

12 Programming for Economic and Enterprise Development in the Southern Great Plain Region

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12.1 Introduction

With the intensification of globalization processes in recent decades, the economic development of regions and finding effective ways of supporting small and medium-sized enterprises (SMEs) have become important issues of economic policy in practically all developed countries. Not only individual countries but international organizations as well, the OECD and the EU in particular, have begun to pay special attention to these two interrelated problems. EU accession and the need to ensure spatially balanced economic development have resulted in increasing the significance of these two development objectives in Hungary as well.

Global processes are chiefly to be made responsible for the growing focus on the *economic development of regions*. The 1970s clearly demonstrated the shortcomings of post-Keynesian economic policy, including centralized regional development. Regional policy has changed within the EU as well. From the 1990s, there has been a growing tendency to give preference to decentralized regional development and to opt for bottom-up economic development programmes based on endogenous resources.

Economic policy has started to concentrate on *supporting SMEs* for two main reasons. First, it has been found that in developed countries two-thirds or even three-quarters of new jobs are nowadays generated by innovative, knowledge-based SMEs. Competitiveness of countries and regions is increasingly dependent on the improved productivity of SMEs organized into networks or clusters. Second, in most sectors of the global competition SMEs are at a serious disadvantage. It has also become clear by now, however, that the social costs of improving the competitiveness of SMEs are smaller than having to manage the economic and social consequences of company bankruptcies.

The two issues are obviously related: one of the keys to regional economic development lies in improving the competitive advantages of local SMEs. In this paper, I will first discuss the basic considerations underlying regional economic development and SME development. I will then go on to discuss the most important connections between the strategic economic development programme for the

*This study was supported by the Hungarian Research Foundation, OTKA (number of project is T38150).

Southern Great Plain region, on the one hand, and the SME operative programme, on the other. In doing so, I will rely on the results of several research papers¹ about the regional development of the Southern Great Plain region.

12.2 The objectives of regional economic development

The increasing concentration on regional economic and enterprise development and the recent changes in the approach and means of such development are to be attributed to processes of *globalization*. These processes have restructured national economies spreading market competition to the entire developed world (Enyedi 1996, 1998). Due to the operation of global financial systems and the impact of deregulative international agreements national governments find it increasingly difficult to intervene into global competition on behalf of domestic companies. As the significance of taxes, exports subsidies and other forms of subvention is steadily on the decline, national governments can only seek to improve competitiveness and create an appropriate business environment through indirect means (Porter 2001).

In the last decade, *regional policy has undergone significant changes* within the EU as well. The principles (subsidiarity, decentralization, programming, complementarity, etc.) which to an increasing extent have begun to govern the distribution of Structural Funds favour the development and realization of bottom-up programmes based on institutions and organizations of the given region (Horváth 1998a, Rechnitzer 2000). Regional economic development resting on these new principles entails in effect *strategic programming on the basis of endogenous resources* (Farkas 2001, Rechnitzer 1998).

It is essential to note with regard to the conceptual framework of regional economic development that regions are to be understood as *open spatial units* and thus as *open local economies* (Bartke 1997). This is because market economic conditions do not allow for the regulation of a given region's (or county's) economy. Only certain parameters of the economic environment can be changed. It is often difficult to assess the impact of accepted development blueprints since various economic connections and transactions are not limited to a single region: business relations, information flow, capital and income movements are not restrained in any way by regional boundaries. Another consequence of economic openness is that it is difficult to exert pressure on those locations, subsidiaries and branch units which have their headquarters and key decision making-centres in other regions, even

¹ The preparation of regional programmes for the South Great Plain regions was started in 1998. The work was supported by PHARE and coordinated by DARFT. The strategic economic development programme of the region and the operative programme for SME development were written by the Department for Regional and Applied Economics of Szeged University (SZTE) under the direction of Imre Lengyel, Head of Department. Norbert Buzás was in charge of the internal coordination of the projects. The research materials are downloadable at www.del-alfold.hu.

though precisely these externally-based (usually multinational) companies can play a decisive role in accelerating the development of backward regions.

In the age of globalization, cheaper means of transport and the availability of information-technology based networks enable companies to pursue their economic activities in any region of the world (Dicken 1998, Porter 1998, 2000). Nevertheless, empirical studies have shown that the competitive advantages of global companies depend primarily on the *home base*, i.e. the country locating the headquarters, and the *local base*, i.e. smaller regions within the country (usually a larger town and its agglomeration). The top management and the majority of those responsible for competitive strategies reside and work in the local base (Mészáros 2002). This is where the core competencies of companies are concentrated. The processes of globalization are paralleled by those of *localization*: the region and settlement locating the company's core units create competitive advantages in terms of information and innovation and generate agglomerational surplus and tacit knowledge which are difficult to imitate by more remote competitors elsewhere.

The current transformation of economy is characterized by the participation of so-called *global companies* in the global competition, while the majority of SMEs are active on local and regional markets only, although partly in collaboration with global companies. The welfare of a region's population is a function of the success of all economic actors. In other words, global companies operating in the region and local SMEs are equally important. The number of global companies is relatively small and their competitiveness depends in the long-run on the success of the SMEs involved in their production chains. *Large companies* tend to drive forward the growth of productivity in a given region by integrating sub-contractors, generating complementary and regional multiplicatory effects, spreading innovation and so on. By contrast, *SMEs* are responsible for deepening structural transformation, for the exploitation of niche markets, flexible adaptation, the creation of jobs, etc. In addition, it is also true that global companies often reduce their workforce in order to improve labour productivity outsourcing their less important or less effectively organizable activities to smaller and more flexible enterprises.

The strategic approach to bottom-up regional economic development has become widely accepted by now. It has been incorporated into the methodology of regional programming in Hungary as well. Different models can be found in the literature (Rechnitzer 1998). One of the most often used methods is based on Michael Porter's work (Lengyel 2000a, Porter 2001). According to Porter, *economic development* of a region:

- *aims* at increasing the welfare of the local population,
- by *means* of improved competitiveness of the region,
- on the *basis* of innovational potential.

Reaching back to Adam Smith, Porter identifies the "welfare of regions", i.e. the improved living standards of the local population, as the fundamental objective of

economic development. Porter defines the *competitiveness of regions* as the *productivity* of global sectors (mainly clusters) operating in the region, meaning both a *high level* of productivity and a *high rate of growth* of productivity. The growth rate of productivity depends primarily on *innovation* which enables the strengthening of the competitive advantages of companies. The reason behind the increased support for the elaboration of regional innovational strategies (RIS) within the EU is precisely that the significance of innovation has come to be generally recognized (Dóry 2002, Varga 2002).

The accepted notion of competitiveness within the EU (and the publications of the OECD) is also based on the objective of a simultaneous improvement of both income and employment. The *standard definition of competitiveness* can be stated as follows: “the ability of companies, industries, regions, nations and supra-national regions to generate, while being exposed to international competition, relatively high income and employment levels” (EC 1999: 75). Income (i.e. GDP which is typically used to measure welfare) is approximately equal to the product of labour productivity and employment. Thus regional competitiveness amounts to sustainable economic growth in global competition generated by both high labour productivity and high employment. The standard notion of competitiveness entails that economic development ought to aim at increasing income (welfare) while assigning an important role both to improved labour productivity and improved employment (Hall et al 2001).

Regional economic development always implies deliberate and communal intervention into spatial economic processes (Barlow et al 1998, Lengyel 1993). Essentially, regional economic development seeks to strengthen the competitive advantages of companies partly by enabling corporate strategy and operation to become more effective, and partly by raising the level of local business environments. The interests of enterprises should enjoy priority since they are in a position to generate higher incomes and improve employment (rather than institutions). Generally, local companies and sectors are to be concentrated upon. Given, however, that neither the strategies (and interests) of various sectors and companies nor their sources of productivity coincide, differential programmes are to be developed for separate groups of enterprises. Improved competitiveness of a region will primarily depend on the success of home-based clusters, i.e. that of key local industries (Lengyel 2001, Waits 2000).

12.3 Target groups of regional economic development

From the perspective of regional economic development, one can distinguish different sectors in terms of target markets and sources of income (Malizia and Feser 1999). Regional economy can be divided into three groups on the basis of these distinctions (Porter 2001):

- *Tradeable sector*: companies catering for demand outside the region and in many cases for exports as well (processing industry, business services, transport, etc). This sector has the potential for significant growth and is thus capable of attracting additional income into the region. This is because access to global markets enables these companies to rapidly increase their outputs.
- *Local, non-tradeable sector*: catering for local demand (within the region). The provision of services for households and smaller companies operating in the settlement (retail trade, maintenance of domestic appliances, local construction industry, etc). The growth of this sector is constrained by the availability of solvent demand locally. Companies can only increase their shares of the local market at each other's expense.
- *Combinations of the two sectors* above: companies and institutions (hotels, restaurants, universities, etc.) catering for the needs of those coming to the region (tourism, medical services, higher education, etc). In these cases, externally generated income can be attracted into the region.

It follows from the above categorization that the development of local economy is to focus on two large targets groups, the *tradeable sector* and *services based on income generated outside the region*. These two sectors are capable of expanding their markets and thus improve their competitiveness (productivity) thereby significantly increasing the amount of income generated. This is why these two sectors have the greatest interest in innovation, the introduction of new technologies and entrepreneurial cooperation (networks, clusters). This insight is put in practice in all the places where attracting foreign direct investment and the development of tourism are given high priority. By contrast, in the local, non-tradeable sector increased market shares and improved labour productivity (technology) can only be achieved when rival companies go bankrupt or the workforce is reduced.

Regional economic development involves having to develop different programmes separately for all of the above sectors (Armstrong and Taylor 2000, Maskell et al 1998). Moreover, even within these sectors themselves individually-tailored programmes may be necessary for economic activities with discrepant interests. For strategic development programming, the following *three company groups* are to be distinguished according to the spatial location of company decision-making centres (home base/local base) and company size:

- Locating *externally-based (global) companies*. The locations created can be expected to have high employment and/or engage in close cooperation with local SMEs as subcontractors.
- *Regionally-based local large companies* with access to income from outside the region, producing for external markets (exports) or attracting inflowing income.
- *Local SMEs* with access to income from external markets and/or inflowing income, independently or in collaboration with a large company.

SMEs comprise a mixed group of *extremely diverse enterprises* in Hungary, too (Szerb and Ulbert 2002, Szirmai 1997, Török 1997). On the basis of the above considerations and with respect to global competition, it may be useful to distinguish among *four types of SMEs* for the purposes of regional economic development. Different means will enable a sustainable improvement of the competitive advantages of these four types:

- SMEs associated with global companies (multinationals or local large companies). These SMEs usually operate as subcontractors or are linked to large companies in other ways. Their development is crucially dependent on large companies with an integrating function. Consequently, supporting SMEs of this group can be effective if coordinated with the integrating company and is in many cases provided directly through such companies.
- *Innovative, mainly knowledge-based SMEs* which can successfully participate in the global competition independently or when organized into regional networks and clusters.
- *SMEs operating on the local and regional market* in a position to absorb inflowing income (hotels, restaurants, etc). Regional (settlement) marketing plays a key role for this group.
- *SMEs catering for the demands of the local population*. These can improve their competitiveness by providing cheaper and better-quality services (e.g. local construction industry, maintenance of domestic appliances) or can place a share of their workforce at the disposal of the more fastly developing tradeable sector.

Familiarity with regional and local development of SMEs is still insufficient in Hungary as only nationwide programmes have been launched until now. At the same time, concepts such as *competitiveness, innovation, sustainable competitive advantage* have begun to crop up in various publications and materials on regional and county-level regional development. This is important because the conceptual and systematic apparatus of regional economic development is based on precisely these notions. They can help to formulate the aims and means of development programmes and to evaluate the effectiveness and positive impact of subsidies.

In view of the above, it seems clear that *the development of SMEs should constitute one of the key programmes of regional economic development*. In regions with strong traditions and a wealth of accumulated knowledge, clusters and regional networks formed by SMEs may lay the groundwork for competitive economic activities (Grosz 2003). In some developed countries, one also finds innovative SMEs (especially in information technology) participating in the global competition on their own. It is worth noting that SMEs play an important role not only in economic development but also, of course, in improving local employment.

12.4 The competitiveness of the Southern Great Plain region

Before elaborating the region's development programme it is important to evaluate the economic situation of the region. In terms of the notion of standard competitiveness outlined above and the basic development indicators, the most important pertaining data can be summed up as follows (Lengyel 2001, 2002, Lengyel and Deák 2002, Nemes Nagy 2001):

- The per capita GDP (regional GDP) of the Southern Great Plain region amounted to 83% of the national average in 1995, but only 72% in 2000. While measured on purchasing parity (PPS) basis the national average increased from 46.6% of EU average in 1996 to 51.3% in 2000, the same average decreased from 37.9% to 36.8% in the region. In contrast to the overall rapid economic growth in the country, economic output has hardly grown in the Southern Great Plain region, its rate just about keeping pace with the EU average.
- In 1996, *labour productivity* (GDP per employee) was 82% of the national average in the region, and only 74% in 2000. These figures indicate a backward economic structure as well as deficiencies in technological transformation and innovational activities.
- The *employment rate* approximated the national average in the region. The regional employment survey on those aged between 15 and 74 showed that the employment rate was at 46.6% in 1996 (46.7% nationwide), and 49.2% in 2000 (50.1% nationwide). These data reveal that the main problem of the region is not the shortage of labour, but rather productivity, i.e. the effective employment of the workforce.
- Even though the *agricultural sector* is on the decline, still as many as 16% of the total workforce was employed in the region's agriculture and forestry in 1996 (7% nationwide) and 26% in *industry* (27% nationwide). Agriculture was responsible for 11% of the region's GDP in 1999 (5% nationwide), while industry generated 25% of the total GDP (28% nationwide). There are hardly any indications of *structural transformation* in the region: the share of agriculture is high and still many people work in the less profitable food and textile industries (46% of all industrial employees, while the corresponding national figure is only 31%), the share of modern industrial sectors is low.
- Per capita *total investments* reached 70.7% of the national average in 1996 (71.6% in industry), 53.5% in 2000 (49.8% in industry). Decreasing year by year, sectoral investments are the lowest in the Southern Great Plain region foreshadowing a further worsening of the region's competitiveness.
- *Per capita exports* of companies (employing more than 50 people) located in the region amounted to 46% of the national average in 1998 and only 40% in 2000.
- *Per capita foreign direct investment* was 32.2% of the national average in 1999, and only 24.4% in the processing industry.

To sum up, in comparison to former levels the economy of the Southern Great Plain region has indeed developed in recent years, but this sufficed only to prevent a further increase of the disparity relative to the national average. The region's competitiveness is poor with few internationally competitive products and services. Direct exports are low and investment rates do not give reason to expect a recovery in the near future. Few signs of economic transformation can be observed in the region, while local economic sectors cannot generate significant economic growth and the expansion of industrial activities also falls behind the national average. These findings leave no doubt that the most expedient economic development strategy for the region will be one that initiates structural transformation.

12.5 The strategic economic development programme for the Southern Great Plain region

In the light of the above figures and tendencies, the Southern Great Plain is to be classified as a socially and economically backward region (Barta 2002, Horváth 1998b, Lengyel 2001, Rechnitzer 2000, Timár 1998). What such regions need are *strategies oriented towards structural transformation*. This is because the regional economy is not competitive and therefore cannot generate adequate levels of income. The main objective of strategies aimed at structural transformation is the creation of competitive dynamic sectors with a local base in the region. This involves, on the one hand, locating and spreading new economic activities with good future prospects and the strengthening of existing competitive industries, on the other. A development strategy² stands for a process, four temporally subsequent stages of which can be distinguished (Lengyel 2000, Waits 1998):

- (a) *Initiating structural transformation (industrial recruitment)*: the appearance of new industrial and commercial sectors. At this stage, the strategy aims at attracting companies and locating their branch plants.
- (b) *Creating the local economic base (business formation)*: the strategy seeks to promote the "embeddedness" of newly-settled companies, to strengthen subcontracting and other associated enterprises and to create a significant number of new jobs (the *en masse* appearance and strengthening of SMEs).
- (c) *Reorganization (period of reinvention)*: at this stage, the strategy aims at improving the effectiveness, performance and quality of the regional programme and regional policies which seek to redirect resources to sectors with higher added value.

² In the course of working out the economic development strategy we carried out a survey in the region. The questionnaire was returned by 120 companies. 100 interviews were conducted with company managers. This survey aimed to explore corporate demands with respect to development programmes.

- (d) *The emergence of new local industrial and commercial activities (new directions)*: the strategy is directed at this stage at supporting the preparation for global competitiveness, at providing incentives for cluster-formation by developing SMEs and at strengthening the regional base of the emerging new local industrial and commercial activities.

The proposed strategic blueprint³ for the economic development of the Southern Great Plain region consists of *seven programme directions*, each of which consists of 2 to 5 specific programmes adjusted to local demands (Table 12.1). There are two programme directions of special importance: first, the strengthening and expansion of existing competitive activities (1st programme direction), and second, the attraction of large companies (2nd programme direction). It is crucial for both of these core programme directions that they are to *focus on improved regional competitiveness*. As a result, employment and labour productivity can both increase due to technological spillover and the transfer of production patterns. The other programme directions also seek to realize important objectives, however, attempting to remedy genuine problems specific to the region.

The strategy oriented towards structural transformation has six general target areas (Horváth 1998a: 31). The economic development programme directions for the Southern Great Plain region are also related to these target areas (Figure 12.1). All programme directions are tied up in one way or another with the target areas of structural transformation, even though a certain “ranking” can be established in terms of the strength and importance of the actual connection. Thus dominant, key and important connections can be distinguished, in this order of importance. Clearly, strengthening the existing competitive local economy (1st programme direction) contributes most importantly to industrial transformation. At the same time, it can play a significant role in the re-industrialization and modernization of technological, business and institutional infrastructure as well. By the same token, locating units of large companies is most essential for re-industrialization and the creation of a new local economy (new commercial activities), but it can also help to foster the business infrastructure and the strengthening of services.

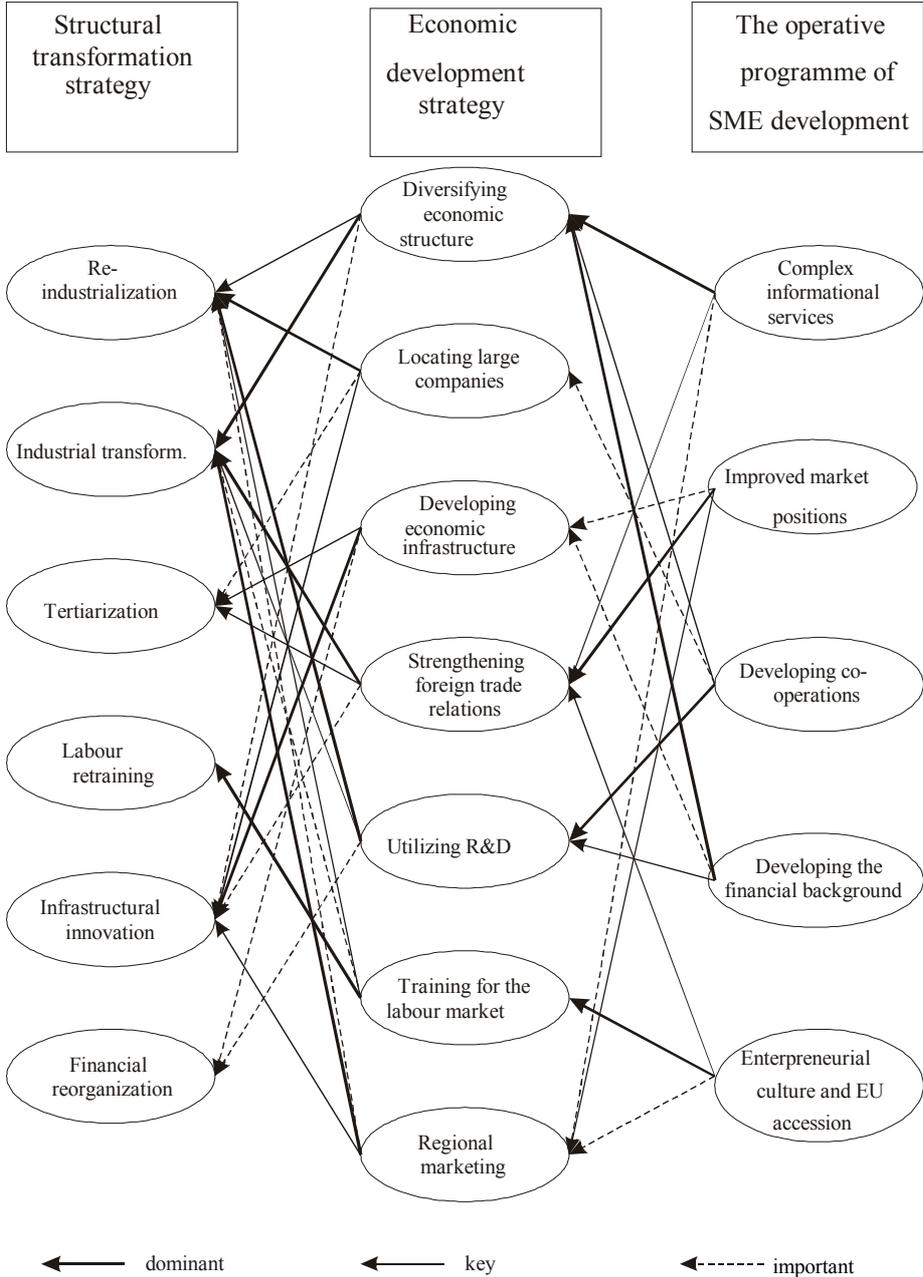
It will be observed that this blueprint for the economic development strategy of the region centers on globally competitive activities: locating global companies, on the one hand, and strengthening the competitive advantages of existing competitive industries. Another important objective is the supporting of exportable activities by means of strengthening foreign trade relations (for tradeable activities) and the increase of inflowing incomes (through regional marketing). The proposal focuses on two crucial company target groups: global companies and competitive SMEs.

³ The programme directions and individual programmes included in the table are contained in our proposal. Certain modifications and compilations are possible in the final strategic programme of the region after the conclusion of the pertaining negotiations (see DARFT 1999 [The development programme for the Southern Great Plain region] and www.del-alfold.hu).

Table 12.1 The strategic economic development of the Southern Great Plain region

Programme directions	Programmes
1. Diversifying the economic structure	Strengthening competitive SMEs of the regional processing industry and business services Support for the production of knowledge and labour-intensive, high-quality, traditional consumption goods Strengthening the regional connections of “isolated” but competitive large companies Integrated development of local food processing enterprises Creation of regional networks and industrial clusters
2. Support for the location and strengthening of strategically-important large companies, fostering the emergence of subcontracting networks	Location of new sectors, particularly through the settlement of multinational companies Support for subcontracting and cooperative networks Support for the operation of innovation agencies
3. Creating attractive locations through the development of the economic infrastructure	Creation of production infrastructure for the location of processing industrial and service activities Creation of entrepreneurial districts, realizing their investment advantages Fostering of general agreement within the region on location marketing
4. Strengthening the region’s foreign trade relations	Improving the export potential of regional enterprises Strengthening cross-border economic relations Decreasing the dependency of enterprises engaged in lease work
5. R&D, higher education, developing cooperation among academic centres, mediating their findings towards economic actors	Incentives for the cooperation of research institutes, university departments and enterprises Creating institutions for venture capital and support for their operation Incentives for the cooperation of the higher education institutions of the region in order to coordinate economic and technical training Creating institutional relationships and expert networks required for the analysis of economic processes in the region, establishing information databases
6. Training, coordinating vocational training with demand on the labour market	Adjusting medium-level and vocational training to labour market expectations Coordinating post-secondary training within the region
7. Endogenous regional products and cultural goods	Developing regional product marketing Regional exhibitions and events

Figure 12.1 Economic and enterprise development programmes of the Southern Great Plain region



12.6 The operative programme of SME development in the Southern Great Plain region

The operative programme of SME development is based on the economic development strategy of the Southern Great Plain region. While working out this operative programme, in addition to local demands we have also paid attention to relevant international experience, especially the wealth of pertaining knowledge accumulated in member countries of the European Union. In the EU, SMEs play an important role not only in communal policies aimed specifically at SMEs, but also in regional policies and programmes for the development of backward regions (Forman 2000, Horváth 1998b).

The main guidelines for the use of Structural and Cohesion Funds between 2000-06 included *regional competitiveness* with the highest priority. This is to foster the economic development of NUTS II level backward regions (objective 1) and to create adequate conditions for economic growth and increasing employment (EC 1999c). Improved regional competitiveness consists of two programme packages: the first of which contains the development of *basic factors* (transport, energy networks, etc.), while the second provides backing to *entrepreneurial efforts to create more jobs*.

When elaborating our regional programmes for enterprise development, in addition to community level SME-programmes, we have also paid attention to past experience with development programmes in several EU member countries, particularly in Portugal, Greece, Spain and Northern Ireland. We have also included the specific SME-programmes of regions similar to the Southern Great Plain (Dóry 2002, Rechnitzer 1998). The comparison of materials on ten such regions permits the conclusion that while there may be some similarity at the level of principles, when it comes to the means applied in SME development, there is no unified methodology of SME development for countries or regions. The following ideas concerning development have been put forward in the majority of countries mentioned:

- *Support for innovation in SMEs*: technological transfer, cooperation with R&D institutes, introduction of new technologies (information and telematic technology).
- *Access to informational services*: extension of networks and facilitating access, filling up databases.
- *Training entrepreneurs*: strategic planning, quality control, training for the application of new technologies, information technology, management training.
- *Cooperation among SMEs*: creation of networks, exchange of expertise, joint events, exhibitions, publications.
- *Financial support*: security funds, venture capital.

Various criteria are prescribed in Hungary by legal regulations with respect to the form and content of operative programmes. The operative programme consists of subsidiary programmes which can be further divided into programme parts and tasks to be realized. The latter also contain the outline of application criteria for the projects foreseen. The operative programme contains ideas to be realized in the short and medium-run. Needless to say, these ought to be aims which stand a reasonable chance of being successfully realized, meaning both that resources are likely to be available and that projects will also be submitted by prospective partners as well.

The operative programme of SME development for the Southern Great Plain region contains five subsidiary programmes, i.e. five priorities which are approximately of equal weight (Lengyel 2000b). In order to accommodate actual local demands, the subsidiary programmes have been further divided into programme parts. The latter include the tasks to be realized as well. Tenders will be invited for these projects (Table 12.2). Since the main objective is the general and normative development of SMEs in the region, all regional enterprises can benefit from the majority of tasks.

Two general subsidiary programmes (the first and the fifth) have been provided both of which are equally important for all SMEs, whether in the tradeable or nontradeable sectors: the creation of a complex entrepreneurial information services system (CEISS) and the preparation for EU accession. Ensuring access to internet services for all SMEs is of crucial importance. This is critical because it enables SMEs to obtain quick and reliable information on any kind of service as well as the regional/local organizations providing that service and can help to coordinate entrepreneurial needs and services. SMEs are going to face new challenges in the wake of Hungary's accession to the EU. They are to be supported, therefore, in meeting the challenges posed by the new competitors as successfully as possible. But not only will SMEs enter a new regulative environment and encounter new requirements, they will also have the chance to apply for various EU resources. Backing for SMEs will be needed so that they can successfully tender for these funds and cooperate efficiently with enterprises from other countries.

The other subsidiary programmes are addressed primarily at enterprises of the *tradeable sector*. These enterprises are in a position to improve the region's competitiveness and to generate new jobs. *Preserving and improving market positions* is essential for SMEs operating in this sector. One of the most important means to achieve this is marketing. Market positions can only be improved by introducing innovations in a broad sense of the word. In short, flexible and swift adaptation to changing demands and conditions is called for through the adoption of the latest methods and techniques.

Table 12.2 The operative programme of SME-development in the region

Subsidiary programmes/ programme parts	Tasks
1. The complex information service operative development programme for SMEs	Creating the CEISS* Marketing the CEISS Operating the CEISS
2. Improving the market positions of SMEs	
2.1. Marketing programme for products from the Southern Great Plain region	Creating a database of regional products Creating and coordinating product-pyramids Creating joint regional product marketing
2.2. Supporting the market expansion of SMEs	Improving the market approach of SMEs Preserving and expanding market positions
2.3. Developing an innovational network	Creating the RIS** Establishing innovational incubator houses Improving the innovational awareness of SMEs
3. Improving forms of cooperation among SMEs	
3.1. Organization of associations for acquisitions and marketing	Provision of information on EU agricultural policies Introducing and mapping cooperational systems Organizing model cooperations
3.2. Incentives for local subcontracting networks	Training in basic subcontracting expertise Fostering regional subcontracting integration Training in SME specific know-how
3.3. Fostering clusterization	Spreading clusterization Mapping potential clusters Practical support for clusters
4. Developing the financial background	Creating a complex informational system Leasing programme Establishing a regional venture capital fund
5. Developing the entrepreneurial culture of SMEs and their preparation for EU accession	Evaluating EU-relevant knowledge of the SME-sector Special training programme in EU-relevant information Providing information on the SME-policies of the EU Operating an Informational Network on the EU

Note: *CEISS=Complex Entrepreneurial Information Services System;

**RIS=Regional Innovation Strategy

The majority of SMEs will only be able to survive, i.e. acquire agglomerated competitive advantages, *by participating in various cooperations*: as subcontractors to large companies or by grouping together with other SMEs (business networks, clusters). This could involve the exchange of information and expertise and the joint provision of certain services (Buzás 2000).

A considerable share of SMEs in the region are agricultural enterprises. Similarly to other examples in the EU, the value chains and cooperative associations of these enterprises are to be organized differently from the vertical production chains of large industrial processing units. Local subcontracting networks of large companies in processing industry are to be developed as well. It will also be useful to provide incentives for clusterization in certain sectors.

One of the most serious problems faced by SMEs is the lack of capital and loans. A considerable share of currently operating enterprises was created in the wake of the disintegration of companies belonging to the former state-owned or state cooperative sector, or alternatively, are newly founded enterprises on the basis of private (family) real estate property (Kállay 2000, Kőhegyi 2001). Most SMEs, therefore, look back on a very short history and thus have not been able to accumulate capital. Many of them are still labouring under the high interest rates of loans disbursed in the middle of the 1990s (or under the various negative consequences of these loans). So it is understandable that most SMEs are involved in various activities which require very little capital. Significant amounts of capital and the introduction of new and special forms of financing will be critical, however, to start and strengthen the innovative enterprises on which the region's prospective development could be based.

The operative programme rests on the economic development strategy outlined above and is in accordance with the main principles of this strategy (Figure 12.1). Practically all of the subsidiary programmes connect to one or the other of these strategic principles. It is once again possible, in terms of the strength of the connection, to evaluate the extent to which these subsidiary programmes contribute to the realization of the strategic principles: For instance, the strengthening of foreign trade relations is particularly important for improving market positions. To achieve better foreign trade relations, however, regional marketing on behalf of SMEs and the development of economic, business and institutional infrastructure are indispensable.

International and Hungarian practical experience and empirical investigations confirm that the development of SMEs divides into two important stages: First a *transitional* period takes place which involves the "identification" or location of the region's key sectors and the *en masse* training of local entrepreneurs preparing them for a successful participation in business competition (e.g. tendering for EU projects, familiarity with business "matchmaking" services, awareness of the nature of subcontracting networks and clusters, etc). Then only the second stage will see, parallel to the development of the region's economy, a substantial increase in the

application of modern innovational techniques in entrepreneurial development and the spread of various forms of cooperation and financing (e.g. venture capital), etc. The two processes can, of course, also start simultaneously in some sectors and areas of the region. In general, however, in most sectors and areas of the Southern Great Plain region increasing focus on the second phase can only be expected in a few years' time.

12.7 Conclusion

This study has reviewed our proposal for the strategic economic development programme of the Southern Great Plain region and the closely related operative programme for SME-development. The aim of the region's economic development is the improvement of the living standards of the local population, while its primary means is improved competitiveness through both improved productivity and growing employment.

The strategic proposal for the region's economic development realizes a strategy oriented towards structural transformation. This is because the structure of the region's economy is insufficiently competitive: there are too few locally-based, internationally competitive sectors in the region. For this reason, it would be crucial to locate new companies (first of all units of global companies) which could in turn provide contracts for local SMEs and from which the expertise, networking methods etc. necessary for corporate success could also be acquired. It is equally important to strengthen the embeddedness of local large companies and to support networks and clusters of SMEs. The operative programme of SME-development seeks primarily to stimulate the growth of the tradeable sector, while also containing some forms of support accessible to all SMEs (information, EU training, etc).

The fully elaborated programmes provide the means for the region's improved competitiveness on the basis of carefully worked out local policies. It is clear, however, that the programmes outlined here constitute only a necessary but not a sufficient condition for the beginning of a recovery period. What matters is not the description of tasks, but their realization. In a market economy, the development of SMEs can only be successful as long as it is based on local initiatives and cooperation. The strengthening of entrepreneurial organizations (chambers of commerce, professional associations, etc.) is, therefore, definitely desirable and so is the selection of influential entrepreneurs with generally acknowledged credentials who can thus effectively represent local entrepreneurial interests. Regional and local governments can help in creating and fostering the competitive advantages of local key industries: first, by means of establishing the general business environment (training, transport, etc.), and second, by means of "location marketing". The role of local governments is, on the other hand, crucial in initiating the process of structural transformation since they are to attract competitive companies and overcome the

resistance of local enterprises with opposing interests. The programmes commissioned by the political leadership of the region are also decisive as they are instrumental in obtaining support from the Structural Funds of the EU.

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