducing climate change proved strategically the least important issue. Further questions relating to climate change and energy efficiency revealed that this was primarily because respondent companies were not associated with substantial greenhouse gas emission or considered their contribution to climate change minor. Risks related to the use of chemicals were strategically more important and companies that associated it with lower importance are not engaged in risks management because it is not relevant due to the technologies applied. Countering bribery seemed to have received the most controversial responses. Although it received high strategic importance, few companies (20%) made particular steps to counter bribery. Others explained passivity by claiming that the company or segment was not linked with corruption.

Also in the section relating to planning we directly asked about the most important areas regarding environmental and social responsibilities. Most

companies indicated areas that were important regarding cost reduction such as increasing energy and material use efficiency. 40% of companies mentioned factors relating to employees: providing secure jobs increasing work safety and increasing awareness of the environment among employees.

The third part of the questionnaire dealt with accomplishment, that is, how a company's strategy and commitments are achieved in everyday operation. First we asked companies about CSR tools the company knew, applied or planned to introduce. Among tools belonging specifically to CSR, within management systems we dealt with quality management systems as well. One reason for that is that environmental management is less common among SMEs. On the other hand, many companies decide to introduce standard environmental management systems soon after the introduction of a successful quality management scheme.

Among tools, the best known and applied ones are those providing communication between employees and stakeholders. 86% of companies indicated employee satisfaction as an important issue, while more than half of the companies said that employees were involved in decision making. As for awareness and application of management systems, the vast majority of companies applies a quality management scheme and about the half of companies follow environmental management schemes. (In this regard, of course the sample cannot be representative as one criteria was high priority of environmental protection). Only a few companies indicated an intention to introduce one of the known but not applied systems in the next 2 to 5 years. One possible explanation is that in each case, the questionnaire was filled in by people – e.g. the managing director – who are competent in this question. Another reason could be the fact that the amounts available for these tools have generally increased in the past three years and an increase (even if minimal) is expected in the days to come. Low activity might be due to the fact that among relevant people outside the company, only customers demand the introduction of the tools concerned. As far as Hungarian companies are concerned, not a single (multinational) customer of any company demanded that environmental management schemes be introduced. As for Austrian companies, however, there is the same demand for environmental management schemes as for certified quality management schemes. Another obstacle to the extension of CSR is that SMEs' social and environmental responsibility is mainly supported by customers through communicating their own values so they are not supported by trainings and sharing experiences. This is contrary to "greenness of suppliers as aims of many corporations, and RARE studies concerning corporations have also shown that encouraging suppliers' commitment and responsibilities is essential to corporations.

Among results, the factors contributing to the actual performance, it is important to note that in order to achieve more active social responsibility, respondent companies expect not only financial support but training, guidance from professional organizations, and raising awareness of the environment

among consumers, investors and company partners. Relevant legal background and requirements are also essential. We have examined restrictive factors in general and also, regarding individual companies. In both cases, the restrictive factor indicated by most (40%) was cost factor and lack of market demand. Within individual companies, lack of commitment on behalf of employees was also significant (26%).

Finally, the last section dealt with measuring performance. Measuring the impacts of applied tools seemed the most problematic area. Only 20 % of companies use indicators to trace these impacts. Beside indicators, we asked about estimated changes in performance. The greatest improvement was indicated in the increase of energy efficiency, and decrease of risks relating to the use of chemicals as well as a decrease of other environmental impacts (13% claimed little, 40% claimed average, while 20% indicated significant improvements).

As for the positive aspect of the study, participating companies answered every single question, and 90% expressed a desire to receive the findings of the study.

Summary

A characteristic of corporate social responsibility of SMEs - contrary to big businesses – is that their actual achievement are greater than what they communicate of themselves. This is partly because SMEs are less active in communications and also, social responsibility – especially among companies not producing for consumer market – does not contribute to significant advantages in competition as it does in the case of multinational corporations.

Corporate social responsibility of small and medium-sized enterprises largely depends on the individual director of the company. Beside this, employees play an important role in CSR of SMEs, with regard to choosing areas of responsibility, the importance of initiatives coming from subordinates, denoting aims and the efficiency of introducing tools.

Creating more favourable conditions on macro- and micro level, that is providing legal requirements and a more active participation on behalf of multinational enterprises is essential in supporting corporate social responsibility of small and medium-sized enterprises.

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RICHÁRD HAUSER*

**Tendering opportunities and possible impacts of the
Operational Programs included in the New Hungary
Development Plan (2007-2008)**

The New Hungary Development Plan

Between 2007 and 2013 Hungary will be eligible for a total of some HUF 7,000 billion in EU funds, the frameworks and terms of which are specified in the New Hungary Development Plan.

The operational programs included in the development plan were approved by the European Commission early this summer, giving a green light for tender invitations. However, such tender invitations are preceded, for each operational program, by the action plans. An action plan is a short-term strategy subject to review at the end of every year. It must contain the most important information regarding the tender invitations of the next two years (support scheme designation, support intensity, available funds, justification, etc.) and the priority projects scheduled for implementation under the relevant program. It was also in summer when these action plans were approved by the Hungarian Government. The first tender invitations were issued in late July and early August.

As far as procedural rules are concerned, there has been a substantial expansion of opportunities. As several procedures will be used within the one-round tendering process, we can talk about normative (automatic), simplified and standard procedures. Furthermore, the two-round tendering process has been recently introduced. The large projects remained unchanged but the priority projects appeared as new elements.

In the case of one-round tenders only the detailed project proposal must be submitted.

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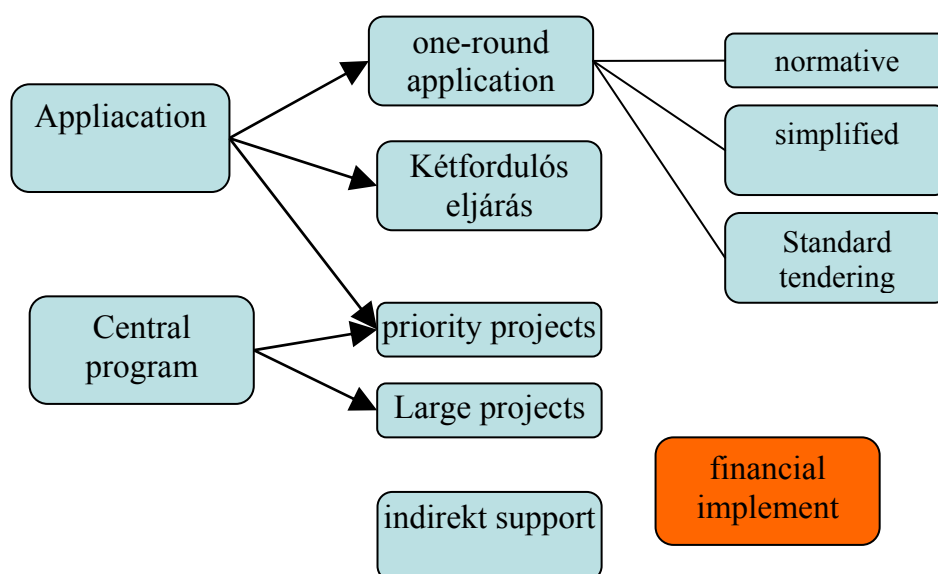


Figure 1. Project selection methods applicable between 2007 and 2013

Source: Ex-Ante Consulting Ltd.

With regard to the simplified and normative evaluations, a limit of HUF 50 million was set as the maximum amount of the support applications. This limit may be reduced by the National Development Agency (NFÜ). The decisions are made by a simplified evaluation committee in the case of simplified procedures, while for the normative procedures there is no evaluation.

As its name suggests, the two-round tendering process consists of two phases. It is enough for the applicant to submit a data sheet and a pre-feasibility study in the first phase. Then, between the two phases, the applicant must prepare the details of the projects with the help of a time schedule. The main benefit of the two-round tendering process is that the applicants can avoid the unnecessary spending of thousands or even millions of forints on plans or official documents as only those applicants may go to the second round who are found eligible by the evaluation committee during the first round. The Intermediary Body will provide free professional guidance for the project development. The second phase is a detailed one, just like in the case of the one-round tendering process.

The indirect support means a support fund available for the implementation of a development project consisting of several similar subprojects that individually do not exceed HUF 10 million or the amount specified for such purpose in the action plan, while the financial assets include credit, capital or guarantee funds.

Priority projects are those applications contained in the action plan that are approved by the Hungarian Government on an individual basis and without the use of any tendering process. The relevant development affects a region or the whole country and there is no such scheme in the action plan under which the application may be eligible for support. The project host may only be a budgetary organ, a body in full state ownership, a municipality, a municipal association, a municipal institution or a church. There is a financial limit also for priority projects. In the case of investment or investment-preparation projects the support must exceed HUF 500 million. The total investment cost of an application must be at least HUF 5,000 million for sectoral projects or HUF 1,000 million for regional projects. In the case of non-investment projects the support must exceed HUF 100 million. Any deviation from such amounts is possible only with the individual approval by the NFÜ Chairman.

A project is considered large if it cannot be divided into independent parts and if its investment cost is at least EUR 50 million or – in the case of environment protection investments – EUR 25 million.

After this introduction, let me briefly describe the New Hungary Development Plan (ÚMFT):

The Plan has two overall objectives:

- ***expansion of employment:***
 - The purpose is to provide everybody with an opportunity to enter the labor market and thus to raise the employment level. The expansion of employment affects both the supply side and the demand side of the market. Through supporting the education, the people entering the labor market will be more qualified and will have more chances of finding a job. It will also be inevitable to carry out a restructuring of the education system in order to create a balance between the supply side and the demand side of the labor market.
- ***establishment of the conditions of sustained economic growth:***
 - The purpose is to achieve economic growth through products and services representing a high added value. We must also improve our competitiveness through innovation and research and development.

The two overall objectives were coupled with six priorities that provided a basis for the operational programs.

Table 1. Priorities and the related operational program(s)

Priorities	Operational Programs
Economic development	Economic Development OP
Transport development	Transport OP
Social renewal	Social Renewal OP
	Social Infrastructure OP
Environment and energy developments	Environment and Energy OP
Regional development	West Transdanubia OP
	South Great Plain OP
	North Great Plain OP
	Central Hungary OP
	North Hungary OP
	Central Transdanubia OP
State reform	South Transdanubia OP
	State Reform OP
Co-ordination and communication of the New Hungary Development Plan	Electronic Public Administration OP
	Implementation OP

Source: New Hungary Development Plan, 2006

Due to an EU regulation (i.e. each operational program must be financed from a single fund only), the current Human Resources Operational Program had to be divided into two parts whereby a strong synergy can be expected in the field of content and infrastructure development.

The New Hungary Development Plan identifies 15 Operational Programs. As from 2007, each region must elaborate their own Regional Operational Programs. Table 2 lists the names and the available funds of the Operational Programs:

Table 2. Operational Programs and their funds

Operational Program	Fund, HUF billion
Economic Development	690
Transport	1 721
Social Renewal	967
State Reform	41
Electronic Public Administration	100
Social Infrastructure	539
Environment and Energy	1 140
Central Hungary (2 nd obj.)	419
Six Regional Programs (1 st obj.)	1 190
Total	6 807

Source: New Hungary Development Plan, 2006

Table 2 above lists the Central Hungary Region in a separate line because, due to its higher development level, it is included in the 2nd objective as far as support is concerned. The regions belonging to the 1st objective will be assigned the following shares of the available funds:

Table 3. Share of funds for the Regional Operational Programs of the 1st objective

Regional Operational Programs	OP share
South Great Plain Regional OP	17.63%
South Transdanubia Regional OP	15.25%
North Great Plain Regional OP	22.96%
North Hungary Regional OP	21.28%
Central Transdanubia Regional OP	11.96%
West Transdanubia Regional OP	10.92%
Total	100.00%

Source: New Hungary Development Plan, 2006

North Hungary Operational Program

As it was mentioned above, each region must elaborate their own operative programs between 2007 and 2013. Accordingly, North Hungary has elaborated its program on the basis of several other documents such as the New Hungary Development Plan and the Medium-Term Development Strategy of the North Hungary Region. Thus the North Hungary Region may receive a total support fund of HUF 253,300 million.

As the European Commission approved the North Hungary Operational Program in June and the Hungarian Government approved the action plan in July, the first tendering dossiers were published in late summer.

The Program identifies 5 priorities:

Table 4. Priorities and fund shares

Priority	%
1 Creation of a competitive local economy	5.43
2 Reinforcement of the potentials of tourism	23.26
3 Rehabilitation of settlements	36.04
4 Development of human community infrastructure	25.12
5 Development of regional transport	10.08
Total	100.00

Source: North Hungary Operational Program, 2006

The implementation of the program is assisted by two entities: VÁTI Kht handles the human community infrastructure development, while the remaining 4 priorities belong to the Regional Development Agency of North Hungary.

The first two tendering dossiers affected two priorities:

- development of regional industrial parks suitable to accommodate various businesses (1st priority)
- establishment of subsequent disabled access in institutions performing municipal tasks (4th priority)

These were followed by tendering dossiers aimed for the support of public education infrastructural development, tourist attractions and commercial accommodations, environmental investments and town rehabilitation, and public healthcare.

It is clear from Table 4 that the highest share of funding is allocated to the rehabilitation of settlements, although both tourism and human community infrastructure benefit from substantial shares. Support for these areas is very important as most settlements suffer from great backlogs. Miskolc and Salgótarján are good examples for the rehabilitation of settlements. Tourism employs many people and offers well utilizable potentials in this region.

Study of the possible impacts on the Eger micro-region

Each micro-region in the regions of the country (including the North Hungary Region) had to prepare a so-called micro-region action plan that identifies the development project ideas of the relevant municipalities and the most important institutions of the given micro-region for the following two years. Just like the other action plan, the micro-region action plan must also be made subject to a review at the end of each year. The following is a description of the Eger Micro-Region Action Plan.

Table 5. Number and value of OP project ideas identified in the Eger Micro-Region Action Plan (November 2007)

Operational Program	Project ideas	
	value, HUF million	number
Transport	9 700	3
Social Renewal	40	1
Social Infrastructure	19 614	7
Environment and Energy	11 114	5
North Hungary Operational Program	31 364	78
New Hungary Development Plan total	52 218	94
New Hungary Rural Development Plan	210	2
Total	52 428	96

Source: Eger Micro-Region Multipurpose Association, own editing

The Eger Micro-Region Action Plan contains 96 projects in a value of some HUF 53,000 million.

It is clear from Table 5 that the project ideas affect 5 operational programs and the New Hungary Rural Development Plan. Most project ideas (78) are attached to the North Hungary Operational Program (ÉMOP). These project ideas account for some HUF 31,000 million i.e. about one-thirds of the regional action plan support. It is also evident that 59% of the value and 82% of the number of the project ideas are attached to ÉMOP. A high value is represented by the development ideas in the field of environment and energy, transport and social infrastructure.

In particular, social infrastructure has 7 project ideas in a total value of some HUF 19,000 i.e. over one-thirds of the action plan total. The high share is explained by two important areas of development. One of them is the development of the hospital in Eger (public healthcare) and the other is the support of higher education in Eger. The 5 project ideas submitted for the Environment and Energy OP represent a value of HUF 11,000 million. One of the flagship projects in this area is the development of regional recultivation and waste management. 3 projects ideas were submitted for the Transport OP in a total value of over HUF 9,000 million. Note should be made here of the construction of a road connecting Eger and Motorway M3 and a road by-passing Eger. One project idea was submitted for the Social Renewal OP.

As to the New Hungary Rural Development Plan, the municipalities submitted 2 project ideas in a value of HUF 210 million. It should be noted here that the number of submitted project ideas is expected to increase substantially from the beginning of next year because the locations of the new LEADER¹ groups will become fixed by that date.

When compared with the number of project ideas submitted in November 2006, this year shows a great activity growth, which may be explained with several reasons. One of such reasons is that this result well reflects the efficient communication efforts of the National Development Agency and the good work of the New Hungary Development Plan's consultant network. Another reason is that, following the approval of the operational programs in the summer, the applicants had enough time to match their projects with a priority.

¹ LEADER: A community initiative of the European Union in the field of agriculture and rural development aimed at resolving local problems with the supervision and active involvement of local action groups formed from local inhabitants.

Table 6. Number and value of OP project ideas submitted in the Eger Micro-Region in November 2006

Operational Programs	Project ideas	
	value, HUF million	number
Transport	47 000	2
Social Renewal	3 000	1
Social Infrastructure	1 000	1
Environment and Energy	30 000	2
North Hungary Operational Program	33 000	5
Total	114 000	11

Source: Regional Development Agency of North Hungary

When looking at the two project lists, it can be seen that as to the value of the year 2006 projects only the sky was the limit. The major reason for it is that the programs were in their initial phase at that time. However, the project budgets contained in the action plans were much more realistic as, at that time, the applicants were aware of more information such as compulsory own contribution, support intensity, etc.

There is not a great difference as to the number of projects submitted in the field of transport. The great difference in values is caused by the fact that the largest project (Eger-M3 connecting road and Eger by-pass road) will be implemented in several phases.

As to the field of social renewal, the complex public education project submitted in 2006 has unfortunately not received enough attention this year.

In the case of social infrastructure the ideas of the two large institutions have not appeared in the program yet. In particular, the Eszterházy Károly College elaborated its medium-term development strategy in early 2007, while the Heves County Chamber of Commerce and Industry is planning to make major improvements in the field of e-learning.

With regard to the issue of environment and energy, the project ideas submitted in 2006 were fewer in number but greater in value than this year. The reason is that, in view of the compulsory own contributions, a major waste management project had to be divided into a recultivation project and a waste management project.

The priority-based analysis of the North Hungary Operational Program is shown below in Table 7.

Table 7. Number and value of project ideas submitted for the North Hungary Operational Program

Priority	Project ideas	
	number	value, HUF million
1 Creation of a competitive local economy	6	4 440
2 Reinforcement of the potentials of tourism	20	16 092
3 Rehabilitation of settlements	32	4 314
4 Development of human community infrastructure	12	3 953
5 Development of regional transport	8	2 565
Total	78	31 364

Source: Eger Micro-Region Multipurpose Association, own editing

It is clear from the above analysis that the most popular topic was the rehabilitation of settlements, while the first priority attracted the fewest project ideas. The great number of ideas submitted for the rehabilitation of settlements is explained by the support available for sewer projects and the supplementary support for rural development. The reason for the lower number of project ideas presented for the first priority is that the municipalities are not the main target group of the schemes available here. Tourism shows the highest value, while the lowest value is attached to the development of regional transport. The higher value in the field of tourism can be explained with the complexity of the relevant project ideas, while in the field of regional transport mostly the main priority projects will be supported.

The first priority includes few but high-value projects such as industrial park development. The outstanding position of tourism is due to the fact that this micro-region has a national reputation in the field of tourism and attracts many tourists (e.g. Eger, Egerszalók). The rehabilitation of settlements is an important area for all municipalities. In fact, most settlements are able to change their “image” through this priority. As to the fourth priority, the submitted project ideas concern the development of public education. Basically, the fifth priority aims at improving the minor roads (having 4 or 5-digit identifiers). This micro-region has numerous such roads in very bad condition.

As to the year 2006 project ideas submitted for the Eger micro-region under the North Hungary Operational Program, it is worth noting – just like in the case of the action plan – the following two priorities:

- **Reinforcement of the potentials of tourism:** tourism is a very important area for this micro-region and therefore the improvement of tourist attractions may turn out to be a great opportunity.

- **Rehabilitation of settlements:** in this case the following 2 tendering dossiers must be highlighted: town rehabilitation (acting as a town of county rank, Eger will implement it within the framework of a priority project) and the tendering dossier supplementing the rural development program.

Table 8. Number and value of project ideas submitted for the Eger micro-region under the North Hungary Operational Program

Priority	Project ideas	
	number	value, HUF million
1 Creation of a competitive local economy	0	0
2 Reinforcement of the potentials of tourism	2	28 000
3 Rehabilitation of settlements	2	4 000
4 Development of human community infrastructure	1	1 000
5 Development of regional transport	0	0
Total	5	33 000

Source: Regional Development Agency of North Hungary

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ROLAND KIS-TÓTH*

Community and urban development and the improvement of ICT infrastructure in the city of Eger

Introduction

The city of Eger is located in the Northern Hungarian Region, an area anticipating dynamic development in the near future. Although Eger's capital and investment attraction capability cannot compete with the economic geography and regional centre position of Miskolc, the city can still establish a unique and characteristic position in the region and can reasonably be expected to satisfy the newest demands and requirements.

Following the regime change in 1989-1990 Eger, like many Hungarian cities and communities has experienced significant economic and social changes. While the difficulties of the transition period have been overcome, and the main development processes and trends have already been defined, community development plans should place a higher emphasis on the utilisation of Eger's permanent and regular assets in addition to providing a flexible response to the respective socio-economic demands. Today the tertiary and quaternary functions requiring innovation capability, flexibility, and a highly qualified labour force are assigned crucial priority along with the intensification of communication between people and institutions, and the promotion of personal networking. Communities and settlements meeting the aforementioned criteria gain a competitive edge and Eger should fully exploit its assets and intellectual potential in order to take advantage of the respective development options. In the next section I will assess those assets on which the future can be built and will evaluate the potential setbacks, disadvantages, and weaknesses accompanying the process of identifying the respective developmental trends.

Situational analysis, developmental strategy, priorities

STRENGTHS, OPPORTUNITES

The historical past, tourism

The numerous Baroque churches, parochial buildings, palaces, and residential homes achieving architectural monument status as the milestones of

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the city's significant historic past make Eger the most beautiful Baroque town of Hungary. Due to the significant role of the eight hundred year old stone fortress, or the Castle of Eger in Hungarian history, the city has become not only one of the most favoured tourist destinations, but evolved into a site of historical pilgrimage. Furthermore in addition to the second largest church of the country, the neo-classic style Cathedral, the city's architectural attractions include Europe's northernmost Islamic monument, the Minaret built during the 16-17th centuries. Moreover, the other leading attractions include two outstanding examples of Baroque architecture and church building, the Liceum and the Minorite Church respectively.

Wine making

The gently, rolling wine plantations, the intricate wine cellars and catacombs located under the city have defined Eger's appearance for centuries. Eger has always been famous for the wines produced from the grapes planted in the surrounding hills, and the Eger Bikavér made from a strictly regulated combination of the grapes of the Eger wine country is the best known product of the region. Also, the Valley of the Beautiful Woman with its over 200 wine cellars and numerous restaurants has been a favoured tourist destination for Hungarian and foreign tourists enjoying the wines and the region-specific cuisine in the spring and fall months.

Thermal water

Thermal baths are also important assets for the local tourism industry. Since medieval times Eger has been famous for its vibrant bath culture based on its abundant therapeutic waters, and curative warm water springs. In addition to the historic bath infrastructure preserved until the present day the historic records prove that the city was always a favoured and popular destination for bath tourism. One of the most famous monuments is the Turkish Bath, a presently functioning facility built during the Ottoman Conquest.

Conference centre

Eger's favourable geographic position, the proximity of the neighbouring countries (Slovakia, Ukraine, Romania), the relatively easy accessibility for Western European tourists arriving from Budapest qualify Eger to be an optimal conference and convention town hosting numerous professional and business related events and forums.

Educational centre

At the turn of the twentieth century due to the definitive role of education in the life of the city, Eger earned the title of the Athens of Hungary. Indeed, Eger

was the only county seat in the first half of the twentieth century maintaining the highest number and greatest variety of colleges, secondary schools and other educational institutions including a theological college, a law academy, two parochial and one state-supported secondary schools, two teacher training and two commerce and secondary trade schools, three elementary schools, one apprentice school, and one public elementary school. Presently, more than 20,000 students attend the various educational establishments of the city.

Cultural centre

Next to its numerous assets Eger is proud of its centuries old cultural achievements Today the city enjoys a vibrant cultural life with such internationally acclaimed accomplishments and attractions of contemporary arts as the International Summer Film Academy, the Kepes Project, in addition to eurhythmics or motion arts presentations, and theatrical performances. Both the institutional and non-governmental sphere places a high emphasis on the promotion of general education and culture, while the civilian cultural organisations and associations reinforced by the extensive international cultural connections play a definitive culture-promoting role.

WEAKNESSES AND THREATS

Dependence on centralized budgetary allocation

The city and the municipal government's economic perspectives are likely to be limited by the following factors:

- The limited growth of governmental financing
- No possibilities for the expansion of the non-recurrent privatisation option.
- The limited growth of the scope and amount of incomes realised from personal and business taxes.
- Limited borrowing capability for the financing of municipal investments
- European Union funds can only be accessed with thoroughly prepared project applications

Demographic trends

Since the beginning of the 1990's Eger has experienced greater demographic decline and population aging than other county seats or towns of county rank. The main reason for this detrimental process is the rate of transmigration from the city. While the negative transmigration rate has decreased last year, it is still considered significant, and the high rate of population fluctuation demonstrated by the number of people of moving in or moving out of the city is still a potential impediment The transmigration process tends to be selective primarily

impacting the younger employable generation thereby exerting an overall negative impact on population growth. Most citizens of Eger tend to move to other parts of the county, especially the Eger Microregion, but the number of people moving into Budapest and its vicinity also shows a substantial increase.

Shifting emphases within the region

Hungary's accession to the European Union and the resultant configuration of a regional institutional infrastructure tends to favour Miskolc posing a significant challenge to the city of Eger. If Miskolc's regional and economic field of attraction continues to increase, Eger can expect to experience a significant decline in the fields of finance, public administration, and tourism.

Regional connections, internal transportation, parking facilities

As far as transportation is concerned Eger is in a unique position. While it is considered a county seat, its national and regional transportation connections are weaker than the national average, and the city is located in a distance from the main lines of the motorway and railway networks. Consequently, the city is at a disadvantageous position in attracting active capital even within Heves County.

Eger's topography results in a somewhat deficient municipal transportation network, which has to meet numerous challenges arising from the city's roles as the educational and economic centre of the county in addition to being a significant tourism destination. Also, the city of Eger is a district transportation centre with a 40-50 km range of attraction impacting 30-50 communities. Consequently, the expanding public traffic, the increasing parking difficulties, and the deficiencies of the transportation culture all contribute to a decline in the transportation network's capability to meet the respective requirements.

SWOT-analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • The high quality and equal distribution of assets • Emblematic features: viniculture, wine production, the Castle, Baroque architecture, therapeutic baths, cultural attractions • Historic past • Natural attractions and features, the proximity of the Bükk and the Mátra Mountains • <u>Lack of industry with a</u> 	<ul style="list-style-type: none"> • Lack of an optimal transport connection to the main motorway and railway networks • Limited development capability, reduced municipal income to be realised from business activities and taxation • Limited range of housing sites • High real estate prices • High cost of infrastructure development

<p><u>significant pollution potential</u></p> <ul style="list-style-type: none"> • <u>A large percentage of professionally qualified population</u> • Tranquillity, favourable environmental factors • The presence of positive economic-geographical assets in certain sectors of the economy (viniculture, wine production, tourism, therapeutic and thermal baths) • The presence of competitive industries and business firms and organisations • Well-established institutional infrastructure 	<ul style="list-style-type: none"> • Limited amount of centrally or governmentally provided financial support • <u>Unsolved internal transport network concerns and parking problems</u> • <u>The lack of organised and harmonised tourism program offerings</u> • The lack of a uniform asset management and utilisation concept • The lack of active city marketing efforts along with popularisation and public relations schemes
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Network development and communication • The improvement of municipal transportation • Microregional cooperation, the establishment of a resource and development community • Improvement of the high quality intellectual potential of the city • The establishment of an educational and research base facilitating economic innovation • Informatics-based development of the institutional infrastructure • <u>Functioning as a regional financial, public administration, and tourism centre</u> • <u>People-centred, citizen and environment friendly municipal government, the promotion of cultural life</u> • <u>The establishment of new residential areas</u> • Supporting environment- 	<ul style="list-style-type: none"> • The persistence of disadvantageous external and internal transport connections • The transmigration of qualified workers and graduating students • <u>Aging population</u> • The wasting of environmental assets • Limited local capital accumulation capability • <u>The potential scattering and squandering of available material and intellectual resources in light of the wide range of assets</u> • The potential disadvantages brought on by the accession into the EU, and the formation of the regional institutional infrastructure (The increasing significance of Miskolc might lead to the decline of Eger's central position in the field of finance, public administration, and tourism)

<p>conscious and knowledge-based enterprises</p> <ul style="list-style-type: none"> • The promotion of health and sports tourism (therapeutic and thermal baths, general health therapies, equestrian activities, bicycle tourism, nature walks, hiking, recreational activities etc.) • <u>Special tourism attractions (student tourism, utilisation of cellars and catacombs, castle-based programs, Baroque architecture, national historical monuments, parochial or religious architecture, church life and organisation)</u> • <u>The preservation of natural and man-made values and assets</u> • The promotion of local pride and local patriotism, the strengthening of community awareness and the Eger spirit 	
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Source: Settlement development strategy and concept 2003

Eger's inability to accommodate current demands and respond to the respective challenges might jeopardise and undermine the validity of the motto of the 1994 municipal development strategy: "Eger, is the city of quality."

"The ideal and most desirable developmental strategy implies the promotion of a complex municipal economy based on knowledge, informatics, and network building. In the context of Eger this means the realisation of opportunities arising from grape culture, wine making, local industry, tourism, therapeutic and thermal baths, and the continuous improvement of the quality of the respective interdependent and interrelated services"

According to section 91.§ (6) of Act LXV of 1990 regulating municipal and local governments each municipal and local administration has to prepare an economic program. In light of the respective financial situation and local budgetary constraints this economic program determines the respective developmental strategies, schedules the fulfilment of mandatory and voluntarily

assumed tasks, helps the establishment of the conditions for job creation, identifies the objectives of community development and taxation policies, offers solutions for the performance of public services, and outlines the goals of investment and municipal management policies.

At the beginning of 2006 the city council of Eger accepted the municipal economic strategy for the 2006-2013 period. The economic strategy includes the main development objectives and strategic goals in addition to outlining the respective expansion aims of the various sectors

StratEGIC OBJECTIVES, PRIORITIES

1. The strengthening and reinforcement of economic capacities

This set of objectives includes those priorities and respective actions, which create the conditions for and have a direct impact on the income producing potential of the local economy and the settlement of new businesses and enterprises.

The development of tourism in general, the leading economic attraction of the city, is a special priority along with the full utilisation of competitive advantages provided by thermal water-based curative tourism, the intensification of wine, bath, and culture-tourism, the expansion of the related services and the improvement of the respective resource utilisation capacities

Priorities:

- 1.1. The development of economic infrastructure the development of industry, transport, public utilities*
- 1.2. The promotion of tourism
Culture and tourism-related projects*
- 1.3. The encouragement of investment*

2. The development and utilisation of human resources

The municipal government can exert a direct impact on quality assurance and the improvement of the professional standards of the work performed at municipally run and controlled institutions thereby establishing the material and expertise background for the achievement of the optimal distribution of human and objective resources.

A closer cooperation with the business sector can help in establishing the training trends responding to the demands of the labour market.

Priorities:

2.1. The infrastructure and professional development of the institutional network

3. The improvement of the quality of life-the creation of a liveable city

In order to respond to ever-increasing expectations of an improved quality of life not only accommodation and housing conditions have to be improved, but action plans have to be elaborated for the preservation of a liveable artificial and natural environment in addition to that of the community requirements of public welfare.

Priorities:

3.1. Improvement of housing and accommodation conditions social-health care programs, youth-, sports-, leisure time activities, partner connections

3.2. The promotion of environmental culture environmental protection, water and waste management, air quality concerns , noise and vibration protection, the expansion of green areas

4. The sustainable development of municipal task performance and the respective condition criteria

One of the most important objectives of the near future is the modernisation of public services. This goal has to be realised in a continuously changing legal and financial environment while meeting the expectations of the European Public Administration Area and accommodating the challenges posed by reduced taxation receipts, insufficient governmental normative support not reflecting the increasing task burden, and the financing conditions of grant applications. Furthermore, a change of paradigm is necessary as the previous administrative and managerial attitude must give way to a service-oriented perspective

Priorities:

4.1. Client-friendly public administration complex e-governance projects

*4.2. Maintaining the balance of municipal financing activities
The main objectives of financial management: guaranteeing financial feasibility and operability, tax policies, grants and projects, uniform data-providing*

system, coordination of mandatory and voluntarily assumed tasks

Municipal asset management program: non-residential real estate, housing and accommodation management, institutional assets, company assets

4.3. Performance of municipal and local governmental tasks at the micro-region level

In the following section I will introduce the main developmental projects aiming at the realisation of the strategic objectives outlined in the economic program of Eger.

The main developmental projects of the city of Eger

1. The strengthening and enhancement of economic potential

The improvement of national and regional transportation connections

The strengthening of the city's connection to the national public road system is a basic requirement for the improvement of the regional role of Eger. *Direct access to the national motorway network* is not only indispensable for Eger's tourism, cultural life, education, and economy, but it can promote the development of the micro-regional settlements located in a short distance from the city. Due to Eger's relative remote location from the transportation corridors traversing the country, the city has experienced a significant decrease in its investment attracting capability since the second half of 1999. It is beyond doubt that only a high standard, easy, and safe access route to the national motorway network can improve the accessibility of the city of Eger thereby promoting the development of its leading economic activities including tourism, wine production, and light industries.

The extension of the M3 motorway until Füzesabony

The establishment of a connection to the M3 motorway according to the national and regional developmental plans determines the conditions of the city's accessibility. Presently from a southern direction the city of Eger can be approached by two roads. Both of them originate from Highway 3, one of them is Main Road 25 running through Kerecsend, the other is By-road 2501 starting at the edge of Füzesabony.

The traffic speed Main Road 25 can accommodate, 80 km/h at the beginning section, and 60 km/h at the final section joining Eger respectively, means that connection to the M3 can only be established with the inclusion of Highway 3. Thus the participants in Budapest-related traffic can enjoy a high standard access

route only at the cost of a significant additional travel, while. By-road 2501 passing through Maklár, Nagytálya, and Andornaktálya cannot even accommodate 60 km/h traffic speeds. The cross-sectional formation of the 12 km by-road is satisfactory at the beginning section, while the concluding section of the road running into Eger is in a relatively bad condition.

The planned 2 x 2 lane M25 expressway would be located in an area bordered by Highway 3, Main Road 25, By-road 2501, and Road 2500. All preliminary and feasibility plans of the track have been prepared, and the plan for the application process is underway. The track of the M25 will run parallel to the railway lines originating from Fűzesabony and will join via a three branch roundabout at the Kőlyuk avenue at the Industrial Park located at the southern section of the city.

Eastern detour road

Since most of the communities located within the Eger Microregion can only be reached via passing through the city, Eger has to cope with significant traffic problems. The environmental problems caused by the heavy traffic undermine the living conditions and can potentially damage the architectural monuments of the historic city centre. Consequently, a transportation road network has to be elaborated in order to alleviate the aforementioned traffic burden.

The principal axis of the urban transportation network is provided by Main Road 25. This national. level 2 thoroughfare has a dual function serving as a main channel for vehicles passing through the city, and provides for intraurban traffic as well. The increasing use of automobiles, primarily in the north-south direction causes traffic jams resulting in parking problems and heavier noise and air pollution.

The most important priority of the development of the urban transportation network is the construction of a North-South direction road component at the eastern section of the city. According to the structural plans the completion of this Eastern detour road is expected to reduce the significant cross traffic emerging in the internal sections of the national highway network. The anticipated reduction of the burden of Main Road 25 will decrease the intraurban traffic role of this thoroughfare running close to the city centre and will result in the improvement of the capacity of its intersections, along with the expansion of green areas, and in the promotion of mass transportation and bicycling options.

The development of tourism

In order to regain Eger's former position and increasing its tourism attraction capability unique, high-standard, internationally marketable attractions have to be developed enabling the city to meet the demands of the tourism industry all year round. Having analysed the respective tourism trends we can conclude that tourism development strategies must take into consideration the following

requirements: the generation of complex and unique programs, the improvement of the environment of the respective tourist attractions especially accommodation, the inclusion of on-hand experience-based attractions available all year round, and the promotion of leisure time and night entertainment options. Furthermore, the respective tourism development efforts should lead to the realisation of the objectives mutually developed with the micro-regional partners.

City under the City

The Municipal Government of the city of Eger has developed the City under the City (CUC) project plan, which due to the invested expertise has grown into a comprehensive, complex, and regionally definitive mega project including several components supported by the citizens, civilian associations, and tourism-related organisations and enterprises.

The main objective of the planned development effort is the conversion of two unused or under-utilised cellar systems of Eger, the Archdiocesan and the so-called Knowledge Cellars into a tourist attraction with significant international appeal via the formation of underground urban sections with a unique and special atmosphere. In order to guarantee effective accessibility and a sophisticated surrounding of the aforementioned attractions, the mega project includes subcomponents aiming at the improvement of parking, and the expansion of space and of the accompanying green surfaces.

According to the City under the City project the following objectives will be realised:

1. The establishment of a historic panorama park in the Archdiocesan Cellar
2. The construction of an underground garage beneath the Pyrker Square
3. The elaboration of a forum space
4. The establishment of a cultural and tourism (cul-tourism) centre at the Municipal Bus Station
5. Rearrangement of the green area and space around Pyrker square and the Cathedral
6. Remodelling of the Eszterházy square, the establishment of the Knowledge Centre, and the reconstruction of the Liceum building
7. The improvement of the Bajcsy-Fellner parking facility and pedestrian area
8. The improvement of the pedestrian and vehicle transportation network

As a result of the complex development project the “underground world” will be interwoven into the existing historical texture of the city and can become a defining component of Eger’s tourist profile.

The encouragement of investment

Adhering to the guidelines of the national and regional developmental programs, the Municipal Government of Eger has always assigned a crucial priority to the improvement of capital attraction capability, and the promotion of productive cooperation with the private sphere. The city aiming to emphasize the aforementioned guidelines has developed a communication strategy in the recent past. The purpose of this strategy to be carried out via close cooperation with the various professional chambers, the local representatives of the ITDH, and other organisations and associations is the identification, informing, and persuasion of potential investors. The maintenance, and facilitation of an up-to-date and flexible communication strategy is a continuous task and responsibility. The Mayor’s Office established the Urban and Regional Development Bureau coordinating the abovementioned connections, facilitating the preparation of national and international, primarily European Union supported, grant applications and respective documents, in addition to assisting and coordinating the professional development efforts of the various specialised agencies.

Agria Park – shopping, entertainment, and service centre

According to already accepted plans on the location of the former Tobacco Factory, in the city centre, only a few hundred meters from the Cathedral and Dobó Square, the Agria Park shopping, entertainment, and service centre will be established.

This development will result in the integration of a presently unused but already cultivated part of the city centre into the urban circulation. The construction process incorporating the existing and new buildings will result in a multifunctional facility with retail establishments of various size, along with entertainment units, cinemas, restaurants, catering facilities, offices, and warehouses. In addition to an underground garage with a capacity of holding 520 cars, a park will be developed in which playground, open-air stage, and shady trees will provide opportunities for active relaxation. The Agria Park with a significant potential of expanding the leisure time options of the city centre is expected to be completed by the end of 2007.

The construction of a therapeutic hotel and health centre, the reconstruction of the Bárány swimming pool.

One of the aims of the Municipal Government of Eger is the utilisation of the real estate at the Petőfi square via the promotion of therapeutic tourism based on

the available curative and therapeutic waters. Accordingly, following the reconstruction of the presently dilapidated Bárány Swimming Pool, in addition to the construction of a parking facility, a four-star 300 bed therapeutic hotel, and open access health centre will be established as well. This development significantly contributes to the expansion of the all year round tourism attractions and promotes demand for this type of tourism destinations.

2. The development and utilisation of human resources

Despite the obvious difficulties and challenges the Municipal Government of Eger considers primary, secondary, and vocational education a strategic priority. This is also substantiated by the fact that almost 1/3 of the municipal budget is used for the maintenance and operation of educational institutions. It is our mutual interest that the number of the city-operated institutions corresponds to Eger's financial capability while the necessary conditions are guaranteed.

The social and economic changes of the recent past have impacted the municipal governmental sphere, especially the field of education. Consequently, local educational policy makers had to take into consideration the reduced student enrolment numbers and the savings resulting from the elimination of positions and institutional fusions were used for the maintenance of the school infrastructure in addition to financing the necessary expansion and renovation tasks. The Municipal Government of Eger considering effective teaching and learning a crucial priority promoted the introduction of modern educational programs, along with the improvement of foreign language teaching, and computer-assisted instruction.

Microregional Integrated Vocational Training Centre

The Municipal Government of Eger and its consortium partners have submitted a successful project application for the establishment of a microregional integrated vocational training centre. The general objective of the municipal vocational training strategy is the establishment of a vocational training environment and infrastructure, which supports the realisation of the goals of the Human Resource Development Operative Program of the National Development Plan and that of the National Vocational Education Development Program. The developmental efforts will result in a more up-to-date institutional network assuring the effectiveness of vocational education and coordinating the microregional and regional vocational training objectives. Moreover, the rate of job placement for skilled graduates is expected to improve along with the elaboration of cooperation programs with the business sphere. The introduction of the completed professional program components will provide easier access to vocational training for disadvantaged youth, the disabled, women and Roma youth. These programs will also help the employment opportunities and social integration of the abovementioned groups.

The new educational centre based on the cooperation of six institutions will be equipped with state of the art instrumental infrastructure and will be suited to meet community demands. Simultaneously with this developmental process organisational and curriculum development activities will take place while the further training system will be modified and a data compilation system predicting labour market demands will be elaborated. The program of the Training Centre contains two main parts, one is the professional program for the developments to be carried out in the headquarters of the Centre, the other refers to special professional developments to be realised via institutional development schemes. One important factor that should be taken into consideration during the elaboration of the professional programs and curricula is the achievement of the interdependence and interrelation of the different training schemes potentially carried out in different buildings, thereby promoting the integration of the whole system.

3. The sustainable development of municipal task performance and respective condition criteria system, the promotion of e-governance and public administration

Client-friendly public administration

One of the most important objectives of the near future is the modernisation of public services. This goal has to be realised in a continuously changing legal and financial environment while meeting the expectations of the European Public Administration Area and accommodating the challenges posed by reduced taxation receipts, insufficient governmental normative support not reflecting the increasing task burden, and the financing conditions of grant applications. Furthermore, a change of paradigm is necessary as the previous administrative and case-managerial attitude must give way to a service-oriented perspective

One of the prerequisites for the achievement of a developed democratic society conforming to the expectations of the European Union is the rise of the service-providing state in addition to the development of the information-based society. The service-providing state is an electronic network-based information providing system in which clients (citizens, economic institutions, general purpose institutions) can establish informatics-assisted connections not only with public administrators, but public service institutions and other sources of information in a digital format. The informatics system of the public administration sphere as one of the cornerstones of the service-providing state entails the governmental and municipal information systems accessible to the public. The data bases and registers serving public administration purposes (business registers, the records of public utilities, real estate registers, official digital maps) contain indispensable data for the operation of the economic and

business sphere as well. Similarly statistical data about the national economy are vital for the planning and controlling of the national budget. Finally, in areas controlled and/or supported by the government such knowledge can be accumulated whose extensive dissemination can significantly assist the healthy functioning of the national economy. This includes governmental projects, public acquisition, financial information, various resources, important business information acquired via international cooperation, etc.

The dynamic development of technology experienced worldwide compels governments to change the forms of social and public services in light of the decreasing budgetary sources and the corresponding rising public expectations. The application of informatics-based solutions in public administration is a multiple challenge radically changing the traditional administrative approaches. Following the objectives of the establishment of a “service providing government”, the Municipal Government of Eger aims at the achievement of faster and more effective public administration surpassing spatial and temporal limits in providing client services and access to information for the citizens and business enterprises of the city of Eger.

The Municipal Government of the City of Eger has surpassed the national average in the introduction of electronic public administration programs demonstrated by the compilation of a digitalised geodesic survey map along with the introduction of a new financial program in 2003, which is expected to include the whole institutional network in the future.

Eger has successfully applied for the *Implementation of a complex electronic public administration system* project in the Business and Enterprise Operative Program (GVOP) in which it won 540 million HUF non-refundable support complemented with an own contribution of more than 77 million HUF. As a result of the project the current computer infrastructure will undergo significant development as in most municipal governmental offices 3d. and 4th. level electronic administration services will be established corresponding to the recommendations of the eEurope program Common List of Basic Public Services thereby creating the necessary administrative and bureaucratic “back office” systems.

Not only the citizens of Eger, but visitors to the city can take advantage of the touch screen terminals installed in different locations, including the Dobó Square. These terminals set up as a result of the project, not only enable users to conduct official business, but provide information on local programs and accommodation, in addition to providing access to the Worldwide Web. Furthermore, in the Eger Microregion a complex electronic public administration demonstration system was established based on a network connecting the participating communities, and the Municipal Government and its institutions. The partners will be in a closed network, thus the residents of the respective communities following registration at the respective centres can take care of

their official business matters via a portal system. The complex e public administration system resulted in the fulfilment of three principal tasks:

1. *one window electronic client service system*
 - - internal administration framework
 - - general assembly and committee systems
 - - construction authority system
 - - social work system
 - - guardianship and child custody system
 - - industrial and commercial system
 - -public area system
 - - misdemeanour system
 - -spatial informatics system

2. *A system for supporting electronic public acquisition or procurement*

3. *Microregional public administration collection portal and settlement portals*

The important tasks of the near future include the successful completion of the project, the utilisation of the respective results, and the continuation of the program in light of the budgetary restraints and potential resources acquired via the tender application process.

Summary

Eger's future depends on whether it will be able to take advantage of Hungary's membership in the European Union via utilising the local assets, and through the establishment and strengthening of a multilevel internal and external connection system. The Municipal Government of Eger should enable the city to become an attractive place to live for the citizens, students, tourists, and investors planning to settle in the city and taking advantage of the available knowledge base.

The integration into the European economic and public administration systems facilitates an unprecedented capital inclusion and market expansion. While accommodation to the structural and cohesion policies of the European Union results in more predictable, goal-oriented, and specified planning systems, strategic designers and decision makers have a greater responsibility in defining the developmental trends and reconciling the specific perspectives with the general development policies and the respective financial resources.

The improvement of *competitiveness* is a mutual interest of the citizens and of the economic institutions, and of the municipal and microregional governments. The promotion of competitiveness is not the sole responsibility of the economic organisations, as it is closely related to the direct entrepreneurial conditions of a given community. In light of the limited developmental resources municipal governments must assume a connection-developing (coordinating and

cooperating) attitude in addition to determining the activities of the local economic associations.

It is vital that a communicative and cooperative atmosphere is established between equally qualified institutions playing a leading role in the economy of the city and the groups of citizens. Furthermore, the city's financial and intellectual capital accommodating and retaining capability must be strengthened via an active, open, initiative-based municipal management and city marketing policy. While competitiveness entails accessibility, reliability, professional qualification, and innovation capability, the unfavourable connection to the national highway and railway system has a limiting effect. Consequently, responding to the challenges of the 21st century, these disadvantages have to be turned into assets via conquering the lack of spatial connection with business, cultural, institutional, and personal connections, and via an informatics-based network.

Both forms of connection building entailing direct, personal communication and indirect, virtual communication are available. While general purpose tourism, recreational and conference tourism, grape and wine production, education, and culture can promote actual communication, informatics can provide useful assistance for the growth of virtual networking and information exchange.

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HOLLÓNÉ KACSÓ ERZSÉBET – NÁMOR ANNA

**“Market value” versus “Fair value”
(Some thoughts on judging the competitiveness of firms)**

Both firm value and competitiveness get judged in the market. Among other factors of corporate competitiveness, “intangible assets” such as human and intellectual capital tend to play an ever more important role, contributing a more substantial part of the value of firms.

In modern valuation approaches, “every firm is worth as much as the market appreciates”, which means in principle that a firm's value equals its market value.

A problem arises, however, as the value of a firm can be interpreted and analysed in multiple dimensions. A number of different approaches exist focusing on different analytical aspects and content.

As valuation relies on accounting information, and is dominated by financial methods, this paper presents the experience with different valuation approaches researched and taught by two professionals, one specializing in accounting and the other in corporate finance.

Our purpose of comparing different firm value approaches is to synchronize the content of college courses discussing topics related to valuation, highlighting similarities, while retaining necessary functional differences.

We address the following key issues in our paper:

What problems are solved by modernizing accounting and calculating fair value?

What sort of discrepancies may arise between fair value and market value?

Introduction

Various approaches to the value of a firm, including the discrepancies of value based on the accounting and the financial valuation perspectives can now be found in the available and increasing pool of comprehensive specialized literature on company valuation, and also in curricula used in higher education, systemising the results of research found in these sources. However, in relation to the adaptation of the practice of asset valuation to the system of standards used by the European Union, we deem it necessary to examine what extent the possibility for fair valuation of a company's assets based on EU standards can contribute to the presumed narrowing of the difference between the results gained through different valuation perspectives. In our opinion, besides the problems of methodology characteristic of all new approaches, interpretation

and conceptual problems also render fair valuation difficult. In order to select and apply the proper methods, both instruction and practice demand the clarification of content as a pre-requisite.

We start our elaboration of the topic with a few concepts related to company value, placing the concept of fair value among value categories already known, together with the problems associated with its interpretation and consideration. We attempt to find an answer to the question: to what extent does a statutory opportunity for fair valuation mean a step forward as compared to the former situation, which has drawn criticism from various aspects.

Based on specialized literature in the field, we will also present a brief introduction of the factors which may be the reason behind the discrepancies between the fair value and market value of a company. This gap can be primarily attributable to the factors that presently provide companies with a competitive advantage. These factors play a defining role in sustaining the profit generating capabilities of companies, and consequently in the development of their market value.

Finally, in connection to judging the value of companies, we will summarize the discrepancies which cannot be solved due to the different perspectives of accounting and finance; at the same time, we will make every effort to reveal the points of connection and emphasis we have to strive after for the sake of clarity in the course of conveying knowledge, which can be performed during the teaching of various study units.

I. The value of firms – interpretations (“what we want to measure and manage”)

Market value – intrinsic value

The category of company value is used by different areas of science with a different approach and content. (Note that this is not the only concept of economics which is conveyed with a different content due to different approaches, attitudes and emphases. Specialized literature often displays different content under the same concept, and likewise, it often uses different concepts for the same content.) This does not (should not) cause any problems, if the basic category under inspection is clarified in advance.

Just as various other concepts, the value of a company can be interpreted in various dimensions. The two “synthetic, integrating” value dimensions that appear in the course of value measurement and realization are the following: **market value** (“fair market value”, *market price*) and **intrinsic** (*theoretical, calculated*) **value**.

The estimation and interpretation of **market value** is seemingly easy. How much is the company worth? The amount *the market recognises*. *The category of*

market value or its synonym concept, market price express the price a company can be sold for under the prevailing circumstances of demand and supply.

“Practically, market value equals the price that is mutually satisfying for both the sellers and the buyers. Prevailing market value cannot be considered as an absolute standard for two reasons:

- on the one hand, because market value reflects the momentary consensus of the participants,
- on the other hand, because, in addition to the quantitative relation between demand and supply, market price is also determined by intrinsic value – as a centre of movement” [Bélyácz 1995. p 10.]

The above quote draws our attention to two important factors: the market does not always provide a reasonable valuation; and there is also a deeper category – intrinsic value – lying behind the price.

The concept of “*fair market price*” has been implanted in specialized literature to emphasize the adequacy of the market’s value judgment.

“In terms of market value, ‘fair’ means that the market (and the price) must possess a certain continuity and must not be affected by temporary booms or sudden fall-backs; therefore, the term ‘fair’ classifies the market in which the valuation is performed”. [Richard M. Wise: „The CA’s Role in Valuations: An Inside-Out-Perspective”, CA Magazine, 28 September 1984, page 40, quoted by Pratt S. 1992. p 13]

Some authors of relevant specialized literature also use the notions ‘monetary value’ and ‘fair market value (exchange value)’ generally with similar content.

*Two approaches have evolved to capture the concept of **the intrinsic value of a company**: the asset value and the yield value concept. The cores of these two concepts are provided by two radically different value dimensions, based on what they consider as value (past or future performance).*

The asset value concept interprets the intrinsic value of a company as the value of assets and property materializing in the form of physical and intangible goods and chattels – the value of assets acquired for the purpose of operation. *The asset based approach is used in accounting.* The values of the company’s assets that can be taken into account under the law are included in the records (“*the books*”) broken-down into items, and also *in the balance sheet of the company* in consolidated form. *This value is the **accounting or book value**.* (This value may be considered “objective” in the sense that it can only be determined in accordance with the provisions of law.)

On the contrary, the *concept of yield value* traces back the intrinsic value of a company to the future utilization of the assets, and examines the extent of future returns the company is capable of generating. In pursuance of this perspective, the value of a company derives from the value of future returns converted (discounted) to the present. Therefore, under the *financial perspective*, the value

of a company – similarly to other business investments – derives from the future earnings generated by the company. This value may be considered the **business value** of the firm. (Typically, business value is a calculated, computed value. The magnitude of this value depends on various factors, including the accuracy of yield estimations, the applied yield category and the interest rate applied to discounting. Owing to all of the above factors, and contrary to asset value, yield value is also called subjective value.)

In addition to the above, relevant specialized literature contains a variety of definitions of value, depending on the objective, approach and method of valuation. There are concepts such as value assuming continuous operation and liquidation value, but these categories mainly reflect an attitude, and relate to decision-making situations concerning the fate of the company. These categories may be associated with different methods of establishing intrinsic value. (Liquidation can be clearly linked to asset valuation based on past performance, while in the case of continuous operation, the valuation of the business is typically based on the future.) Keep in mind that the scope of valuation can also vary: it can relate to single asset items, and more importantly in terms of continuous operation, it can extend to the company as a whole, or relate to the assessment of the value of equity capital (proprietors' capital).

Market value – fair value

In the following paragraphs, we wish to draw the reader's attention to the uses of concepts related to the aforementioned valuation dimensions. These concepts primarily bear significance from the perspective of "everyday" practical use; at the same time, they assist the orientation within the terminology systems of different areas of science.

The necessity of more accurate company value categories was brought to the surface by the need for fair accounting valuation. The developments taking place at an international level necessitated the adoption of valuation at fair value by the regulation on accounting in Hungary. The category of fair value is used for the comprehensive, market-based valuation of companies, but its practical application has become generally used through the legal regulation related to taking individual assets, i.e. financial instruments, into account at fair value. The following quote indicates the need for the clarification of concepts by accounting experts:

„In the introduction to IAS 32, two important concepts are defined, which are – incorrectly – considered as synonyms in Hungarian practice.

1. **Fair value** indicates the amount for which an asset can be exchanged or for which a liability can be settled between well-informed parties involved in an "at-arms-length" transaction.

2. **Market value** is the value that can be obtained in an effective money market through the sale or financial acquisition of the given instrument.”

[Szűcs, 2006. p 3]

It is expedient to start *the explanation of the difference between the two categories* with the concept of market value, which has already been expounded. Market value refers to transactions and contractual dealings already completed, within a market environment that is capable of providing reliable valuation. In this case, market value actually refers to “fair market value”, or rather, market price, which conforms to the earlier concept system.

The definition of fair value clearly shows that fair value is the amount a well-informed outside partner is willing to pay for an asset, or the amount for which it is willing to assume a liability. Important elements of the definition: proper acquaintance with the intrinsic value of the asset and the market, and the intention to transact (motivation, but not necessarily a completed purchase).

The specific content of fair value and the priority order of the elements (the applicability of which will be presented in more detail later on) are well outlined by the wording of the law.

“Fair value, based on information available about market judgement, can be the market value (for example, listed exchange rate; price based on the free agreement of the two parties, if the financial instrument does not have a listed price; calculated market value) or a value determined by general valuation procedures and reasonably approximating the market value.” [Law on Accounting, 3. §. (9), *in italics*]

The law applicable for practical use considers market value as fair value, and identifies market value with stock exchange price, contractual price or market price calculated based on “underlying” market prices. In the case of assets not having observable market value, the value determined by general valuation procedures can be considered fair value, provided that it is based on reasonable assumptions and fair calculations. The method based on future cash flow discounting is considered acceptable as a method for valuation. The computed result – as interpreted by finance – can be identified with the categories of common intrinsic value or theoretical value, which – presumably due to the requirement to take reality into consideration – is also called “theoretical market value”. [Szűcs, 2006. p 3.]

Based on the explanations so far, we have seen several examples of how a variety of concepts can be connected to the same content, depending on which elements of the significant features are deemed important to be emphasized by the creators and users of such concepts. As a new feature, by adopting the elements of EU regulation related to valuation, and through the relevant statutory regulation, *fair value has “stepped forward” as an independent value category, while these expressions are often used beside other value categories as*

attributes referring to the conditions of the market and the fairness of valuation (fair market value, fair business value). It is important to emphasize the differences and connections between the concepts described by such attributes. (Namely: market value is typically fair value, but it is not only market value that can be considered as fair value, value estimated through valuation procedures and approximating market value is also acceptable.)

In the following paragraphs we will present the essence and assumed results of fair valuation. In order to grasp the essence of the changes, it is necessary to briefly outline the role and characteristics of asset value (or book value) in terms of their relation to fundamental value dimensions.

II. Book value – fair value (in other words: fair valuation in accounting)

Traditional and new characteristics of book value

With the emergence of the possibility for fair valuation, the following declaration “depreciating” the concept of book value (balance sheet value) is now less acceptable: “Book value is somewhat of an inadequate expression, since it does not represent any value standards at all. It is not even a valuation concept, but rather a concept for accounting.” [Pratt S. 1992. p. 17]

When assessing book value, the perspectives of the employee from accounting and finance towards company value (or with a narrower scope: towards the value of equity capital or proprietors’ capital) collide with each other. As tutors teaching different areas of science, during the conveyance of knowledge, the discovery of valuation problems and the collective research of possibilities for solution we wish to underline the discrepancies in perspective, and expose, understand and have others understand the resulting differences, in order to achieve a more realistic value judgment on these two different professional fields.

In our opinion, both conclusions of this renowned author quoted by many now need correction. If we accept the opinion that the balance sheet does not encompass any value standard at all, we question the mere existence and the fundamental contextual characteristic of the balance statement. By definition, the function of a balance sheet is to present the value of the *company’s assets* for a given period of time *in the present, based on past (already completed) performances. Therefore, it is a kind of value standard. One of the more significant characteristics of the balance sheet (also regarded as one of its benefits) is that it is prepared as regulated by the laws on accounting and taxes, and is compulsory for all companies.* In line with the foregoing, accounting value implicitly differs from business value calculated from a future-oriented perspective and estimated data, and neither of them corresponds to market value. (We can only strive after compliance with the market’s value judgment during

consideration). It is to be noted that when comparing fundamental value categories – namely, in connection with comparative examinations aiming at the differences between business value and accounting value or accounting value and market value – book (accounting) value is considered to be somewhat of a value standard. If it was not the case, the mere possibility for comparison would have to be questioned.

When characterizing book value, abstraction from value assessment can no longer be substantiated. It is neither the purpose, nor the task of accounting to estimate future business value, and in this regard it does not fall under the category of value assessment; *however, accounting value is no longer devoid of estimated (subjective) value elements*. (This assertion shall be subsequently reinforced by a more detailed presentation of valuation possibilities for asset groups within the balance sheet).

Adjusting to the value judgment of the market in compliance with the effective regulations on accounting

The assets of a company – from the original, traditional perspective – are worth “what is paid for them”; to be more precise, what they cost at the time of their acquisition (capitalization), minus wear and tear up the time of assessment.

The expansion of the market economy, the intention to comply with the expectations and standards of the European Union and compliance with the (internal) requirements of accounting – namely, to provide a reliable and realistic overall picture – forced changes in accounting rules also in connection with the valuation of assets.

The history of development of adjusting to the market is outlined as follows.

- before the law on accounting effective as from 1 January 1992, accounting valuation was regulated by sectoral standard charts of accounts. Under that system, market relations were absolutely disregarded and only devaluation was possible or was compulsory by accounting depreciation as planned, regarding the asset groups which at the time were called “fixed assets”.
- after the regulation of the law on accounting, adjusting to the (exclusively negative) value judgment of the market, devaluation could take place: tangible assets and intangible assets had to be reported in the balance sheet with *depreciation* as planned and also *exceeding the plan*; purchased stocks and investments had to be reported in the balance sheet at cost adjusted by *impairment*. (Impairment: the difference between the historical cost of a given asset and the market price effective during the balance sheet period, but accounting for impairment is also necessary when the asset is damaged or becomes redundant, which is practically equivalent to a reduction in market value.) The law excluded the possibility of revaluation (write-up).

- from 1 January 1997, the possibility was created for some groups of fixed assets specified by the law (rights representing assets, intellectual products, tangible assets, long-term investments) to be valued or adjusted at market value. Compared to the preceding methods, *value adjustment* enabled a non-compulsory adjustment in both directions.
- From 2001, legislators took some more steps towards the accuracy of valuation at market value. As a compulsory feature, impairment previously accounted for and depreciation exceeding the plan now had to be adjusted by reversal, if there was a permanent and significant shift in the market value in the opposite direction.
- From January 2004, businesses using double-entry book-keeping have been granted the option to value certain elements of *financial instruments at fair value*.
- From 1 January 2005, it is obligatory for companies listed in a stock exchange within the EU to apply international accounting standards in their consolidated statements, i.e. fair valuation is also compulsory.

Under the accounting regulations currently in effect, when determining balance sheet value, market value is compulsory or optional to be applied for the following assets, using the following methods.

In the case of fixed assets, inventory, receivables and securities, the adjustment by reversal of previously accounted impairment and depreciation exceeding the plan is *compulsory*. As a result, the balance sheet value of fixed assets, inventory, receivables and securities will be the historical cost reduced by planned and over-the-plan depreciation (tangible and intangible assets) and impairment, and increased by reversal, respectively. Therefore, it is not possible to recognize a balance sheet value greater than the historical cost (in the case of tangible and intangible assets, this limit is the historical cost reduced by planned depreciation).

It is *possible* to take the value judgment of the market into account by value adjustment and appropriation to valuation reserves in the case of a certain part of fixed assets, and fair valuation is allowed in the case of financial instruments. (In accordance with the foregoing, the latter is compulsory for companies listed in a stock exchange).

1. *Market valuation is possible for certain groups of fixed assets specified by the law.*

The Law on Accounting permits market valuation in the case of the following asset groups:

- rights representing assets
- intellectual property
- land and buildings and related rights representing assets
- machinery and equipment

- tools, furniture and fixtures
- animals for breeding
- long-term investments

As related to the specified groups, the *essence* of valuation at market value is that the positive difference of market value (market value known at the preparation of the balance sheet) and book value (historical cost adjusted by planned and over-the-plan depreciation and reversal) is recognized as equity capital (valuation reserves) in the books of the company – it does not and can not have any effect on profit or loss.

2. The fair valuation of *financial instruments* (financial assets, financial liabilities, equity capital instruments) is optional for companies engaged in double-entry book-keeping, under auditor’s control (authentication).

If a company chooses to use fair valuation, then of financial instruments it is compulsory for financial assets for the purpose of trading, financial liabilities for the purpose of trading and derivative transactions, but it is only an option for marketable financial assets.

Fair value types applicable in accounting:

- market value (listed exchange rate, freely agreed price, calculated market value)
- value established by general valuation procedures

The valuation difference of fair valuation (difference between fair value and historical cost) is recognized in the books of the company either as related to profit or loss (other financial income / expenses), or as related to owner’s equity (valuation reserve for fair valuation).

The effects of fair valuation – based on the relation of fair value and historical cost – can be roughly summarized as follows:

Valuation difference:

- *as related to profit or loss:*
 - financial assets and liabilities for the purpose of trading (\pm)
 - a part of derivative transactions (\pm)
- *as related to owner’s equity:*
 - marketable financial assets (+)
 - other part of derivative transactions (\pm)

It is important that *the valuation difference of compulsorily valued asset groups must be accounted for as related to profit or loss*, while the difference resulting from the fair valuation of marketable financial assets is recognized in the company’s assets as related to *owner’s equity*. (The examination of this effect may be subject to separate research.)

It is to be noted that the accounting rules in effect also contain *prohibitions* related to the application of fair valuation.

Fair value cannot be used for:

- Financial assets held until expiry
- Liabilities originated by business entity
- Affiliated ownership interest classified as financial assets
- Owner's share repurchased, securities representing a loan relationship
- Transactions relating to goods that are not derivative transactions
- Financial instrument featuring individual characteristics
- Other financial liabilities
- Forward transactions and options related to climatic, geologic and other physical variables
- Anything the fair value of which cannot be determined reliably

III. Highlighted issues extracted from valuation problems already solved and yet to be solved

In the following paragraphs, some very important issues will be raised, some of which have already been solved, while others are yet to be solved.

To what extent does the opportunity for fair valuation regulated by the law provide a step forward compared to the earlier situation that have been subject to various criticism?

In any case, it can be considered as a *positive* development that taking the market's value judgment into consideration in the valuation of existing assets has become compulsory or possible for certain groups of assets, as regulated by the prevailing law on accounting. This provides an opportunity to improve *the match between the book value and market value of a company*, which should put the strategic decisions of the management and market transactions on firmer ground.

The amendment of the relevant accounting rules strengthened the principle of reality, but endangered the principles of relevance and reliability. *Doubts have emerged within the accounting profession about the calculated part of fair value (discounted cash flow)*. The profession has *recommended* drawing the line between value determined by general valuation procedures and the market value part of fair value, which is considered more reliable. The recommendation also calls for the inclusion of a compulsory obligation to separately indicate this fact in financial statements. Despite having been in practice in finance and company valuation for several decades, the value calculated using the fair value assessment method based on the discounting of future, estimated cash flow is considered by professionals as not reliable enough. (It is uncertain whether the asset value of companies kept on record while choosing not to consider the time value is more reliable or not.)

It is even *more problematic* that within fair value, new concepts emerge related to the two methods of consideration, *making comprehension more difficult*. The distinction between “adequately reliable fair value” and “supplementary type fair value” is understandable to a certain extent; the former is identified with market value circumscribed by the law, the latter with value determined by general valuation procedures (value approximating the market price). Instead of the category of market value considered more relevant and reliable, the use of the so-called “fair fair value” category resulting from the “intensification” of fair value is – in our opinion – impractical. Accordingly, value determined by general valuation procedures is simply “fair value”. (Let us not forget that we used the content elements of fair value as our starting point! Tautology!)

Using different concepts for the same content without explaining the content can be a cause for misunderstanding not only in practice and during professional discussion, but also poses difficulties in teaching new content. Having examined relevant specialized literature, we noticed the similarity of categories used in discussing valuation topics in accounting and finance, which system seems to be overthrown by the previously outlined, differentiated use of notions in accounting, which is based on reliability.

The following two figures outline the connections of concepts used in accounting and finance, and the anomalies presented by the introduction of new concepts.

Figure 1. System of concepts for company valuation as used by accounting and finance

Fair value – value dimensions

“Fair value can mean market value based on information available about market judgment (e.g. listed rate of exchange; price agreed freely by the two parties concerned, if the financial instrument does not have a listed price; calculated market price), or the value established by general valuation procedure, reasonably approximating market price.” [Law on Accounting, 3 § (9), in italics]

Fair value

1. Market value

- Listed rate of exchange
- “Contractual price” →
- Calculated market price

2. Value established by general

valuation procedures, →
approximating market price
Accounting

Market value =

Market price

!

“Underlying” market price

Yield value

(Discounted cash flow)

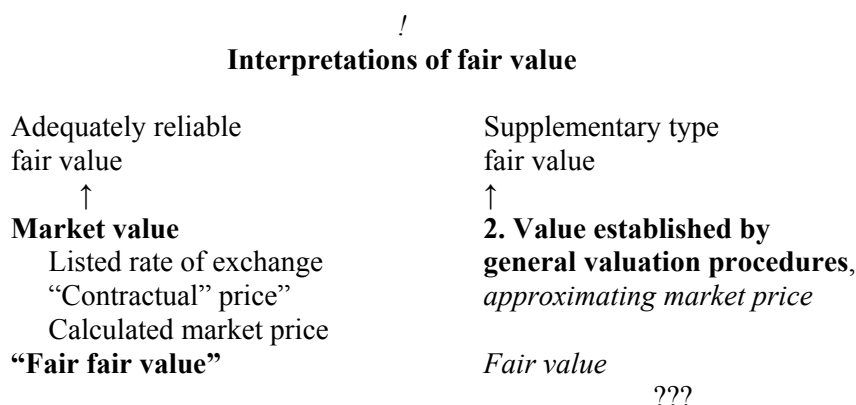
Intrinsic value!

Finance

Source: own compilation

Figure 2. New concepts and new problems based on the differentiation of fair value “elements”

New fair value concepts – for the purpose of differentiation:



Source: own compilation

So far, in our efforts to examine the problems of fair valuation, we have drawn attention to the importance of having accurate concepts. It is at least as important to outline *the extent* of the problem; namely, *to what extent is the value judgment of the market taken into consideration in practice.*

What we know is that it is compulsory for listed companies to proceed in accordance with the rules of fair valuation. (It would be expedient to conduct and keep track of future research based on the financial statements of listed companies.)

Originating from the period when fair valuation of financial instruments was not yet possible, a specific survey conducted on a sample of more than 100 companies is available for research. The conclusions of this survey indicate that mainly for small and medium size businesses the problem is negligible. (It is to be underlined that the survey quoted was conducted five years ago by questioning 124 companies, of which only 11 were large enterprises.)

Based on the survey, the following sections contain significant conclusions referring to the extent of taking the value judgment of the market into consideration and the weight of the main asset groups:

- “*The proportion of valuation reserves is low*”... (Counting the balance sheet total as 100%, it is only 5%).
- Intangible assets represent approximately 10% of company assets, and only 17% of investments are aimed at intangible assets, while *almost 50% of property surplus value (valuation reserve) is related to intangible assets!*...

(Source: Vállalatértékelés – egyszerűen, megbízhatóan. Fórum-Média 2003.7/1. p 48)

It can be assumed that compared to the figures of the survey, the proportion of market-based valuation is currently somewhat higher (however, professionals engaged in practice claim that the extent of application has not changed in the case of small and medium size companies). Nevertheless, the survey *draws our attention to a very important factor*. The conclusions only relate to balance sheet items – “visible asset items”, while by now it has become a widely-known and an accepted thesis that *off-balance sheet items or “invisible items” play a major role in market value judgment*. Opinions differ as regards the method of most adequate consideration. This issue has now been put in the centre of attention; highly intensive related research is under way. This claim is supported and shown by the figure below selected to judge the content and weight of invisible asset items. Since its appearance, the table has been displayed in numerous publications within a short time. This highly substantial table displays, without explanation, the answer to the question of what factors the differences between various value categories are attributable to. (We consider citing the adopted table and its use in teaching – having taken part in preliminary studies – extremely useful).

Figure 3. Differences between market and accounting value

**Differences between the value categories
(visible – invisible assets)**

		Assets		Liabilities
		Short-term liabilities Long-term liabilities	Visible shareholders' equity	Visible assets
MARKET VALUE	Asset value measured by accounting	Financial assets Customer base Tangible assets (computers, premises, etc.) Intangible assets (software, rights representing assets, etc.)		Becomes visible as goodwill when
	Value measured based on DCF	Customer-related capital (Durable customer relationships established with clients, suppliers and the environment, developed market image, etc.) Organizational capital (The quality of the management, better methods, patents, theories, models, IT and administrative systems, corporate culture, plans of new products, etc.) Staff competence (The ability of people to create tangible or intangible assets)	Invisible shareholders' equity (Profit or loss not recognized) Intangible liabilities (Lawsuits, liabilities related to providing permanent employment, commitment to product and service quality, compulsion to promote and advertise.)	selling the company Invisible (underlying) assets

The word "capital" on the asset side reflects the spreading of concepts. The word "capital" traditionally belongs to the liability side.

Source (with modification): Boda, György: A **tudástőke** kialakulása és hatása a vállalati menedzsmentre. Ph.D dissertation BME 2005. p 20.

Original source (with similar content and partial modification): Sveiby: Szervezetek új gazdagsága: a menedzselt tudás. 2001. p 66.

Why is it important to know the invisible asset items and take them into consideration?

Its importance (also) *ensues from the European Union’s perception of competitiveness. Corporate competitiveness* is “the ability of a company – *while complying with the norms of social responsibility* – to continuously offer products and services to consumers for which they are more willing to pay *under conditions securing profit for the company*, instead of paying for the products (services) of its competitors.” (Czakó 2004. p 15)

Besides *the necessity for corporate social responsibility*, the *expression related to the profitable operation of companies* appears as a new element in the definition of corporate competitiveness cited above.

The achievement of positive results (profit) is only possible by identifying the competitive advantages. Traditional competitive advantages (for example, the flow of capital towards more productive areas) have now been replaced by *new ones*, which are clearly linked to the mobilization and *utilization of intangible assets*. This mobilization and utilization is – among others – conditional upon the development of consumer relations (see customer-related capital), the application of modern information technology, high quality, short processing time (see organizational capital), and the utilization and development of staff capabilities (see staff competence). *The major role invisible asset items play in securing corporate competitiveness can be clearly demonstrated.*

In addition, being acquainted with the invisible asset items is also essential when conducting various transactions (during transactions preceding mergers and acquisitions, and also when incorporating external funding sources – for example, risk-bearing capital.)

Conclusions

In relation to the consideration and estimation of company value, *we have attempted* to compare the similarities and differences between *accounting and finance*, and assess the possibilities of closing the gap between them.

We respect and do not wish to “conceal” the *discrepancies stemming from different objectives and perspectives*.

The major characteristics of accounting and finance are summarized as follows:

Accounting

Goal: accounting profit

Value category: book value

Valuation principle: caution

Finance

cash flow

calculated business value

realization, support for decisions

At the same time, there is a *strong connection* between the two units of study, *the content of which – in our opinion – still needs correction.*

- Accounting is important for finance, because accounting provides an information base for business valuation and decisions. The most significant shortcomings derive from different uses of categories, and differences related to the method of systematization.
- Finance is important for accounting, because under the new rules, the technique of fair valuation is based on cash flow and taking the time factor into account. In this respect, a lack of acceptance of the financial perspective can still be experienced.

The effort to consider the value judgment of the market can be demonstrated in the company valuation perspectives of both study units, and the elaboration of a measuring system capable of taking intellectual resources into account poses a common objective for both.

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RÓBERT ROMÁN

**THE ENTREPRENEURIAL ACTIVITY OF THE STATE
WITH PARTICULAR REGARD TO CERTAIN
REGIONS¹**

1. Transformation of the state ownership structure

1.1. Privatization and its benefits

Hungarian privatization – the first phase of which is called spontaneous privatization – was started in the second half of the 1980s in such a manner that the directors of large state-owned enterprises terminated or transformed their companies. However, it was only after 1989 that the process was gradually turned into actual privatization. (SÁRKÖZY TAMÁS: *Gazdasági státuszjog Bp.*, Aula Kiadó 2003, p. 195-219.) The first relevant law was Act XIII of 1989 on Transformations. Pursuant to that law, transformation meant that after the termination of a state-owned enterprise a newly registered ‘rt.’ (joint stock company) or ‘kft.’ (limited liability company) became its general legal successor. This law allowed for decentralized privatization under which the state-owned enterprises (excluding those under public administration control) were able to decide on their own transformation. In this regard Hungary was in line with the general trend of the Central and Eastern European region. Actually, privatization played a pivotal role in the overall change of the social and economic system in the countries of this region as the dominance of private property was indispensable both for the market economy and civil society.²

In legal terms, privatization means the selling of state-owned assets to private owners in a transaction where the seller is the state or an organization exercising state ownership rights and the buyer is a private owner. The parties sign a sales contract type privatization agreement which stipulates the transfer of ownership rights in return for cash or other considerations. It is clear from the foregoing that the transaction cannot be considered privatization when the seller is a party other than the state (i.e. co-operative entity, public legal entity, social insurance administration) and the buyer is a party other than a private owner (i.e. state budget organization, public foundation), or when the state-owned asset is

¹ Manuscript finished on 12 November 2006.

² The share of state ownership in the national capital was extremely high in most of the former socialist countries: 96% in the USSR, 97% in Czechoslovakia and 98% in Bulgaria. The two exceptions were Poland (81%) and Hungary (65%).

transferred free of charge. Pursuant to the Privatization Act, it is possible to sell the corporate shareholding of the state. Thus privatization becomes a two-step process in which the first step is the transformation of the state-owned enterprise into a company in full state ownership, followed by the second step of selling the shareholding of such newly created company to private individuals.

Back in socialism, state-owned enterprises represented the main institutional form of the Hungarian economy. The relevant legislative provisions are contained in Act VI of 1977.³ The state budget separated a sub-asset from the set of state assets and assigned to it an organization having a status of legal entity. However, the traditional type of it ceased to exist by 1995 as, prior to that year, all state-owned enterprises had to transform into kft. or rt. in Hungary.

In the era of spontaneous privatization the initiating party was, unlike in the former structure, not the state administration but the company management. In that era the emphasis was gradually shifted to dismantling state ownership. Supervision by state administration remained only at about a quarter of the companies and, therefore, the chances of actual privatization were basically determined by company formations directed by the company managers. Up until the entry into force of Act VI of 1988, companies were formed mostly by the large industrial enterprises having multiple sites. These cases were far from the privatization of state-owned assets. Instead, these were the efforts of heavily indebted enterprises to transform their structure in order to avoid bankruptcy or liquidation procedures. The poor liquidity of Hungarian enterprises was a strong motivation for the involvement of foreign partners. In addition, the tax benefits given in the case of foreign involvement were also a great attraction. (MÓRA MÁRIA: Az állami vállalatok (ál)privatizációja. Közgazdasági Szemle. Issue 6/1991, p. 569.)⁴

By the early 1990s the majority of the state-owned enterprises were on the verge of bankruptcy and in need of instant capital injection. The heavily indebted state budget urgently needed the privatization revenues. The governments of the USA and the major Western European countries considered the progress of privatization as the most important index of the change of the political system in Eastern Europe. They made it clear that countries with

³ Both Act VI of 1977 and Decree 33/1984(X.31.) MT issued for its implementation are still in force. The last amendment entered into force on 16 June 1998 through Article 320 (b) of Act CXLIV of 1997.

⁴ At the time of company formation, the enterprises did not want their assets to be recognized at values much higher than the book value, even if that would have been realistic, because such a move would have automatically increased the cash demand of company formation i.e. deteriorated the chances of company “build-up”. Assessing the contribution in kind at a value lower than the realistic value did, in fact, put the other participants of company formation into a better position as their shares became seemingly higher than in reality, which actually meant the privatization of state-owned assets without any consideration in return.

majority state ownership would not be allowed to become the members of the European Union.

At the beginning, the National Renewal Program envisaged that the privatization would result in the gradual restoration of a market economy based on responsible owners and highly educated and well-paid employees. (LÓRÁNT KÁROLY: A privatizáció társadalmi hatásai. Társadalmi Szemle. Issue 4/1991, p. 15-21.)

1.2. The difficulties of transformation

The general legitimacy of the private sector was provided by Act VI of 1988 ('Companies Act'). (SÁRKÖZY TAMÁS: A privatizáció joga Magyarországon. (Indulat nélküli elmélkedés tényekről- lehetőségekről.) Bp. Unió Kiadó 1991, p. 49-95.) Privatization was made difficult by the lack of the relevant civilian laws in most Eastern European countries. Furthermore, there was also a lack of the market economy institutions and of the rules of the accounting, bookkeeping and balance-sheet preparation systems. The lack of proper personal conditions was also a problem, just like the fact that there was only a poor demand with low capital adequacy for the huge volume of state-owned assets offered for sale. In addition, the governments were double-hearted as on one hand they needed the privatization revenues but on the other hand they did not want to see a reduction of their own power.

As the form of socialist state-owned enterprises was unsuitable for the selling process, it was necessary to copy the technique of universal legal succession from the German transformation law so that the state-owned enterprises could be transformed into business companies. This was the first step i.e. the legally formal privatization. It was an indispensable precondition for the actual and real privatization i.e. for the sales of shares and business quotas to companies and private individuals. (SÁRKÖZY [2004] p. 37-47.)

Act VII of 1990 created the ÁVÜ (State Property Agency) i.e. the state budget organization in charge of the supervision of the privatization process. The state control of spontaneous privatization was established by Act VIII of 1990. Under the obligation of enterprise asset valuation, all enterprises had to report to ÁVÜ when their assets were transferred as contribution in kind to a company, when their real estates were sold or when a contract was signed under which at least half of the total enterprise assets was transferred to a new owner. Based on such reports, ÁVÜ had the right to require a repeated asset valuation or even to prohibit the deal in question. The entry into force of these two Acts brought along the state control of the privatization process. Act LXXII of 1990 placed ÁVÜ under government supervision and introduced state-directed privatization instead of the former decentralized privatization process under state control. As of September 1990, all shares and business quotas became the unlimited property of ÁVÜ, whereby the legal guarantees of corporate

independence were terminated. The new legal framework of privatization was set up by Act LIII of 1992 on the Management and Utilization of Entrepreneurial Assets Remaining in Long-term State Ownership, Act LIV of 1992 on the Sale, Utilization and Protection of the Assets Temporarily Owned by the State, and Act LV of 1992 Amending Legal Rules Related to Acts on the Entrepreneurial Property of the State. This set of laws brought substantial changes in the legal status of state-owned enterprises: the form of state-owned enterprise was terminated and replaced with the form of business associations. The management of state-owned enterprises was also transformed with the emergence of ÁV Rt. (Hungarian State Holding Company). The tasks of state-owned asset management and privatization were separated: the former was transferred to the companies supervised by ÁV Rt. and the latter fell under the competence of ÁVÜ. This set of laws was based on the principle that privatization must be managed by the government. Actually, ÁV Rt. functioned as a holding and enjoyed more benefits than an ordinary rt. (joint stock company). "Privatization remained a state-managed centralized process as all sales required a decision by ÁVÜ. However, basically the government decided on the group of companies to be left in long-term state ownership and on the actual state shareholding in such companies." (SÁRKÖZY [2003] p. 210.)

2. The state as a legal entity performing entrepreneurial and owner's activities

2.1. The initial structures

The entrepreneurial assets remaining in long-term state ownership consisted of two parts: firstly, the state-owned enterprises operating in the traditional form of state-owned enterprises and not transformed into companies yet and, secondly, the state-owned enterprises not to be privatized but already transformed into companies including their shares or business quotas. The enterprises remaining in long-term state ownership included those that represented strategic, national economy or any other important public interests; those that served some public purpose on a national scale; those that could be operated only in an integrated system of production-distribution-research; those that performed some activities of state monopoly falling under the Concession Act; or those that were unsuitable for privatization because of the long time required for the preparation phase. "Basically, the assets in temporary state ownership had to be sold i.e. privatized but, until that date, had to be properly used and protected from any devaluation." (SÁRKÖZY[1993] p. 25.)

During the process of state-managed privatization there were certain unresolved issues such as the management of restructuring efforts in order to slow down the asset devaluation and maintain the operability of the companies, the mitigation of the anti-competition disproportions included in the system of

enterprise structures, and the operation and management of assets remaining in state ownership for shorter or longer periods. (VINCE PÉTER: Az állami szerepvállalás változatai. *Külgazdaság*. Issue 9/1997, p. 15-25.)

The general method of privatization became the one under which the state-owned enterprise was transformed into a company where the founder's rights were exercised by ÁVÜ, which also signed the articles of association. From that moment the transfer of state-owned enterprise assets, as contribution in kind, into various companies became impossible. Furthermore, transformation through general legal succession became the center of the privatization process, although transformation and privatization were separated from each other in the two-step procedure. Given that company became the general legal successor of the state-owned enterprise, the process of transformation did not cancel the existing liabilities of the state-owned enterprise. No state-owned enterprise under liquidation was allowed to transform into a company. The registry court deleted the state-owned enterprise from the company register and entered the newly formed company. In the course of the transformation process not only articles of association, deed of foundation and by-laws but also a transformation plan and a statement of assets and liabilities had to be prepared.

Apart from the question of whether to separate or to keep together the assets of the large state-owned enterprises, another typical issue of discussion was the definition of the ownership structure. "When specifying the method of the transformation and privatization process, the ÁVÜ often adopted such decisions that determined the future of a large state-owned enterprise for a long time or for good. The administrative work of the state privatization bodies was considered bureaucratic by almost all state-owned enterprises. However, the opinions differed as to the active and beneficial nature of the interventions."(VOSZKA [1998] p. 89.)

The state-owned enterprises that could not be privatized were assigned to ÁV Rt. These enterprises were transformed into one-man companies in 1993-1994. The state-owned enterprises to be privatized had to submit their transformation plan to ÁVÜ by the end of 1993. The form of state-owned enterprise continued to exist until ÁVÜ decided on the company formation or the registry court entered the newly formed company in the company register. The owner's rights of the freshly transformed state-owned enterprises were exercised by ÁVÜ until 1995 i.e. the entry into force of the new Privatization Act. Pursuant to Act LIII of 1992, the government issued a decree, to be reviewed at least every other year, with a list of enterprises remaining in long-term state ownership. Such enterprises included those that represented strategic, national economy or any other important public interests, those that served some public purpose on a national scale, those that performed some activities falling under the Concession Act or those that were unsuitable for privatization yet. Such list was published in Government Decree 126/1992 (VIII. 28.) Korm. Also, the government determined the level of state-owned shareholdings. In general, the shareholdings

of enterprises remaining in long-term state ownership were marketable but could be sold only with government approval. Such shareholdings were considered as part of the equity of ÁV Rt. When a state-owned enterprise (which was already transformed into a company as of 1992) was listed among the enterprises remaining in long-term state ownership, its shares were transferred by ÁVÜ to ÁV Rt. "Unless they had already been transformed, the state-owned enterprises shown on that list were transformed into rt's or kft's by ÁV Rt. The transformation was performed in accordance with the general rules of privatization." (SÁRKÖZY [2003] p. 210.)

In those countries where the population had the necessary purchasing power, it was possible to sell the retail, catering and service outlets (such as shops and restaurants) to domestic entrepreneurs. It was the so-called little privatization or pre-privatization that usually preceded the general privatization. In Hungary this process was successfully completed in 1993-1994. (SÁRKÖZY [2004] p. 42.) Some ten thousand outlets were sold to private owners under the Act of LXXIV of 1990 on the Privatization of State-owned Enterprises Engaged in Retail Trade, Catering and Consumer Services. This pre-privatization program was not open to foreigners as, according to the reasoning laid down in the Act, there is a great interest in establishing the layer of domestic entrepreneurs. (DICZHÁZY [1998] p. 27.)

2.2. Treasury assets and entrepreneurial assets

Pursuant to Act XXXIX of 1995 regarding state-owned assets, a distinction must be made between the treasury assets (assets falling under the scope of the State Budget Act) and the entrepreneurial assets of the state. Such treasury assets were removed from the scope of this Act that consist of the exclusive non-marketable items of state property, the assets of state budget plans and the other assets of the state as legal entity. As a rule of thumb, the entrepreneurial assets of the state must be privatized. Still, there will be enterprises that will remain in long-term state ownership. These include the public utility companies, the enterprises having strategic importance for the national economy, the concession companies and the special-purpose companies. A major change compared to the previous period is that the list of enterprises that will remain in long-term state ownership is not determined by the government in a decree but by the Parliament in the Schedule to this Act. Furthermore, the Act fixed the level of state ownership. Accordingly, it can be 100%, 75% or 50% +1 vote. Under the Act, it is not allowed to privatize the obligatory state shareholding. In the case of enterprises remaining in long-term state ownership the owner's rights of the state were exercised by ÁPV Rt. (Hungarian Privatization and State Holding Company). Under exceptional circumstances, the owner's rights of the state could be exercised also by a Minister specified in the Schedules to this Act. The Privatization Act of 1995 established the legal framework for the entrepreneurial

assets of the state. Accordingly, the state may have business companies only in the fields stipulated in the Act and the state may be a majority owner only under exceptional circumstances. The state runs its entrepreneurial assets in the form of trusts that are usually managed by ÁPV Rt.⁵

2.3. Reasons for utilization or selling

Pursuant to Act XXXIX of 1995 on the Sale of State-Owned Entrepreneurial Assets, the assets coming under the force of this Act, with the exceptions referred to in the Act itself, are only temporarily owned by the state. The primary responsibility of ÁPV Rt. (Hungarian Privatization and State Holding Company) in this sphere is the earliest possible sale of state-owned shares and business quotas (i.e. company shares) and/or other assets to private owners. ÁPV Rt. shall provide for the utilization of the assets prior to privatization. Within the framework thereof, it shall take the measures required for the preparation of privatization, and shall manage the assets in accordance with their designated purposes. In the sphere of its privatization activities, and/or the utilization of the assets, ÁPV Rt. shall exercise the owner's rights of the state, with the exceptions defined by law.⁶

In the course of the sale of the assets coming under the force of this Act, those involved shall proceed with the particular consideration to the following requirements: increase in the efficiency of management, reduction of the shortage of capital in the economy, provision of capital increase required, acquisition of advanced techniques on international level, as well as management and marketing experience, stoppage of loss of markets and acquisition of new markets; stimulation of economic restructuring, promotion of the rejuvenation of the organizational system of companies, reasonable decentralization of structures hindering competition and widening the sphere of participants in the market; development of the domestic capital market, organized involvement of the domestic and international capital through investment funds and companies; maintaining and strengthening the interest of foreign investors in privatization, with a particular regard to strategic (professional) investors; support of the acquisition of assets by the domestic entrepreneurs, suppliers and raw material producers, with a particular regard to agriculture and the food industry; provision of domestic producers' and industrial protection in accordance with international agreements; maintenance of working places, creation of working places and enforcement of employees' social

⁵ Basically, the institutional privatization in Hungary was completed in 1999 and the level of entrepreneurial assets in long-term state ownership dropped below 20% of the national wealth.

⁶ Foreigners purchased much less than assumed by the public but, due to their high purchasing power, they bought partly the strategic sectors and partly those assets that the population would have liked to purchase. The volume of assets in foreign ownership is much lower in Hungary than it was after WW2.

considerations; promotion of acquisition of assets by employees and buy-out by managers; maintenance of the operational ability of economic associations, use of privatization revenues, financial stability, development of the production structure and technology, reorganization, reduction of environmental losses and burdens, and increase in exports; allocation of appropriate property in return for compensation notes.⁷

The following shall belong here: all company shares in state-owned companies – other than those conveyed to outside contractors - transformed into economic associations in accordance with the Transformation Act of 1989⁸ and the Privatization Acts of 1992⁹; assets of state-owned enterprises coming under the force of Act on State-Owned Enterprises, with the exception of public utility companies, trusts, trust enterprises and other state-owned economic organs; assets of subsidiaries established by state-owned enterprises in accordance with the Civil Code; any company share belonging to ÁVÜ and constituting the property of ÁV Rt. at the time of coming into force of this Act, as well as other assets, rights representing property value due to the above organizations, and/or liabilities burdening the above organizations; entrepreneurial assets transferred from the Treasury Property Management Organization to ÁPV Rt.; furthermore, from the associated assets, and from the revenues (resources) received for the sale of such, the stocks and shares, real properties, movable assets and rights representing property value of business associations established by ÁPV Rt., or which were acquired through sale or exchange.

The following shall not belong here: the State Development Institute Co. Ltd., economic associations where the state owners' rights are exercised by the Minister of Justice¹⁰; state-owned forests and/or territories, registered together with the forest as a self-contained land detail, or land under another type of cultivation or land taken out of cultivation, which were managed by ÁVÜ or fell under the sphere of properties of ÁV Rt.; economic associations for rehabilitation and work therapy purposes, where the owner's rights of the state are partly or fully exercised by the Minister of Health, Social and Family Affairs; state-owned nature reserves protected or planned to be protected, which were managed by ÁVÜ or fell under the sphere of assets of ÁV Rt.

⁷ Article 2 in Act XXXIX of 1995

⁸ Act XIII of 1989

⁹ Act LIII of 1992 and Act LIV of 1992

¹⁰ with the exception of OFFI Rt. (Hungarian National Office for Translations and Attestations Co. Ltd.)

3. The entrepreneurial activity of the state

3.1. Standards and principles of operation

The assets and/or a definite portion thereof may remain in long-term state ownership, if the assets or the company operating the assets is a national public utility service provider; qualifies as a company of strategic significance with consideration to the national economy; performs national defense or other special duties, and/or serves such purposes. In the sphere of the companies remaining in long-term state ownership, the ownership share of the state may not be lower than a ratio providing for 50% + 1 vote. In exceptional cases, the ratio of the lowest state share may be established in this Act as a share attached to 25% + 1 vote, and/or to a share guaranteeing voting priority. The companies remaining in long-term state ownership are specified in the Schedule to this Act - which indicates the percentage of state ownership and the organization or Minister exercising the state's membership (shareholder's) rights. The determination of the pace and rate of privatization of the state share exceeding the portion of the state ownership defined in subsection (3) is the responsibility of the Minister indicated in the Schedule to this Act, while the implementation of privatization is the responsibility of ÁPV Rt., in agreement with the above Minister. With regard to the companies where the Schedule to this Act has established the extent of the minimum state interest as having one extra share to provide voting priority and the state-owner has the amount of shares necessary for general meeting resolutions, a share to guarantee voting priority for the state shall be issued. Concerning the general assembly of companies defined above the presence of the holder of the priority vote for having a quorum and his agreement is required for resolution in matters such as the increase or decrease of the equity, the change of the rights attached to the different types of shares, the company's merger, fusion, de-merger or separation with or from another company, the company's incorporation into another company form or its termination without legal successor, the assignment, surrender, lease, mortgage of or encumbrance as collateral of the company's rights representing property value essential for the company's specific activities or the transfer of such rights for long-term use in any other way, the election or recall of a member of the board of directors or supervisory committee representing the holder of the priority vote. The voting priority shares shall only be a registered stock. If the statutes of a company designated to remain in long-term state ownership governs the highest percentage of the voting right of any one shareholder, such provisions may not be applied for exercising the shareholders' rights pertaining to the lowest percentage of state ownership established by law. In the event a company is released from long-term state ownership by provision of law, ÁPV Rt. shall exercise the ownership rights in such companies. (KARSAI GÁBOR – KRASZNAI ZOLTÁN – LAJTAI GYÖRGY – NÉMETHNÉ PÁL KATA

[1997]: Állami vagyonkezelés: minták érték nélkül? *Külgazdaság*. Issue 12, p. 48.)

Upon government motion, the Parliament will pass an Act on the allocation of economic associations operating under state ownership into the sphere of long-term state ownership, the rate of ownership share, and the termination of long-term state ownership. ÁPV Rt., the Minister concerned with regard to the basic activity of the given company, and/or the concerned employers' and employees' interest representation organs may submit a proposal to the government with respect to the above. The government shall decide on the privatization concept of companies which are especially significant with consideration to the operational ability of national economy, which it may submit to the Parliament for approval. The sphere of companies especially significant with consideration to the operational ability of national economy shall be defined by the Parliament. The professional and employees' interest representation organs concerned may express their opinion, prior to decision-making, on the issue of the privatization concept of these companies.

3.2. *Actual entrepreneurial assets*

Schedule to Act XXXIX of 1995 lists the business associations operating with company shares in long-term state ownership, with the indication of the proportion of state ownership interests and the Ministers, organizations exercising the state's membership (shareholder's) rights. It is clear from the changes of the Schedule that the privatization process has not finished yet¹¹ as some enterprises were privatized in 2006.¹²

Among the bodies exercising the owner's rights ÁPV Rt. has an outstanding position with its 37 companies including 36 joint stock companies and 1 limited liability company (e.g. several forestry rt's, PICK Szeged Rt., Szerencsejáték Rt., etc.). There are, of course, differences in the lowest share of long-term state ownership. Among the companies of ÁPV Rt. there are 22 companies (including the only limited liability company) with a state ownership of 100%, while there are 2 companies (Magyar Villamosművek Rt. and Tokaj Kereskedőház Rt.) with 99%. In the case of 8 other companies the state retained one priority vote share.

Among the Ministers exercising the owner's rights, the Minister of Economic Affairs and Transport has 30 companies (all joint stock companies except for 2 non-profit companies). Of those joint stock companies 3 ones have 100% state

¹¹ Act XXIII of 2002, Act XLVII of 2002, Act LXII of 2002, Act XXXVII of 2003, Act XCV of 2003, Act CXVI of 2003, Act XLVIII of 2004, Act LXXV of 2004, Act CXX of 2004, Act CXXXV of 2004, Act XLII of 2005, Act LXI of 2005, Act LXII of 2005, Act XLIV of 2006 and Act LXV of 2006 all amended the Schedule, that is the list of companies and the proportion of state ownership in them.

¹² Pursuant to Act XLIV of 2006, Zsolnay Porcelángyár Rt. was deleted from the Schedule, that is from the list of companies operating with long-term state ownership interests.

ownership (e.g. Magyar Államvasutak Rt.), while Állami Autópálya Kezelő Rt. has only 25% + 1 vote instead of the former 100% as a result of the provisions of Act LXV of 2006. However, the state retained the priority vote share in the case of several other companies being mostly gas supply, electricity supply and power plant companies.

The Minister of Agriculture and Regional Development has 14 companies to deal with, including 6 joint stock companies, 4 limited liability companies and 4 non-profit companies. Of all these companies 9 ones operate with 100% state ownership. As to their fields of activity, there are several research and development companies, although the state retained 25% + 1 vote also in Geodéziai és Térképészeti Rt. and Országos Mesterséges Termékenyítő Rt.

The Minister of Environmental Protection and Water Management exercises the owner's rights of the various waterworks (50% + 1 vote) in a total of 8 joint stock companies. The Minister of Defense has 8 joint stock companies, too. The Minister of Health has the Gyógynövénykutató Intézet Rt. (25% + 1 vote), the Minister of National Cultural Heritage has the Nemzeti Színház Rt. (100%) and the Minister of Finance has the Államadósság Kezelő Központ Rt. (100%). The Minister of Justice and Law Enforcement has the Országos Fordító és Fordításhitelesítő Rt. and the Minister of Informatics and Communication has the Magyar Távközlési Rt. The National Employment Foundation exercises the owner's rights over 6 companies (2 joint stock companies and the others are limited liability companies and non-profit companies) all operating with 100% state ownership. The Chairman of the National Sports Office exercises the owner's rights over the Sportlétesítmények Vállalat Rt. As to entrepreneurial assets, state ownership can be realized in this manner.¹³

3.3. Use of entrepreneurial assets

ÁPV Rt. may use the revenues generated from the assets allocated to it for the following purposes: cover the costs of measures necessary for the preparation of the sale of the assets allocated to it; cover the expenses of ÁPV Rt. from surety, warranty and loan repayment commitments made during the year and from other claims; concede the consideration due to local governments for land in inner areas and the founder's right formerly exercised by them; establishment of an economic association or a fund for investment purposes, or acquisition of any share therein, and purchase of real property, movables or rights representing property value; cover the fees payable to persons or

¹³ Based on the Act, some form of state ownership is present in a total of 115 companies in Hungary. According to the Central Statistical Office, as of 31 December 2004 there were 960,321 business entities in the country including state budget organs, non-profit bodies and economic associations. Of all 871,956 undertakings the number of partnerships accounted for 415,879. The number of joint stock companies amounted to 3,788 which corresponds to the average of the past five years regarding this company form.

organizations charged by it with property management, and the costs incurred in connection with property management; cover the fees due for the sale of the assets allocated to it and the costs incurred in connection with the sale; reorganizations indispensable in the interest of privatization and asset management; cover the costs of the own operation of ÁPV Rt.; effect payments as prescribed in a separate legal regulation. ÁPV Rt. shall allocate provisions for the liabilities associated with the described objectives, which are expected in the future. ÁPV Rt. shall obtain the consent of the Minister of Finance, irrespective of the amount involved, for undertaking any commitment for surety or guarantee obligation, exclusive of the statutory and implied warranty defined in the Civil Code. If neither the revenues of the subject year, nor the established reserves provide cover for such liability, the state shall assume responsibility for the performance of the liability. ÁPV Rt. may establish one-man business associations.

The amount payable by ÁPV Rt. to the central budget from the above revenues shall be specified by Parliament in the Annual Budget Act. It shall also prescribe the size of funding to be transferred to the state to cover its statutory commitments along with the list of beneficiaries of such commitments and the upper limit for ÁPV Rt.'s borrowing and bond issues. ÁPV Rt. shall keep all its liquid assets - except for those obtained from the repayment of employee housing loans - on the account kept with the National Bank of Hungary; it may not place deposits and may only purchase securities exclusively in connection with privatization and property management. This obligation does not affect the possibility of ÁPV Rt. to keep an account with a commercial bank in the case of certain privatization transactions, until the given transaction is arranged, in order to place the collaterals and bails there. ÁPV Rt. shall keep the funds for its liabilities related to providing guarantees, warrantees and sureties in a separate account.

The general principle of the sales of assets allocated to ÁPV Rt. is that ÁPV Rt. shall perform such sales directly, through the system of institutions of the capital market, through investment funds and investment firms. The state-owned assets may be sold through public or exclusive tender, public auction (competitive bidding), public offering, private offering, commission for sale at the Stock Exchange or, in exceptional cases, without competitive bidding. In the course of the sale of the assets the sales contract shall be concluded with the party submitting the most favorable bid, considering all points of judgement. In the course of the evaluation of the cash-based bids or the bids based on preferential privatization techniques submitted for the assets to be sold through a tender, ÁPV Rt. shall take into account the revenues expected on the basis of their real market value as at the time of judgement. In the case of bids of equal value, the bids of domestic investor(s) shall be granted preference.

Following the process of mass privatization, it is necessary to establish the new organizational-economic-legal framework for the utilization of the

remaining state-owned assets. Such state-owned assets may be divided into treasury assets and entrepreneurial assets. The treasury assets mean the so-called public assets and the state's fiscal assets i.e. the property allocated to the budget plans of the central government and the local governments. The entrepreneurial assets remaining in long-term state ownership – listed in the Schedule to the Privatization Act following the annulment of the former government decree – include only companies.

The task of asset management means the maintenance of the asset condition, the stop of value loss and the achievement of value growth. "In fact, the asset manager is an assistant acting on behalf of and for the owner." (SÁRKÖZY [1997] p. 17.)

Asset management means the assignment of the strategic powers of the owner to the asset manager in such a manner that the asset manager is only the owner's assistant i.e. the asset manager cannot fulfill the powers of the company managers provided in the Companies Act. On the other hand, the company managers cannot play the role of the asset manager. The task of asset management may be performed on the basis of an order or business contract. According to the Privatization Act, asset management is a temporary task in any such case when the state must comply with its privatization obligations but when the conditions of privatization are not available yet. Just like the Treuhand in Germany, ÁPV Rt. may also be terminated and replaced with a new organization, according to SÁRKÖZY TAMÁS [1997]

4. The entrepreneurial activity of the state in terms of regional aspects

As far as regional aspects are concerned, the volume of state-owned assets is practically the same in the capital and the rest of Hungary. Approximately the same number of enterprises was added to the sales portfolio in each region, which is a sign of good balance of the former economic base.

When examining the workforce changes of the privatized enterprises (workforce at the time of foundation and current workforce), it is clearly seen that unemployment was caused mostly by the rearrangement of the economic structure and not by the privatization process. "The share of foreign owners accounted for some 25-26% of the privatization". (RECHNITZER JÁNOS [1999]: Az állami vagyon magánosításának területi dimenziói. Tér és társadalom. Issue 3, p. 105.)

Payment was mostly made with E-loans and compensation coupons in regions with a low level of state-owned assets attached mostly to local or regional markets. However, more rapid (cash) payment methods prevailed in those regions where foreign investors showed considerable interest in obtaining the enterprises offered for sale. Act XXI of 1996 on Regional Development and Regional Planning provides an integrated structure for Hungary's regional policy. However, it was only in early 1998 when the Parliament adopted the

regional development guidelines, which means that regional development lagged behind the privatization of state-owned assets. In fact, the selling of state-owned assets influenced Hungary's regional structure in that it directly affected (modified or stabilized) the business structure of the relevant regions and communities. The partial allocation of the privatization revenues to local governments expanded the areas of operation for the local/regional economy. The privatization process clearly reflected and even maintained and strengthened Hungary's former economic and regional structure. It is evident today that it would have been advisable to jointly carry out the tasks of privatization and regional development. In particular, more preferential arrangements should have been provided for the privatization of state-owned assets in the economically backward and less active regions. "The rule of thumb for any privatization is to give priority to long-term interests." (PICHLER FERENC [1992]: Long-term interests to come first in the privatization process (Discussion with State Banking Supervision President dr. Katalin Botos) Pénzügyi Szemle. Issue 2-3, p. 121.)

Nevertheless, the above reasons led to the continued practice of undervaluation, which was made possible under the applicable legislation. In particular, ÁVÜ did not set any requirement for the buyer to ensure the continued operation and improvement of the enterprise in question or to maintain the existing jobs. Accordingly, a certain part of the investments was made with the aim of eliminating the competitors and of purchasing new markets or real estates.

Due to the lack of harmony among the various regulations, ÁVÜ had only a Board of Directors, a Chairman and a Managing Director but no Supervisory Board. Furthermore, there was no possibility for any legal remedy, either through public administration or court proceedings, against ÁVÜ's decisions regarding the choice of buyer and the contractual terms. During the sales process, prior to adopting a decision in relation thereto, ÁVÜ only had to inform the employees' interest representing bodies but these latter had no other powers. However, pursuant to the Privatization Act of 1995, ÁPV Rt. operates with a Supervisory Board ensuring a higher level of control. The privatization-related information had to be made publicly available. "Priority was attached to the requirement of giving a greater importance to the restructuring of the enterprises to be privatized, to the support of domestic suppliers and producers in obtaining property as well as to the maintenance and creation of jobs." (PRUGBERGER [1997] 329.o.)

The radical withdrawal of the state from the economy does not automatically mean the development of the economy.

"In its 1993 Human Development Report, the UN laid down the seven prohibitions of the privatization process: maximum revenues must not be the only goal; public monopolies must not be replaced with private monopolies; state-owned assets must not be privatized in closed procedures; privatization

revenues must not be used for the settlement of state budget deficits; money markets must not be inundated with state loans when the level of public investments is low; no promise must be made to the employees of the privatized enterprises for their retraining according to future industry needs; no simple orders must be given to reach political consensus.”(BALÁZS ISTVÁN [1993] : Az állam jellegének újragondolása a társadalmi és gazdasági változások és fejlődés tükrében. Magyar Közigazgatás. Issue 9, p. 526-529.)

In Central and Eastern Europe privatization meant much more than just selling and buying. Actually, it represented a precondition for social-economic-political changes. The privatization transactions made anywhere in the developed market economies were never coupled with the change of the former political and economic system.

“Today’s question is whether it must or could have been realized decades ago that there were strategic industries, in the classical meaning of the word, in need of privatization and if there were some industries that were actually or potentially strategic ones as a result of globalization and development.” (KOVÁCS ÁRPÁD [2004]: Privatizáció és pénzügyi ellenőrzés. Pénzügyi Szemle. Issue 5, p. 502-523.)

The privatization process failed to enforce the principle according to which the state, while gradually withdrawing from its role as an owner, must take on new roles to achieve a new quality in time and to strengthen its function as an organizer of society.

With regard to the privatized assets it can be stated that as of 1 January 1990 (i.e. at the theoretical start of the privatization process) the total assets of the 1,857 firms held in the portfolios of the asset management bodies were worth HUF 2,600,000 million. By the end of 1997 some 64% of the assets left such portfolios. At the start of the privatization process in 1990 the value of the entire asset volume amounted to USD 41,600 million. The share of private property increased from 40% in 1992 to some 75% in late 1996.

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LÁSZLÓ DEMETER¹

Loans from banks and subventioned programs for small and medium-sized enterprises in Hungary

Small and medium-sized enterprises (SMEs) play an important role in the economy, contributing to the overall competitiveness of a country through the creation of jobs and speeding growth. Both in Hungary and the European Union, about two thirds of all jobs are provided by SMEs and they yield a major part of economic output. SMEs, however, are typically disadvantaged in accessing financial resources as compared to large firms. This makes community or government assistance reasonable. Research evidence shows that bank loans and credit are the most important sources of debt financing for SMEs. The European Charter for Small Enterprises adopted in 2000, among other entrepreneurial programs, emphasize increasing access to financing resources. This paper reviews the characteristics of subsidized loans available for SMEs in Hungary and evaluates their impact on the competitiveness of the SME sector.

The economic role of the small and medium-sized enterprises (SMEs) has changed radically in the last decades. Today they are the most important determinant of economic growth and workforce creation, and play a role in sustaining competitiveness and economic adaptation and in the development of the regional and the national economy. Research studies document the positive economic role of this sector, and since early in the 1980's policies to develop SMEs and programmes and activities supporting their financial problems have been part of the economic policy of numerous countries in Europe (Kállay-Imreh, 2004).

The SME development policy of European Union dates from the early 1980s. The first common SME policy was enacted in 1983, and in 1991 the first Multiannual Programme for Enterprise and Entrepreneurship (MAP) was approved. The main aim of the III. MAP was developing the SME between 1997-2000, supporting the enterprises in six areas, such as the improvement of the financial environment and the furtherance of credit financing. A community document of special significance about assistance to small and medium-sized enterprises is the European Charter of Small and Medium-Sized Enterprises, approved by EU leaders at the Feira European Council on 19-20 June 2000. The Charter has composed tasks in ten fields, in pursuance of the seventh to improve the relationship between the banking system and small enterprises by creating

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appropriate access conditions to credit and to venture capital. The further important community instruments of supporting and developing small to medium-sized enterprises are the the fourth Multiannual Programme for Enterprise and Entrepreneurship, and the Framework Programme on Competitiveness and Innovation (2007–2013) assimilating the postliminary Multiannual Programmes, but the tenders of community programmes also bear an important part in development of SME.

After the system change in Hungary the aims and principles of SME have been conceptualized in government decisions, the first Act on Small and Medium-sized Enterprises and the Support of their Development came into force on 1 January 2000. Act XXXIV of 2004 brought the most important material changes in the classification of SMEs and in the insurance of the financing subvention with formation of the the budget chapter as SME Budget Appropriation². Thereafter this sector also has accentuated role in some supporting programmes of government, both in Széchenyi Plan started in 2001 and in the mid-term SME development strategy of the Government between 2003-2006, the Széchenyi Enterprise Development Programme.

The new SME definition

The modification of the SME definition was necessitated by the change of the SME role. In 1996 the first common SME definition was adopted with recommendation 96/280/EC by the European Commission, with the aim of integrating the disharmonious national and common circumscriptions. On 6 May 2003, the 2003/361/EC recommendation was adopted in order to take account of economic developments and harmonization. The thresholds of SME definition through this recommendation are shown by Table 1.

As the table 1. shows, the category of micro, small and medium-sized enterprises consists of enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro.

² The new law also emphasises that SMEs may receive support from state funds earmarked for other purposes and from central budget appropriations.

Table 1.: The thresholds of SME definition.

enterprise category criterion	micro	small	medium-sized
headcount	< 10	10 - 49	50 - 250
annual turnover	≤ 2 m EUR (not defined in 1996-ban)	≤ 10 mEUR (7 mEUR in 1996)	≤ 50 mEUR (40 mEUR in 1996)
	or	or	or
annual balance sheet total	≤ 2 m EUR (not defined in 1996-ban)	≤ 10 mEUR (5 mEUR in 1996)	≤ 50 mEUR (27 mEUR in 1996)

Source: edited from The new SME definition (2005).

The financial ceilings and the staff ceilings represent maximum limits and the member states may fix ceilings lower than the Community ceilings if they wish to direct their measures towards a specific category of SME (The new SME definition, 2006). In terms of administration rollback, the member states may use only one criterion, the staff headcount in statistics. Both the Commission and Hungary with the EUROSTAT and the Hungarian Central Statistical Office promulgate data by the staff headcount about economy and position of this sector. In Hungary this recommendation has been achieved by the Act XXXIV of 2004.

Economic activity of SME

Today the importance of SME policy has been confirmed both in EU and in Hungary by their role in economy and labour market. At the end of 2003 more than 19 million enterprises were in EU 19³, and they provide up to 75 million jobs. 92,4 % of all enterprises are micro enterprises with one to nine people, 6,5 % are small, 1% is medium-sized, and hardly more than 0,2 % falls into the category of large companies.

By itself the distribution of their numbers and company headcount categories show little about the contribution of SME's to the economic growth. Investigating their role in labour market 70% of 140 million workers were employed in 2003 in EU 19 by SMEs, and this rate is similar (71,43%) in Hungary.

³ The expression Europe-19 is the 15 Member States of the European Union, the three other countries of the European Economic Area (Norway, Liechtenstein and Iceland), together with Switzerland.

Table 2.: Number of enterprises and employments in Europe in 2003.

		SMEs				LSE	total
		micro	small	medium-sized	total		
number of enterprises (1000)	EU-19	17 824	1 261	185	19 270	40	19 310
	Hungary	667	28	5	700	1	701
number of employments (1000)	EU-19	55 040	24 280	18 100	97 420	42 300	139 720
	Hungary	1 049	492	442	1 983	793	2 776

Sources: edited from SME's in Europe 2003, Demography of enterprises 2004 publications.

Economic importance of this sector is confirmed also by data of the gross added value, and their share of sales revenues and exports. In 2003 the 52,6% proportion of the gross added value was produced in the economy of Hungary by SMEs, and this rate was slightly lower, 51,4% in EU 19. The shares of sales revenues were shown also correspondingly difference, this ratio is 57,6% in EU 19, and 59,3% in Hungary. The SMEs share of export sales was 22,7% in Hungary, but we known just the average data regarding to the export and turnover ratio, which was 17% in EU-19, and 21% in Hungary. This export ratio in Hungary was large sized companies higher (39%-23%), the medium sized enterprises similar (16%-17%), to the small enterprises lower (8%-13%), and the micro enterprises more lower (1%-9%).

So with respect to component of the business output the role of small and medium-sized enterprises is a determinant in employment and in the growth of the gross domestic product, but the increase of export ratio is a purposeful problem.

Financing facilities of SME's

At the same time an importance problem of the competitiveness is financing. The distribution of the potential financing opportunities by source and type of capital are demonstrated by the Figure 1.

The financiers lay a claim to proprietary rights for equity, and to any consideration (e.g. interest) for debt against the enterprise. The internal finance – the operating cash-flow and cash-flow from realized existing assets (the occupational pensions funds are not typical in Hungary) – bear an important part in financing of SMEs. It increases the efficiency of the business by rising the utilization of assets, and the enterprise saves cash by modification of cost of the external finance. Numerous studies have confirmed, that the enterprises have

recoursed to external finance when they can't satisfy their own financing requirements with internal finance.

Figure 1.: Financing facilities.

	equity	debt
internal finance	<ul style="list-style-type: none"> ➤ operating cash-flow ➤ cash flow from realize of assets 	<ul style="list-style-type: none"> ➤ occupational pensions funds
external finance	<ul style="list-style-type: none"> ➤ capital stock increasing ➤ public offering ➤ realize of share of business <ul style="list-style-type: none"> ~ business angel ~ venture capital funds 	<ul style="list-style-type: none"> ➤ bank loan and overdraft ➤ other loan and credit <ul style="list-style-type: none"> e.g. loan for members ➤ bondissue, issue of commercial papers ➤ leasing ➤ factoring és forfaiting ➤ trade debt, trade credit

Sources: edited from Csubák (2003b).

In the case of external finance the enterprises draw on cash from external organizations and investors. Investigating the external finance, public offering and the bond issues are not characteristic of this sector, because of high cost and time-consumption, and trade debt and trade credit are used occasionally depending on the deal position of the enterprise.

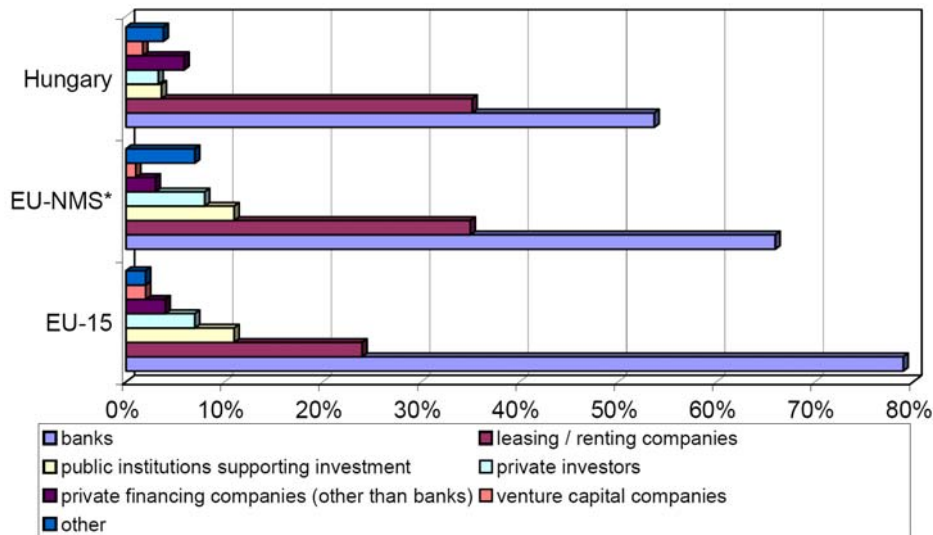
Owners of shares of the business typically are on the one hand professional investors and business angels, as private individuals, and on the other hand the venture capitals. Investors take high risk laying claim to high yield, so this form of finance is characteristic just to a small part of SMEs. In the case of external debt the role of the bank loan and overdraft, the leasing and the factoring (and forfaiting) can be emphasized, but these enterprises can get loans and overdraft only with higher interest and collateral because of the relatively high cost of the credit assessment (for low credit amounts) and higher operating risks.

Summarized it can be declared, that the SMEs are in more disadvantageous situation than the large size enterprises on the admittance of financing sources with respect to both equity and debt.” (Csubák, 2003b, p. 34.).

The incidence of financing sources has been had influence by institut system of the financing intervention, whose two types have evolved in Europe. The loan and overdraft are the most frequent financing sources of bankbased intervention (e.g. Germany), but for marketbased intervention (e.g. Great-Britain) the capital market sources, the public offering and the bond issue dominate. (SMEs and

access to finance, 2003). The typical financing source is different in countries, at the same time numerous paper prove that the bank loans and overdrafts bear the most important part in SMEs financing in Europe. Also the research of Flash Eurobarometer in 2005 and 2006⁴ emphasize the importance of bankfinancing (Figure 2.).

Figure 2.: Financial institutions when SME's need financing.



* EU-NMS: EU New Member States (May 2004).

Source: edited from SME access to finance in the 15 Member States and SME access to finance in the New Member States.

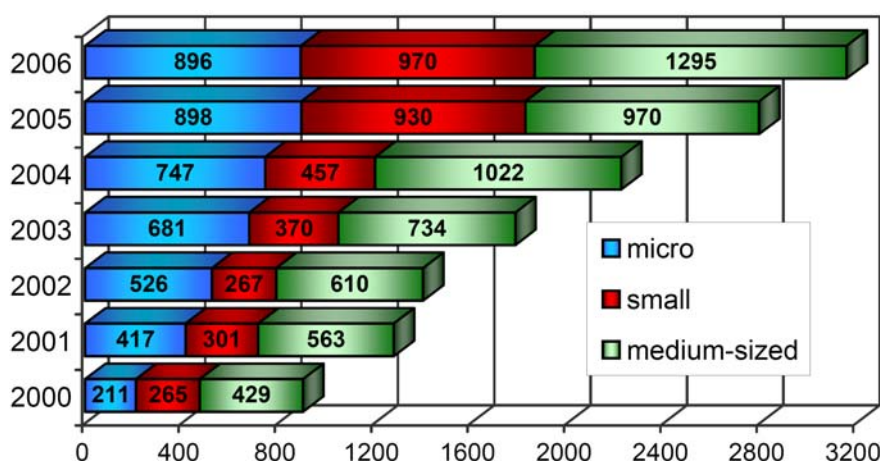
The role of government programs is characteristic in almost all financing sources. Investigating the practice of Hungary and other european countries frequently adapt the share owbership by venture capitals (and other funds), loans and overdrafts with guarantee schemes, and publicly funded grant aid. In next parts, the Hungarian government programs which support the requisition of bank loans and guarantee schemes will be analysed, but in following papers the prevalence of other financing sources and supporter publicly programs will be surveyed.

⁴ A 3047 managers of SME's in the 15 old Member States between the 5th and the 19th of September 2005, and 1536 managers of SME's (in between 229 in Hungary) in the New Member States between 27 April and 15 May 2006 were interviewed by telephone under the Flash Eurobarometer polling system.

Bank financing of SME's

During 1990s this sector was not attractive for banks on account of high costs and risks of low credit amount, but from the 2000s this field show signs of improvement. The creditmarket of LSEs has been filled, several banks have been changed into open towards the unexploited SMEs sector on account of open competition. Risks of this sector have been decreased through improvement of credit assessment, and improvement of bank service has reduced the costs of rating and risk management.

Figure 3.: Credit amount of SME's (data in million HUF).



Source: edited from Hungarian Financial Supervisory Authority data.

Bank finance of SME's has been increased from 904 billion HUF at the end of 2000 at 3.160 billion HUF till the end of 2006, a three and a half fold expansion (*Figure 3.*). The total credit amount of this sector has been augmented in all categories, and its percentage has been grown from 19,3% in 1999 at 54% at the end of 2006 in conformity with total credit amount of enterprises. In 1999 from the total credit amount of SMEs the medium-sized was 52%, the micro and the small enterprises were 24-24%, but at the end of 2006 the medium-sized was 41%, the micro enterprises was 31% and the small enterprises was 28%. The total credit amount of the micro and the small enterprises have been quadruplicated separately during the tested period, and the total credit amount of the medium-sized has been increased threefold.

Table 4.: The total credits of enterprises by disbursing banks in a percentage of GDP.

	1999	2000	2001	2002	2003	2004	2005	2006
total credit amount of enterprises	21,0%	22,7%	21,2%	19,1%	21,3%	22,3%	23,7%	24,6%
from which SME	4,0%	6,7%	8,4%	8,2%	9,4%	10,7%	12,7%	13,3%

Source: edited from Hungarian Financial Supervisory Authority and Hungarian Central Statistical Office data.

Despite a dynamic expansion, the domestic enterprises in proportion to developed countries can draw on fewer loan and overdraft sources by the ratio the nonfinancial enterprises credits per GDP. In European countries the deviation of the credit per GDP ratio is high correspondently to the distinctiveness of the financial systems, the average is 62% in EU15, but in Hungary just 25% in 2006. At the same time between 1999 and 2006 period, the ratio of SMEs has been increased threefold.

Taking studies as a basis, the credit of the SME sector will proceed in the next years dynamically, what will be helped by both the reducing interest rates on account of convergence and the enlargement of bank competition (Csubák, 2003a). The fact remains that a portion of smaller enterprises cannot have access to loans and overdrafts unaided, therefore they need some form of government assistance.

Subventioned programs for SME's credit in Hungary

Development policy of the government for SMEs can be promotive of credit using with the state supported credits and guarantee schemes (which support the credit using by solving the collateral problems). The state support will be through by the Microcredit Program, the

Széchenyi Card and the activity of Creditguarantee Co.

Microcredit Program

The Hungarian Foundation for Enterprise Promotion has run a microcredit program since 1992. Its target group are the micro enterprises. Up to now more than 30.000 enterprises have gotten credit, of about 42 billion HUF. In 2003-2004 the amount of accommodation was decreased through tightening the conditions, the program generated in 2002 just scarcely 2% of the total credit amount of micro enterprises, and only 0,2% at the end of 2006. So this program has been a financing source for a very small part of the micro enterprises, but several studies have made reference to its improvement and sustainably (Kállay-Imreh, 2004; The conception of the SMEs improvement, 2005).

Table 5.: Microcredit disbursement between 1999-2006 (in billion HUF).

	1999	2000	2001	2002	2003	2004	2005	2006
credits	1,6	2,4	6,6	9,4	3,6	1,4	3,9	5,0

Source: edited from Hungarian Foundation for Enterprise Promotion data.

Széchenyi Card

Széchenyi Card is a credit-card based, low-interest loans for SMEs on state supported preferential terms. Its aim is to provide enterprises with a minimum business history of one year with unrestricted-use credit managing liquidity risks. The attraction of this financial source is that it provides quick access to funds, and it is not necessary to demonstrate own contribution. 70.000 card have been issued during the five years of this program and in the aggregate 330 billion HUF. Enlargement in 2004-2005 was enabled by improvement of credit conditions, and as a result of this the credits in 2006 were more than 3,8% of the total credit amount of micro and small enterprises.

Table 6.: Number and allocated credit portfolio of Széchenyi Cards in 2002–2006.

	2002	2003	2004	2005	2006
credit portfolio (<i>in billion HUF</i>)	1,57	20,89	79,41	106,54	120,79
number of cards	1725	7427	17868	20633	21480

Source: edited from KA-VOSZ Financial Services Trading Close Co. data.

This program has helped the incidence of the quick credits without collateral, at the same time the banks will give market-based similar services on account of strengthening of the market competition in the future (Bilek-Borkó ..., 2006).

Credit Guarantee Ltd.

Since 1992 the Credit Guarantee Ltd. has helped provide for surety the SMEs which do not have sufficient collateral to offer in favour of their competitiveness. Its activity has led to an opening of financial institutions towards this sector. The amount of guaranteed loans has increased dynamically during the last six years, added to which the increased demand of Széchenyi Card, at the end of 2006 already 84% of the contracts and 45% of the amount of loans connected with this construction. Peering the structure of size of the enterprises the micro and small enterprises gave 96,7% of the number of guarantee contracts, which meant 76,6% of the total amount of guaranteed loans.

The 277,5 billion HUF loans was 8,8% of the total credits of SME sector consequent upon this program.

Table 7.: Sureties of Credit Guarantee Ltd. for SME loans.

	2000	2001	2002	2003	2004	2005	2006
amount of guaranteed loans	85,9	108,4	140,2	150,5	208,4	223,4	277,5
of which Széchenyi card	-	-	1,6	20,9	79,4	106,5	103,0
number of guarantee contracts	4 474	6 808	8 487	13 172	21 679	24 396	24 199

Source: edited from Creditguarantee Co. data.

According to international experience credit guarantee is one of the most appropriate tools of promoting SME credit finance. The government can place severalfold of the subvention considering financing sources, so the role of the credit guarantees will increase in the future with regard to the role of government programs in this sector (Bilek-Borkó ..., 2006).

Summary

The function and economic role of the SME sector have changed fundamentally in recent decades. Today they have an accentuated role on programmes and initiatives of business development. Numerous action have been started in favour of solving their financing problems both in European Union and in Hungary, too.

In this paper the credit instrument of SMEs were investigated. The credit financing of this sector has been changed for the better on account of strengthening of the bank market competition in the last years, so the subvention is well to focus on in the future, and the role of the credit guarantee will invigorate more prospectively. The disquisition of guarantee schemes mean postliminary orientation of my researching, and the investigation of the other financial sources and supporting programmes.

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ISTVÁN KÁDEK

**Preparing Teachers for Entrepreneurship Education –
Present Practices and Future Opportunities**

Abstract

The main objective of this paper is to highlight that entrepreneurial activity in a specific region is not only influenced by the economic situation and regulatory framework in that region, but also by (1) the attitude of people towards entrepreneurship in general and also by (2) the presence of relevant competencies. Hence, any region's entrepreneurial activity can be stimulated by entrepreneurship teaching and learning, aimed at enhancing entrepreneurial spirit and competencies in people, as well as their appreciation of entrepreneurship.

In the first part of the paper, the author identifies the negative stereotypes associated with entrepreneurship as one of the main reasons for the relatively low level of business activity in a country, region or town. The analysis of these stereotypes can lead to the recognition of some crucial success factors of entrepreneurship.

On the basis of contemporary documents, a short review of the efforts made to popularize entrepreneurship in Hungary between the two World Wars is presented. Returning to present times, the sometimes contradicting attempts to establish an "economic way of thinking" after the change of the economic system are revealed.

The author also discusses some foreign best practices of establishing "enterprise culture" in education. The objectives and types of student enterprises based on the principle of "learning by doing" are given here. Besides foreign experiences, some Hungarian best practices of student enterprises are presented as well.

The main part of the paper deals with the current ways and practices of entrepreneurship education in Hungary. After examining some aspects of the "Teacher of Economics" programme at the Eszterházy Károly College (where the author is a professor and vice dean), an inventory of other entrepreneurship training courses (e.g. JAM) is made. A teacher training course of 120 class periods, recently carried out in the framework of a PHARE programme aimed at fostering entrepreneurship teaching and learning in Hungary, is also outlined here.

Finally, on the basis of the author's own experiences, a summary of the different methodology considered worthwhile for further development is

presented. These approaches have the potential to form the core of future teachers' training programmes designed to enhance entrepreneurship education.

Preconceptions and Entrepreneurial Attitude

It is widely accepted that the North-Hungarian Region is one of the worst performing ones in terms of entrepreneurial activity in Hungary. According to the Hungarian Central Statistical Office (KSH, 2004), the Region accommodates only 8.5 percent (101,248) of the small businesses registered in the country. The number of enterprises per 1,000 inhabitants is also the worst in Northern Hungary: 80 in comparison to 119 in the whole country. (Regional Statistical Yearbook, 2004, p.47) The deficit can be explained by several reasons, but distortions in the general attitude towards entrepreneurship also play an important part. Although not studied widely, on the basis of educational experiences it seems that the following (hypothetical) stereotypes or preconceptions of entrepreneurship and entrepreneurs exist in the country:

- *It is only the question of “money” to start an enterprise.* This approach considers the raising of start-up capital as the number one barrier to set up an enterprise. The capital accumulation ability of most small areas in the Region is very weak, while their ability to attract capital varies to a great extent. All these allow for this one-sided approach.
- *It is only the question of “guts” to set up an enterprise.* This approach draws our attention to two significant aspects of entrepreneurship: (1) to the idea that generally forms the core of an enterprise and (2) to the expected risk taking attitude of entrepreneurs. These are very important aspects of entrepreneurship, though they are far from being the only ones.
- *Only “superheroes” can become successful entrepreneurs.* This approach overemphasizes the importance of entrepreneurial characteristics. Willingness, courage, ability etc. are definitely in need, but the role of education should not be underestimated. Entrepreneurial skills can be developed and the necessary business knowledge (financial, economic and organizational) can be obtained.
- *Only “the pliant” are suitable for entrepreneurial activity.* On the one hand, this approach can be interpreted as a critic of “red tape” concerning business activity. It is often heard in informal conversations in Hungary that only the “backstairs” can lead entrepreneurs to success. On the other hand, it calls attention to the well-known challenges of mixed economies, namely to inflexible competition regulations, strong government intervention and weak business ethics.
- *Entrepreneurship is mainly for those who look for an “easy way of life”.* This approach is destructive and old-fashioned at the same time. It regards entrepreneurs as speculators, who would increase their profits at whatever cost, without taking any other values and interests into account. However,

we should note that this stereotype owes much to the emergence of a social class called “newly rich”, who suddenly and noticeably increased their wealth by making use of their social capital in an unethical way after the change of the political system in Hungary.

These approaches or stereotypes are not only harmful because of their one-sidedness, but also because they essentially deny the role of training and education in acquiring entrepreneurial skills and attitude. In turn, foreign and domestic examples show that entrepreneurial skills and ethical business behaviour can be developed, similarly to factual knowledge. Entrepreneurship can be evoked by well-targeted educational programmes, thus education has the potential to improve regional competitiveness. We do not refer only to adult education. The development of entrepreneurial attitude and skills should start in primary or secondary education. Simply, students have to be showed that being an entrepreneur is an eligible life strategy, which, like many other things in life, needs plenty of devotion, commitment and endurance, some education, and most-importantly, self-belief.

Developing Entrepreneurial Attitude in the Youth – in the Past and Today

The need for developing entrepreneurial attitude in the young was already emphasized between the two World Wars. The “secondary business school” of those times, the so-called “commercial high school” tried to meet these expectations in many ways. They operated a “business simulation office” at school, which introduced students into the everyday life of business organizations by role-playing exercises and by performing office tasks. Office equipment as well as the instructor’s duties and qualifications were strictly specified. A curriculum from 1934 for example, pens like this: “To reach the objectives set, the head of the business simulation office has to meet strict criteria. They are required to have not only academic knowledge but also a thorough understanding of commercial practices. Their manifold responsibilities entail their engagement in other disciplines too, as they should be able to adapt office work to the students’ level of knowledge. They should keep in touch with real life, business life, follow their changes and make use of their out-of-class experiences in teaching.” (VKM Decree, 1934, p.156)

The office simulated real life, it created lifelike business situations, but it could not replace the analysis of real business situations. This latter was compensated by regularly taking students to companies and plants. Company visits were only recommended at first, but later they became regulated and were made mandatory by a National Curriculum Decree in 1940. Soon, professional practice at a factory plant was introduced into the curricula. In the first three years of study, students spent a day at a company every month, supplemented by seven days of continuous practice at the end of the school term. For the 4th

graders, professional practice meant two hours of working in a plant every week, in line with the regulations. The followings can be found on company visits in the National Curriculum of those times: "... make a visit with them [students] to commercial offices equipped with up-to-date facilities etc., to make them familiar with the most modern machinery. (...) plants and institutions to visit should be selected on the basis of local facilities." (VKM Decree, 1940, p.331, p.333) The Curriculum drew attention to methods as well: "Visits to plants and institutions should be adapted to the study programme. Visits are preceded by accurate preparation and followed by discussions." (VKM Decree, 1940, p.321)

Between the world wars, various efforts were made to integrate economics and entrepreneurship into general education. For the first time, a decree of December 1919 provided that economic and social education should be integrated into the curriculum of gymnasiums. Explaining the decree, the minister in charge penned as follows: "I would like to facilitate young learners' attainment of such knowledge, as without it their level of education cannot be regarded as complete today." (VKM Circular Letter, 1919) Economics as a mandatory field of education was eventually abolished in gymnasiums in 1924, most likely because of shortage of suitable teachers to manage business simulation offices. Nevertheless, social needs again placed the question on the agenda during the 1930s, when a large scale debate evolved around the rationality of economics education. According to a critic, "as much basic knowledge as they [students] have to acquire in physics, chemistry, geography and natural sciences, may be and should be provided in economics as well, as it would help them in planning their future life and would also assist the formulation of a healthier public opinion." (Éber, 1930) The National Curriculum for Hungarian Gymnasiums, published in 1935, following the debates, placed economics back to the syllabi of secondary grammar schools. Official documents designated the significance the discipline in formulating students' stance, by saying that "proper economic and social education makes students value private property, individual effort and individual responsibility..." (Detailed Directives, 1935, p.112)

Developing a positive attitude towards entrepreneurship through entrepreneurship education was again emphasized after the change of the economic system in 1989. Courses of modern business administration have appeared in secondary schools of economics, while business simulation offices, supported by various development projects, have also been experiencing their renaissance from the mid-1990s. Another aspiration of the period between the two world wars, i.e. to make economics education part of general education has again become more intense. In the beginning of the 1990s, many innovative schools started to experiment ways of business education. Most of them, assisted by international organizations such as the 4H, JAM, or YE, followed foreign practices. The breakthrough came in the middle of the 1990s, when business basics were introduced to general education by the National Curriculum (NAT).

The so called “framework curriculum”, intended to be the link between national and local teaching programmes, turned to be a step back however, as it squeezed business basics into modules of only a few class periods a year. When NAT was redesigned in 2003, business basics gained more importance again, but this effort was unfortunately not accompanied by mandatory measures. Still, there are some promising trends going on at present: as a consequence of pressure from teachers who urge the introduction of business education in secondary schools, the government has given the option to students of secondary grammar schools (gymnasiums) to include business basics in the subjects of their final exam. (The written part of the exam is the construction of a 15-20 pages long case study of a chosen business, based on primary research). Today, an increasing number of secondary schools are accommodating student enterprises, making use of the “learning by doing” method to introduce teenage students into the world of business and economics.

On Student Enterprises

Foreign examples of developing entrepreneurship attitude

At the turn of the millennium, entrepreneurship education, i.e. developing entrepreneurial competencies in students and adults was given a new impetus by the Lisbon Strategy and a resulting action plan called “The European Agenda for Entrepreneurship” (COM, 2004). These documents stress the importance of developing entrepreneurial skills and spirit in people, and not only the training of entrepreneurs in particular. An important aim is to train the trainers, to foster educators’ entrepreneurial attitude. The concept of “learning by doing” and the need for renewing the methodology of entrepreneurship teaching (e.g. finding new methods such as simulation games) also emerged around this time.

As a result of these efforts, new curricula that put special emphasis on entrepreneurship were developed in several countries. In Spanish secondary schools for example, two new courses were included in the study programme of the humanities: “Economics” and “Economics and Business Organization”. In vocational schools, a module called “Small Business Management and Marketing” was introduced. However, in many countries schools are free to decide whether they incorporate entrepreneurship education into their curricula and how. In Germany, the so called “Junior Project” brings students of over 15 years of age about the main points of how to manage a small business. In one district, an informational bus travels from school to school to teach learners about entrepreneurship.

In Austria and Italy business simulation offices are used very effectively, while in the UK student enterprises backed by Young Enterprise are the most common way of making students familiar with entrepreneurship. YE places special emphasis on fostering the relationship between industry and education.

(For more detailed analysis of foreign practices of student enterprises see the relevant chapters of Dedinszky *et al.*, 2004)

Types of students enterprises (some examples from Hungary)

Basically, there are two types of student enterprises in Hungary: simulated ones and ones that perform real business activity. The simplest way of simulating business activity is generating business ideas (in class or in afternoon study groups) and examining their feasibility. This method can even be used in primary schools. Among students of 12-14, simple games can also help to establish a ground for entrepreneurial thinking.

At one occasion, I came across an interesting business game in a primary school of Miskolc: Student groups of 5 formed a small business, which then started “producing” paper hats, paper ships and paper planes. The cheaper (white coloured) and the more expensive (red coloured) raw materials could be bought for token-money, while the end-products were sold to the teacher, who bought up all the goods produced until a certain deadline (for various prices settled prior to the production process). So it was up to the skills, division of labour and organization of the small groups and of course to the product range, how much the competing businesses could earn before time limit. Groups obtained the token-money (that served as start-up capital) by competing in a “quiz show” that tested their understanding of the basic concepts of Economics.

Business simulation offices offer a great opportunity for experimenting complex lifelike situations at school. An easy method is when the whole class together executes some administrative tasks of an imaginary business, in line with the teacher’s instructions (e.g. filling out documents, keeping the accounts etc.). More effective is when a group of 12-15 students “work” in a simulated office of an invented corporation. Students perform tasks in different positions (finance and compensation, marketing, accounting, administration, etc.) and get in contact and make simulated transactions with simulated companies of other schools. In the same way, they also keep in touch with the “headquarters” of student enterprises, which plays the role of the financial institutions and other authorities such as the tax office or the court of registry. This is a much more complex situation, very close to reality.

There are also student enterprises that are engaged in real production or provide real services. Of course, they require real capital for operation, which is usually raised by issuing small denomination, registered, but non-negotiable shares to participants and sponsors. These small student-managed firms have become legitimate under the shelter of JAM Hungary and Young Enterprise (they have merged by now), who came to an agreement with the national tax office regarding the regulation of student enterprises. These real student businesses most often produce small gifts, which are then sold at local or national fairs around Christmas time and Easter.

However, I have seen a student enterprise in a high school of Szentendre, which specialized in organizing educational class trips in the school. On some other occasion, when I made a visit (with my college students) to a primary school in Mór, I witnessed another exciting approach. Seventh graders baked pastries and then sold them in the streets. To make the deal more attractive, they were singing songs and reciting poems. Moreover, some pastries were filled with lottery tickets or a small piece of paper with a witty citation on it. Residents were pleased by these repetitive sales and the “little entrepreneurs” made a profit by the end of the year. What happened to the profit? Well, that’s the most interesting! Students offered their share to the local association of the young and disabled! They also met the members of the association and have regular gatherings since then. Thus, the young entrepreneurs have experienced what social responsibility is as well!

An even more professional form of student enterprises is when the students run the school cafeteria or sell the products made in the vocational training centre of the school.

An example for this latter is when some years ago, students from a tourism and catering vocational school in Eger were selling pastries around the town, made in the training bakery of the school during Christmas time (the business was set up by grants of the Phare programme). The advertising, distribution, selling, etc. were all organized by the students. On the basis of market experiences, they made product developments and even changed the product range a couple of times.

JA has been supporting a school of Körösladány since 2002 in marketing fancy goods made by the “craftsperson study circle”, as well as in managing the school’s cafeteria. The latter started by the selling Túró Rudi, a popular Hungarian candy (rod of cottage cheese covered with chocolate) in the school. When the school buffet was set up in 2004, dairy products and bakery goods also appeared in its selection. The small business is run by five students and a supervising teacher. Shop assistants of the cafeteria are also chosen from the students. Fifth to eighth graders can take various positions in the enterprise, but they have to apply for a certain position and meet strict requirements (e.g. have good grades). Although the supervising teacher does not have economic qualifications, she has completed a training course held by JA and was authorized to patron student enterprises. Students do not study economics or business administration as a separate subject, so they have to learn how to run a business on the way, “by doing”. This learning process is also confirmed by business documents (e.g. financial plans) updated by the students on a regular basis. (Kéri, 2006, pp.47-51)

Training the Trainers – Preparing Teachers to Convey Entrepreneurial Attitude

The beginning, development and the end of a new teacher training programme

In the past years, Hungarian pedagogic forums and the professional media often addressed tertiary education for not being flexible enough and not responding to the challenges of the new social-economic situation following the change of the political system, as well as for not renewing its educational portfolio. The critic has also been articulated in a more direct way by saying that teacher training is not a solution for the weaknesses of entrepreneurship education. However, this assumption is not fully legitimate. It does not take into consideration that in the '90s two teacher training programmes were developed to prepare teachers for entrepreneurship education: *Household Economics* and *Teacher of Economics*. The latter, created at the urging of our teaching staff, covers a much wider scope of business knowledge. Following an accreditation process, the *Teacher of Economics* programme was launched at the Eszterhazy Karoly College in autumn 1992 and has been the only one in the country since then. The programme lasts four years (eight semesters), so the first group of teachers graduated in 1996. It runs in a “double major” system, which means that besides economics, students have to study another discipline too, usually a foreign language, history or computer science.

The aim of the programme is to prepare participants for economics teaching (including entrepreneurship education) in non-vocational primary and secondary schools. We prepare our teachers trainees for being able to incorporate an economic way of thinking into general life and education. Though our goal is not training professional teachers of economics, many of our graduates are hired to teach various business courses in vocational programmes at secondary level listed in the National Qualification Register (OKJ).

The requirements our graduates have to meet are far from being a piece of cake: they have to make students of different age, different level of knowledge and different interests familiar with economic thinking. They should be able to arouse students' concern for economic problems. They are supposed to bring the world of economics closer to their students and let them experience it in a personal way. They have to show students that economics is already part of their lives, as they are involved in everyday family decision making. They are already actors on the “stage of economy”! The idea behind the programme is that participants should acquire a comprehensive professional basis, which is then complemented with thorough methodological eruditeness. A couple of changes have been made to the programme during the past 15 years, and particularly to the methodological unit, which has been extended to three semesters from the initial one. Its syllabus and methods have also become more varied. For

example, we introduced role playing to better prepare students for situations they can encounter in primary or secondary education. Prior to their professional practice at secondary schools, they have to go through microteachings, so they can try their teaching skills out in lifelike teaching situations, in front of their classmates and some high school pupils. In addition, we regularly make class visits with the trainees in secondary schools where economics education has a relatively long tradition. Entrepreneurship is emphasized throughout the whole study programme. Beyond the theoretical background, we show them real and student enterprises as well and also introduce them to the youth movements (JAM, YE, 4H).

Unfortunately, the programme will not exist in its current form for long, as this kind of teacher training cannot be nested into the Bologna structure (In the recently introduced, linear, multi-cycle training system, except for the so called “vocational instructor” degree, teacher degrees can only be obtained at MA level). At the moment it is unclear what form the *Teacher of Economics* programme will take in the future, since the “vocational instructor” programme has a completely different motive. However, there is a minor programme in general education that prepares participants for teaching *Household Economics*. *Household Economics* though will hardly include the discussion of different macroeconomic and business management issues. It is also barely believable that a Master-level teacher training programme would involve the educational and methodological dimensions of economics, i.e. the methods of raising those students’ interests, who do not plan to have a business career. So, what opportunities remain? Special courses and further studies. Let’s have a look at them in what follows.

Special courses and trainings in order to prepare teachers for economics education

On the palette of further educations for teachers, there are some programmes that aim to develop the economics education skills of participants. These trainings are principally organized by the international youth organizations that became widespread around Hungary in the 1990s (4H, YE and JA).

4H took off in Hungary in the beginning of the 1990s. The four “H’s” stand for “head”, “hands”, “heart” and “health”, words which symbolize the goals of the movement: thoughtfulness (head), common sense (hands), humanity (heart) and a natural way of life (health). The movement set out in the US at the end of the 1800s, in order to create an opportunity for the rural youth to take part in trainings and meetings on a voluntary basis. The fundamental framework of the organization is the community that takes the form of a club. There are youngsters of different ages in the 4H clubs, working together. The movement puts emphasis on making students experience business life. This goal is realized through agricultural and commercial activities, doing crafts and taking part in

the organization of rural tourism. The training of voluntary adult assistants (who are teachers in the first place as the clubs are mostly set up by schools) takes place in summer camps. The movement evolved in a very enthusiastic fashion but recoiled at the end of the 1990s, when the Hungarian management was dissolved. It is awaiting reformation and a new impetus at present.

The UK-based *Young Enterprise* (YE) was established in 1963. Its members are high-school students setting up their own businesses (one business consists of 8-15 students). These are not virtual companies, but produce real goods or provide real services. The enterprises are assisted by businesspersons and teachers trained at self-instructional workshops and business education trainings. In 2005 YE merged with JA.

Junior Achievement (JA), founded in 1919 in the US, is a non-profit educational organization that became international over the years. It is present in more than 100 countries. In Hungary, a group of businesspersons set up the *Junior Achievement Hungary Foundation* (JAM) in 1993, which manages and finances JA operations in the country. JAM has worked out a wide range of educational programmes, curricula for students of all ages from primary to secondary school. Besides education, they are active in launching student enterprises as well. Their teacher training programme, presented in below, is very well planned and well structured.

The accredited teacher training programme of JAM is made up of three blocks consisting of 30, 80 and 10 study-hours respectively. The first one is for teachers of primary and secondary education, who do not have any experience in the field of economics education. The goal of the course is developing an economic way of thinking in teachers, making them familiar with different teaching aids used in economics education and preparing them for the challenges of starting a new business. The training is accomplished by an oral exam in the end. Continuation is not mandatory but highly recommended. The second and longest block goes into further details of business education. This part is conducted in the framework of a summer camp. The course discusses both the theoretical and practical aspects of student businesses. It includes several training-type elements as well as meetings with professionals. A further benefit of the camp is the development of social capital facilitated by visits of businesspersons to the campsite, and by the informal network of teachers. The last block is a follow-up training of two days, giving opportunities to teachers for exchange ideas. This is a methodological forum consisting of school visits, meetings with professionals and group discussions. (Source: personal experience and JAM information materials)

The 120 study-hours long preparation course (a study-hour in Hungary is 45 minutes) was also carried out by our teaching staff between July 2003 and June 2004, in the framework of a Phare project aimed at “developing entrepreneurial skills in secondary and tertiary education”. The project had three important objectives: (1) to stimulate and support student enterprises in secondary schools,

(2) to teach secondary school teachers how to instruct economics and guide student enterprises, and (3) to encourage the creation of curricula and courses that promote the development of entrepreneurial spirit. Our course of 120 study-hours fit into the second set of objectives.

We targeted high school teachers in the North Hungarian Region in the first place, and especially those who found it feasible to set up a student enterprise at their school and were also willing to mentor it. We accepted applications from primary school teachers as well. Around 20 teacher trainees from our department also grabbed the opportunity and took part in the course. Finally, 100 participants from 19 institutions were schooled. 60 to 65 of them were visiting the classes on a regular basis while 51 students completed all the tasks and thus were entitled to receive a certificate on the successful accomplishment of the training. The course that ran from late January to mid May, 2004, was held in three blocks of 5 days (the last one was only 3 days) plus a closing day. The structure was modular: the first block/module (market economy basics and business rudiments) was predominantly theoretical, while the others concentrated on the development of practical skills used in entrepreneurship teaching.

The success of the course was well illustrated by the bunch of business ideas that were presented by the participants at the end (These will be discussed in more details later). Although we could not satisfy the original plan of training 100 participants, considering that there were other similar winning proposals in the region at the same time, it could not be a reasonable expectation of the announcing body. Dropouts occur in every course, especially in those that are free of charge, and we could not avoid them either. The programme was accredited on the way, so participants carrying on until the end were given an official certificate presented at a closing ceremony in October 2004.

The Phare project covered three Hungarian regions east of the Danube. In the second component (preparing secondary school teachers for the instruction of economics to student enterprises) there were nine winning proposals altogether. The final evaluation written by the managing body of the project emphasized that the courses fulfilled the expectations, as it had a modular structure and their accreditation process was completed by the end. Among others, it was mentioned that “the use of ICT (...) was an important source of innovation during the teaching process”. We completely agree with the summing statement that says “considering the teaching aids and materials developed and the qualities of the instructors we have, the basis for introducing a beginner level entrepreneurship education is there.” (Dedinszky *et al.*, 2004, pp.31-32)

Experiences of Preparing Teachers for Entrepreneurship Education (Values to Preserve and to Develop)

The methodological principles we followed during the planning and implementation of the Phare course are as follows:

- *acting* (the majority of the class sessions were practice oriented and demanded acting on behalf of the participants)
- *lifelikeness* (gaining lifelike experiences were assured all the way long)
- *experience* (the exchange of experiences between participant was also emphasized throughout)
- *relationship capital* (relationship capital was created on three levels: between participants and entrepreneurs, between participants and the teaching staff and among participants)
- *feedback* (both on the way and at the end of the course, we asked participants for feedback on the usability of the course content, the methodology and the atmosphere of the course)

Besides the traditional self-awareness trainings and brainstorming activities, the principles mentioned above were realized by the followings:

1. We applied simulation games to bring participants closer to risk management and prudent decision making practices. We made good use of JA softwares (developed at US universities): a business decision making game and a financial one, in which banks compete for clients and bigger profit. In both games players have to make decisions in several rounds, while the new situation implied by their choice is revealed only afterwards.
2. We introduced participants to business simulation offices, so they could personally get to know their operation.
3. We arranged meetings with managers of start-ups for the participants, to show them the challenges of setting up a new business.
4. We made visits to companies and student enterprises with participants.
5. Participants had to prepare a business plan of the student enterprise they were about to set up. Teachers from the same school were allowed to set the plan up in groups of 3 or 4. They presented their ideas in front of the whole group, followed by group discussions.

Participants submitted 28 plans of various student businesses. Half of these were of real ones, such as hair-stylist saloons, gift-shops, bakeries, tourism services, event organization services, etc. Teachers from an economic high school of Eger brought up a very interesting idea: winners of a call for proposals could start a business supported and financed by the school. Funds could only be obtained after the approval of the thorough business plan. At the end of the year, the business would be liquidated. The school would award the members of the most successful business.

According to our experiences and the feedbacks received from the participants, the methodological solutions presented during the course proved to be efficient and contributed to the development of entrepreneurial attitude in participants. Therefore, they should be preserved and developed. A recent study carried out among students of tertiary education also highlights the importance of practice-oriented methodology. Students taking part in a course on entrepreneurship considered computer simulation games, case studies, role plays, business plans and company visits as the most productive methods or methodological tools. This survey also demonstrates that authentic business models should be presented and instead of textbooks we should allow participants of business courses to gain lively experiences. (Fülöp, 2006).

As a major conclusion of this paper, we can assert that entrepreneurship can be taught; business skills and entrepreneurial attitude can be developed. If done in a comprehensive way, (i.e. by showing the youth that the employee status is not the only feasible life strategy and proving to adults that becoming self-employed can be an effective solution for fiscal problems) well, this has two important implications: On the one hand it can open up new, successful career paths while on the other – when entrepreneurial attitude achieves a critical mass – it can generate economic upswing in the region. This is how education and changes in attitude can stimulate positive economic changes.

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Historical judgment of teaching business education

“Economics is the discipline teaching us how a society provides the material conditions of its existence. Yet a society consists of us, people, so economics teaches to live actually us. Consequently, it is worth knowing the teaching of this discipline for all of us.” (Navratil 1937. pp. 149-150.)

1. Introduction

Studying the historical judgment of business education, we can state that there has always been a demand for the knowledge in connection with economy in the Hungarian public education, though with slight variations. Moreover, what I found really astonishing at first was the fact that the topic of my thesis, i.e. the necessity of applying practice-oriented methods, appeared even in the 18th century sources. How and why has the importance of teaching business education been changed in the past 300 years? How could the aims and programmes of several monarchs, ministers and parliamentary committees have been realised in practice? What new challenges must today’s business education face? Did we or do we need such a subject at all? During my research, I wanted to find the answers to the above-mentioned questions.

Teaching business education appears on several levels in the Hungarian public education, since it has been given a role in primary, secondary and higher educations, both on general and professional stages, in further educations and re-trainings. We can also mention that in some nursery-schools children can know some basic economic definitions – only as a part of their playing activities.

2. Teaching business education from the middle of the 18th century to 1848

It was stated in the 18th century Ratio Educationis and later in the so-called second Ratio Educationis that knowledge concerning economics should be transmitted towards students both on primary and secondary levels. However, it should not be taught as a separate subject but integrated into other ones: mathematics, writing skills, geography and biology.

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“Higher education tried to make teaching more practice-oriented by the accounting knowledge of the law course belonging to the Royal Academy.” (Vincze 1935. pp. 9-10.)²

An important element is to emphasise practicality, i.e. the aim is not necessarily to teach theoretical business education, since in a village-school that is not needed at all, but what is even more significant, is to transfer the region specific, practical knowledge connected to economics. The first relevant printed study in Hungary in this topic is the chapter dealing with accountancy in the course-book entitled “*Institutiones Arithmeticae*” of Pál Mató published in 1778. The so-called second Ratio Educationis in 1806 includes into the curriculum of town-schools the knowledge needed to industrial and trading career. (Somogyi 1942. p. 65.)

The increase in demand and the quality production raised the question of knowing the results of the European, “new agriculture” in Hungary as well. The first agricultural vocational schools were founded in our country by the end of the 18th century. It was Sámuel Tessedik, who established the first Public School (in Hungarian so-called “*Népiskola*”) teaching agrarian studies in Szarvas in 1780. More serious agricultural studies could be gained at the Agricultural College (Georgikon) founded by Count György Festetich in Keszthely. The whole layer of economic experts used to work here as lecturers. Mention must be made of the Academy of Economics in Magyaróvár, established in 1814 by Prince Albert. (Kaposi 2002. pp. 98-100.) These schools, shared the practice-oriented teaching corresponding to the new economic principles.

Business education was considered important in the Reformed Age, although the industrial and trading professional education developed only sparsely and slowly in Hungary, just as in other European countries. The business authors of the age stressed on the importance of the business training and professional education of priests and teachers, in order to lead or strengthen the teaching of business education in primary schools. In the curriculum of the vocational schools (*De scholis industrialibus*), the three branches (agriculture, industry, trade) of professional business education were given separate departments. Each department was two-year long, the teaching language was Hungarian, yet the specific professional language of the industrial life had to be German for practical reasons.

“It is because of the practical character of the institution that the teaching method cannot be merely theoretic and abstract, but as far as possible and the circumstances allow it, the most practical.” (Víg 1932. pp. 144-145.)

For subjects of the business department, knowledge dealing with agricultural industry had greater space, possibly because that by this time the Georgikon as a business school operated in Keszthely, and its vocational curriculum did not want to have any competitors.

² For the detailed list of subject units see Víg pp.145-146.

István Széchenyi, the Greatest Hungarian, in his work "Credit" (Hitel), emphasises the necessity of "education, learning and adaptation" (Széchenyi 1984. p. 49.), he also underlines the importance of teaching business education. "The good patriot has to be a good master as well because it is only the citizen living by economical and normal conditions who can be a useful and not only a roistering one." (Széchenyi 1984. p. 237.)

The extension of the contents of national education can be seen even in the reform plans of Albert Péterfy, professor of Nagyenyed School. One of the most crucial points of his project is the global school, in the curriculum of which such subjects are included as finance and measurement, accountancy and economics. Though the theological education³ has utmost role in the project, it can be felt as there is a movement towards a more modern, innovative national education. (Bajkó 1972. pp. 222-224.)

Founding the independent Hungarian economics was a main goal from 1841. (Víg 1932. p. 152.) Pál Balogh Almási, for example, wants to establish a useful association based on the English association founded in 1836 (Society for the Diffusion of useful Knowledge). This association was later converted into the Hungarian Industrial Body. According to the short introduction edited by Lajos Kossuth, the aim of this body is to disseminate useful knowledge among all classes of people, who would not satisfy their need for knowledge otherwise. Practicality and the simple way of composing has a central part here as well.

Influenced by the reform movements, János Blaskovits prepares a project of a real or industrial school in 1834 in Bratislava in German. The project emphasises that in spite of the fact that there are a lot of educational institutions in Bratislava, there is still not a school for the trade and industrial education of youngsters. (*Noch immer entbehrt nämlich unsere Stadt eine Anstalt, in welcher unsere jugend für bürgerliche Berufszwecke, für Handel und Gwerbe, denen sich ein nicht geringer Theil derselben widmet, zweckmäßig herangebildet würde.*) (Somogyi 1942. p. 174.) The above mentioned industrial school was established with royal, ecclesiastical and other donations.

3. Teaching business education from the middle of 19th century to the end of WW 2

During the War of Independence in 1848-49 and at the beginning of the 1850s the case of business education was played down, then from the middle of the 1850s greater attention was paid to it. It was by this time that the economic vocational training started in Hungary. The Academy of Trade in Pest launched its three-year course in 1856-57, and it can be regarded as the first national trade school in Hungary. This training went on operating under a new name, i.e. secondary-trade school, to distinguish it from other primary courses and those of

³ For the detailed list of subject units see Bajkó p.223.

the higher education level. In 1895 there was another re-naming procedure and according to the Act of the Minister of Religion and Education, Gyula Wlassics, the school became a three-year higher-trade school where students could finish their studies by passing the final examinations. Finishing the four classes of secondary schools and taking a successful entrance exam were the prerequisites of being admitted. It might be interesting that up to 1909 only boys were admitted, and only after that were advanced trade schools for girls established.⁴ By the turn of the century, this school became an institute of secondary rank, the teachers of it were paid the normal pay rate for secondary school teachers. (Kádek 2003. p.1.) By the era of the dualism, the business education exists both in secondary and higher education and is stressed more and more by the development of the agriculture, industry and trade.

Yet the question arises whether forming the economic way of thinking is only part of the business vocational training or it should be considered as a part of the basic education. In one of his methodology articles, Gáspár Valentényi writes the following in 1932: *“People used to maintain the idea that economics could be a basic study only from the point of view of the higher-trade school; but today it is acknowledged to be important for everybody. It is inevitable therefore for each Hungarian youngster to know the economic cross section of the family life, including his own, his country’s and that of the several job categories to be able to see more clearly those phenomena, ruling the life of mankind”*. (Valentényi 1932 .pp. 201-202.)

But the arrangements to change the economic approach more common happened some ten years before the above mentioned article was issued. Due to the tensions of the 1918-19, the Ministry of Education decided to make social-business basic studies parts of the basic education. They wanted social peace to gain by this way. Yet the ministry act regulating this, regarded only secondary schools and teacher training institutions. Moreover, this effort was totally wasted away by 1924, the economic education embedded into general education was ceased. According to István Kádek, the reason for it might have been the lack of personal conditions. (Kádek 2003. p.3.) Yet because of the increasing societal influence, teaching basic business education became part of the secondary schools curriculum since 1930. It had a strong ideological-political aim, too, as by teaching economic studies, students were aimed to be convinced about the justification of maintaining capitalist conditions.

What about primary schools? Can we find teaching business studies in any form in them or is it possible only at a secondary level? In a ministry report from 1893 we can read the following: *“For the sake of spreading the knowledge of cultivation and economy through popular schools I made several arrangements in 1829. I set award money to teachers participating in tree pruning*

⁴ About the more detailed history and conditions of business education for girls we can see the Diary of Liberal Teaching Congress in 1907 written by Sándorné Végess

competitions. The Minister of Agriculture was a great help in this, as he decided to spend the net income of the journal called "Fruit Gardener" for rewards among diligent teachers dealing with nursery gardens." (Eötvös 1893. p.14.)

To underline the importance of the case we have to mention that besides the government, the Hungarian Land-Credit Institute also supported the prizes. In primary education in villages it was teaching agricultural studies (cultivation, animal husbandry, horticulture, silviculture, viticulture and wine growing) that dominated, whilst in towns apart from or together with the agricultural subjects, students could get education in handicraft, industry or trade. This state remained stable up to the years following the First World War.

In the case of the higher-trade schools there was a change during the first few years of the turn of the century. Because of the huge number of students, the initial three-year training was transformed into a four-year one. Its structural borders were strengthened, there were only slight changes in its curriculum. The network of the high-trade schools was rapidly growing, but because of the peace treaty of Trianon 34 out of the 74 schools "were lost", yet from the 1920s new ones were established. In 1928 there were 10,800 students and 321 teachers in the total 50 schools. Besides the full-time teachers there were a lot of part-time ones, too in these institutions. (Kádek 2003. p.2.)

After the years following the First World War, the majority of the Hungarian population had to go to school until the age of 15 according to the law. Therefore, it was necessary that the junior section of the compulsory popular school would develop not only the general abilities, but provide some skills in order to prepare students for their best possible future career. It was also true that because of most people lived by cultivation the most dominant schools at primary level were those having their agricultural specification. Such elementary schools had to be established not only in bigger settlements, but also in smaller ones. József Somogyi writes the following about public education in his book:

"Those smaller communities, the population of which deal mostly with agriculture and the number of the school-age children of 12-15 both male and female reach 40 but does not exceed 120, have to organize a school with an economic profile instead of a general elementary one." (Somogyi 1942. pp.52-58.)

These schools were three-year ones, the academic term was 8-10-month long, depending on the work in the field, and the education was free, in summer mostly practical, yet in winter theoretical. It is also important that during the agricultural work teaching was either paused or practice was carried out so that students could help their families. The teaching material consisted of three main groups of subjects, i.e. general knowledge, economy, religion and ethics. The general subjects included popular readings, brushing up the geography, history, constitutional and science studies of the lower elementary school, their addition towards agriculture, writing economic letters, plus practising mathematical and volumetric exercises. The teaching material was different according to sexes.

Boys would learn cultivation, plant growing, logging, viticulture, animal husbandry, bee-keeping, taking into account the level of the students' understanding and the local economic conditions.

In case of the girls the teaching material of the economic subjects concentrated mainly on truck gardening and floriculture, producing herbs and fruit, poultry farming, piggery, silkworm producing, household chores, baby minding, tailoring and sawing. The first organisation and curriculum of the economic extension schools were described by the 60.764 Act issued by the Ministry of Religion and Education in 1896, which was re-regulated in 1902 by the 66.569 Act, taking local conditions into consideration. The Acts obliged school sustainers to provide the proper-sized territory for practice. Its size depended on the size of the settlement and the number of students. In minor schools the teaching of economic subjects was done by teachers of popular elementary schools, who obtained their qualifications on the proper courses. For teaching business subjects they received an extra fee. In the bigger, so-called independent economic popular schools professional teachers were employed who had finished either an economy academy or economic teacher training college. The school organised home industry and household courses and from time to time exhibitions as well. In the so-called cultivation schools or Hungarian royal vocational schools, the sons of smallholders could learn "rational housekeeping" and on the other hand, the beadies for bigger farms were trained here, too. At this type of school tuition fee had to be paid. Teaching was mostly practical, although there were some theoretical subjects as well. Besides the above mentioned schools there were numerous other agricultural schools satisfying special needs, just like the farmer trainer school of the valiant order of Órkény, the winter economic school, viticultural and wine growing vocational school, silvicultural vocational school etc. (Somogyi 1942. pp.58-64.)

The end of the 19th century brought changes in the trade teaching, too. The industrial law included in the XVII. Act of 1884 obligates employers to make their apprentices go to school during the learning period, and also obliges the communities to establish apprentice schools if the number of students is adequate. For girls other schools had to be founded. They were three-year ones, added by a preparatory and an additional one. The teaching material consisted of mainly general studies, trade and industrial subjects. The number of the trade apprentice schools reached 376 by the academic term of 1937/38, and the number of students were 56 643. Besides these schools, there were craft and trade training courses throughout Hungary, where economic subjects were also taught.

Teaching business education has had its justification in higher, not economy-specific education as well. Professor Ákos Navratil in his lecture held on the national conference regarding the position of the Hungarian higher education said the following:

“Economics is the discipline teaching us how a society provides the material conditions of its existence. Yet a society consists of us, people, so economics teaches to live actually us. Consequently, it is worth knowing the teaching of this discipline for all of us.” (Navratil 1937. pp. 149-150.)

According to the Professor it is especially important in the case of jurists.

Dezső Laky, who talked about the relationship of the economic and administrative training on the same conference, also emphasized the importance of teaching economic studies in non-economic higher education institutions, too. In his lecture he urged to employ in administration, mostly in the economic positions employees having economic qualifications.

“In the 273/1920 M.E. order according to the 1883 I.§3. the Hungarian Royal Government ordered that at the central directories of ministries dealing with economic matters and at offices subordinated to these ministries handling matters which need special economic qualifications, it is allowed employing such people who might not have the necessary qualifications of 1883 I.§3. but they passed the examination in economics on the Faculty of Economics established besides the Budapest University of Arts and Sciences.” (Laky [1937]. Pp.167-168.)

Back to the case of the economic training at secondary level, mention must be made of a significant change during the Second World War. It was this time that Bálint Hóman, the Minister of Religion and Education ordered the reorganization of high-trade schools into business secondary ones. By this way, the prestige of secondary trading education approached that of the secondary grammar schools.

4. Teaching business education during the socialism

With the socialist turn following the Second World War, the “Business and social studies” disappeared for a long time from the schools of the Hungarian public education not providing economic vocational training. It is only after the 1989 change of the political system that appears again. (Kádek [2003] p.15.) During the socialist period subjects concerning business education were taught within the frameworks of other ones, e.g. history, technics, political economics. Doing so the socialist system was idealized, seen as the only possible right way to follow, whilst regarding the capitalist order. Only its negative features were underlined. In schools, mostly the exploitation of workers of the 19th century was taught. What could have been the reason for it? In my opinion, on the one hand, according to the regime, the socialist man does not need to learn economics since the “Party” in a paternal way solves all his problems. On the other hand, it is a lot easier to manipulate an ignoramus, or agitate him either for the socialist system or against the capitalist one if he has no or only shadowy knowledge of the capitalist economic system.

There were several changes made on the vocational schools by the socialist system. First, they operated as economic secondary grammar schools, then from 1950 as economic secondary schools. In 1952 these were reorganized into vocational schools and from 1966 secondary technical schools again. An 1973 Act defines the aim and function of the secondary technical school the following way: “... *deepens and enriches the knowledge gained at primary school, extends students’ literacy, their social ideologist, moral, aesthetic and physical education; provides vocational qualification and prepares for going on to aim-specific higher education.*” (Tvr., [1973] issue 24. §4.)

The institute remained a four-year one, provided high-school graduation, its profession-specific feature was increasing, yet transmitting general education was overshadowed. It prepared for higher education less efficiently than grammar schools and its prestige became lower as well. Economic technical school education was saturated by the Marxist intellectuality in all aspects. Politics had a great influence on school life:

“...should contribute to the forming of Marxist-Leninist ideology of the students. Has to enable to understand and make others understand the essence of the Marxist-Leninist politics of our party and that of other fraternal communist and labour parties.” (The plan of secondary technical school education and teaching [1978] p.4.)

5. The period after the change in the political regime in 1989

The change of the political system meant a change both in the economic vocational training and in the teaching of business education at the general level. After 1989 the demand for teaching social-economic studies in all types of schools raised again.

“It is certainly not accidental, but evident. When societal conditions are changing in an obscure way, it is economic clear-sightedness that helps to orientate. But today’s renaissance of the economic approach has a more simple reason as well: in a society based on self-maintenance, especially among today’s globalistic and financial conditions, the daily individual business administration is impossible without knowing the basic economic terms and financial techniques.” (Kádek 2003. pp.16-17.)

In the article of István Kádek we can read about the results of a survey made in the 1990s. It turns out that the adolescents expect the school to teach business studies:

“When choosing their profession, children concentrate on not working under industrial conditions... They find those jobs attractive which can be done in the future as enterprises. Vocational training is motivating for them only if it provides the possibility of becoming an entrepreneur.” (Hideg-Nováky 1998. pp.214-218.)

However, it is astonishing that only a small percentage of the parents (3-7%) consider teaching farming-entrepreneurial studies important. Yet educational experts take a stand on teaching business studies. There were a lot of experiments aiming the integration of economic studies into the general education, but these often happened independently of each other. Since the 1990s business education appears either as an independent subject, or a separate module. It could be integrated into other subjects, too.

In the case of the economic vocational training, the picture is a lot clearer, because the creation of a new, three-stage model of technical schools supported by the World Bank. (1st stage: 9-10 classes, dominance of general subjects; 2nd stage: 11-12. classes, founding economic studies, with a final examination at the end of the 12th class; 3rd stage: 13-(14.) classes, obtaining a given professional qualification. Here language teaching, especially the business language received a preferential role along with the general and economic subjects.

Consequently, we can say that the society, the labour market and the government today (re)expect the educational system – either through general or a professional training – to transfer the business knowledge necessary for a successful way of life in the future to students. This knowledge means more today than simply transmitting a kind of theoretical knowledge, rather a suitable training that can be applied by employees. This suitability, the creation and development of which are considered compulsorily from education by parents, employers and students themselves, contains a number of competencies and means the key to success in our globalizing world.

6. Summary

As we can see, the importance of teaching business education was acknowledged in all eras; however, it was paid sometimes more or less attention. Yet its aim has remained unchanged during the past 300 years: “*to teach people to live successfully, according to their circumstances.*” But the economic training had a secondary (?) function, too, to make legitimate the existing regime. This can be noticed permanently in the periods I have examined. Another important aspect is the expectation and acceptance of practice-oriented business education. Its criteria has changed from age to age, since the economy itself has changed. Education and teaching can be effective irrespectively of discipline only if they are able to renew themselves continually, follow the changes of demand and take into consideration the local abilities, as well.

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