

Problems of Small and Medium Enterprises - Here the New Generation!?

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Abstract— The 21st century has presented a number of challenges to the Hungarian SME sector. Not only the post-communist transition in the 20th century and as a result, the emergence of open market competition, but also the global economic crisis and its consequences. The region had barely recovered from the resulting issues and had just found the way out of it when it had to face an entirely new trouble, which has already been familiar in other parts of the world. Generation Y has been the focus of multiple research project. Numerous theories have been drafted about their different habits from employment to through their leisure activities. The demographic changes in Europe have led to serious issues on the labour market. In Hungary, just like in Europe, the small- and medium-size enterprises are the main driving force of the economy and play a key role in the economy. In spite of the fact that the economic weight of SMEs is rather significant, the economy in Hungary is dual. Serious issue is that the possibilities of SMEs are rather limited, their capital is small. This trouble is the totally new type of employee. The focus of my current research was on the adaptation of Hungarian SMEs to the expectations of the new generation in terms of remuneration, reward and training opportunities, since these are important factors for the employees. The results of my research have highlighted those problematic areas, which should be monitored and handled by the executives if they want to retain young employees.

Keywords: *Generation Y, working habits, salary, reward, SME*

I. INTRODUCTION

Generation Y has been the focus of multiple research project. Numerous theories have been drafted about their different habits, from employment through their leisure activities to their behaviour in cyberspace. Why are the researchers and market research companies so keen to explore this area? The demographic changes in Europe have led to serious issues on the labour market. Due to the aging population, there are more and more adults in retirement and less and less new labour force. This, on the one hand, puts a great burden on younger generations because it is their task to produce the pension for the older generation, while on the other hand it is an enormous challenge for the employers. As the result of the global economic crisis, huge labour force was released, and the employers could select among the employees. Due to the demographic and economic changes,

however, the number of free workforces declined, and the employers should fill their vacancies in an increasing competition. It is an expensive and time-consuming process, while the young employee is not loyal and probably will not stay with the company for a longer term.

The research by Bencsik and Eisingerné reveals that the different generations face considerable challenges during their everyday cooperation. Handling the conflicts among generations and solving the daily problems of employees who live in different types of family structures and family life cycles is rather challenging for the company management [4]. According to the research by Hoole et al, there is no difference between generation Y and X in terms of commitment [12]. Major part of the employees is not committed, regardless of age. It is even greater problem that a significant proportion of middle managers have low professional or emotional commitment. The discontent of middle managers, of course, can be derived from the fact that the promotion is the only thing in Hungary, with which the company can reward the performance. Therefore those, who are successful in an area, can move up. After some time, however, they would probably get into a position, where they are unable to perform well and will become frustrated and dissatisfied [15].

All the researchers agree that the communication of new generations is significantly different from that of the previous generations and the HR experts and psychologists have drawn the attention of employers to the fact that this would pose serious problems among employees, managers and staff. At the same time, of course, HR as a profession is also going through major changes because handling fluctuation puts a great burden on people working in this area. Therefore, it is expected in this area, too, that new technologies will be implemented in the future [33]. Such new technology can be, for example, the network-based approach of replacement system, which would enable to explore the hidden replacement potential of the organisation [26].

The economic growth, though slow, has a favourable impact on the situation of Hungarian SMEs. It is clear from the statistical data, however, that the small companies are in really difficult position. The performance of SMEs is still weak compared to bigger companies and it is very difficult for them to access financial resources. Unfortunately, the

Hungarian SMEs are still behind their European counterparts.

The European Union also takes the small enterprises seriously. According to the European Charter for Small Enterprises [9] approved in 2000, the small businesses are the backbone of the economy. On the basis of the objectives set in Lisbon, the European Union is expected to become the most competitive and most dynamic knowledge-based economy of the world.

“The small enterprises can be regarded as the main driving force behind innovation and employment as well as the social and local integration within Europe.” [9] According to KSH (Hungarian Central Statistical Office) the SMEs accounted for 99,8% of the total number of enterprises; gave jobs to 70% of all the workforce and played an enormous economic role by providing 54% of the Hungarian added value [18].

A. SME sector in Hungary

In Hungary, just like in Europe, the small- and medium-size enterprises are the main driving force of the economy and play a key role in the economy. The SME sector expanded rapidly after the change of the regime and following the EU integration. The economic crisis of 2008 broke this rapid growth and the setback has not yet been recovered [27]. The small- and medium-size enterprises produce more than half of the added value in the non-finance business sector and their proportion in employment is almost 70%. SMEs play a great role in real estate market, professional activities and construction industry, where they account for more than 90% of the jobs. Regarding the productivity, the Hungarian SMEs are below the EU average.

In spite of the fact that the economic weight of SMEs is rather significant, the economy in Hungary is dual. More than 70% of the export is given by the Hungarian branches of multinational companies. The role of Hungarian SMEs could be the economic stabilisation and balancing, but there is no political will for this [6]. Reducing the bureaucracy and administrative tasks would be important, because the decrease of administrative burden would enable them to save about 200 billion HUF in Hungary [8].

The SMEs receive substantial financial support from the EU. The European structural and investment funds provide more than 450 billion euros to the member states during 2014-2020. This support should be spent on investments, which help to create jobs and stimulate growth [32]. Unfortunately, it often happens that the entrepreneurs are unable to compensate the difficulties arising at the beginning. According to the EU statistics, half of the new enterprises in the EU goes bankrupt in five years from their start [10]. The performance of the SMEs are affected by the following inhibitory factors: lack of education, lack of proper preparation for the prospective entrepreneurs; disruption of access to financial resources and to the markets; complicated procedure of handing over companies; fear of failure and lack of possibilities to process failures; difficult and complicated administrative procedures. Another serious issue is that the possibilities of SMEs are rather limited, their capital is small. Therefore, it is difficult for them to produce the rising wages. The rapidly changing regulations and the political uncertainties also hamper their decisions [11]. In

addition to this, the competitive situation is also different in the different regions of the country.

The operating small and medium-size enterprises can be characterized with high regional concentration. Central Hungary was the strongest, four out of ten companies could be found here; the share of other regions was 8,0-11,4% between 2013 and 2015 (Fig. 1) [31].

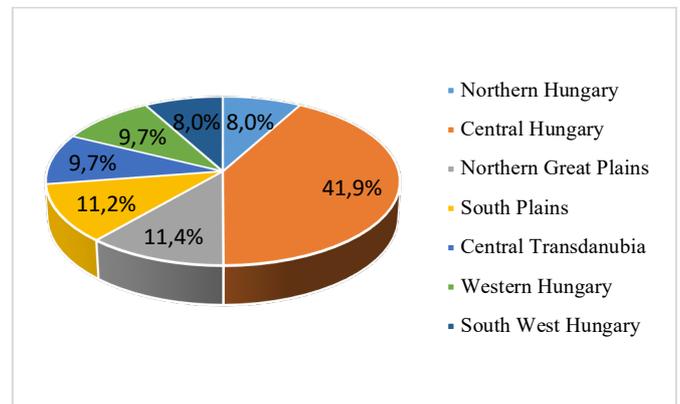


Fig 1. Distribution of the number of small and medium-sized enterprises by region

source: [31]

Since there is no training available at an appropriate level and content, the SMEs are overshadowed by the branches of multinational companies in many areas when they are looking for employees. They are unable to cope with a number of new challenges, presented by today’s young workforce towards employers. From time to time new trends emerge in the working environment and the SMEs could adapt to these with quick response and proper preparedness. Such new trend is e.g. the recently highlighted CSR. The CSR activities in Hungary have become known only after the change of the regime. It has been expanding very slowly because the distrust of the communist era had rooted very deeply in the corporate culture [7]. Although in Hungary, the CSR activities are still in their early phases, the management of large-scale corporations is increasingly aware of the business opportunities and the advantages of these in recruitment. When the members of generation Y and Z are looking for jobs, these types of activities by the would-be employer play an important role in their decision. Due to the globalisation, these young people are more open, have abundant information and, moreover, are free to choose jobs in different countries [21].

B. Working patterns of generation Y

Our research regarding the features of generation Y, their job searching and working patterns has been discussed in several articles already [13, 14]. It is therefore worth analysing how the SME sector is reacting to the new challenges. The traditional recruitment methods and tools are not enough for reaching out to generation Y job seekers; in addition to the traditional ones, new and innovative tools should also be implemented. The most popular innovative tools are the cloud recruitment, the applicant tracking system, use of social media or the virtual job fair [24]. It can be observed that a new work culture has emerged, partly owing to the technological innovations. The Internet and mobile devices have made it possible to do work from any place of the world. Generation Y has grown up in a world

where it is natural that anybody can be contacted at any time and most of the people are always online. According to some research, generation Y changes jobs four times more often than their predecessors and they switch more frequently and more easily in many other areas of life [22]. Changing jobs will be even more natural for generation Z; whenever they feel it necessary, they will move on without any fear that they will not find a job. They can do it mostly because - according to the statistics - the number of employees is declining, and the companies are increasingly competing for the workers. The Allianz Demographic Pulse published a study, which says that in the EU there are only about 6 million young people aged 15-20 to replace the 10 million retired people of age 60-64 [1]. In the world of work, they can be described mostly with their practical approach; they are proactive, brave, dare to start new things and they have serious bearing capacity for this. Their another important feature is that they aim not only to implement their individual ideas, but they consider the interests of the community, too. They prefer to work together, to find possibilities to cooperate with each other. It should be taken into account, that the number of active-age people per one retired will decrease, which will put enormous burden on - mostly generation Z - employees and the economy [19].

The ideas about work, the world of work have changed substantially. From the concept of "work" the young generation associated to self-fulfilment, changing jobs, working abroad and employees of multinational companies [29].

Than Sen Khian et al analysed the internal and external motivation factors of generation X and Y in a workplace environment, with the help of 124 respondents. They focused on income and other benefits as external factors. The members of generation X and Y did not show any differences in these areas. Regarding rewards and promotion, the members of generation Y were more satisfied [28].

In a similar research Acar examined the possible differences between the motivation factors of generation X and Y. Involving almost 150 respondents in the sample, he examined the following factors: salary, other benefits, appraisal, job security, responsibility, etc. He concluded that there are no significant differences in these areas between the two generations [3].

C. Possibilities of motivation

Motivation and performance appraisal is only one step in the right direction to increase the performance of the employee. It is a widely approved approach of incentive management that the benefits complement the traditional salary and get some special functions which cannot be solved by the salary. These are complementary allowances, which can motivate the employees for better performance [20].

The features of efficient incentive systems are summarised by Nemes. On the basis of this, if the payroll system is examined, it is obvious that it consists of several elements from basic salary through bonus to different benefits.

Incentives and performance motivation are mostly manifested in salaries. Many papers, based on non-empirical research, discuss that generation Y expects high salaries. The remuneration system can use several tools, which are

more than material incentives. Considering the fact, that social media has a very important role in the socialization process of generation Y and Z; that they immediately get a feedback on social media for almost all of their posts and statements, it becomes clear why the members of this generation need so much to get regular verbal confirmation during their activities, reassuring them that they are on the right path. Of course, the one-off or regular compensation of a material nature cannot be underestimated, but these do not dominate in their case. The compensation system should be well-structured and part of the corporate culture. The comprehensive remuneration strategy should aim to set clearly to the employees what they are expected to do for the compensation (Table 1) [23].

TABLE 1 FEATURES OF EFFECTIVE INCENTIVE SYSTEMS

FEATURES	EXAMPLES
1. Incentives meet the basic needs of people.	Proper salary, reasonable allowances, paid holidays.
2. Incentives are similar to those offered by similar organisations in the area.	The salary is similar to that at neighbouring companies; the number of paid holidays is the same as for employees working in similar positions in other companies.
3. The incentives are distributed fairly and justly.	Employees working overtime, get salary supplement or time compensation; employees doing the same job get the same salary.
4. The incentives have multiple levels.	Incentives include salary, bonuses, promotion, privileges, etc.

Source: [17]

Bussin et al performed a research involving 124 people and revealed that the most attractive reward for the age group of 19-29 is training, freedom, personal development and career opportunities, as well as travel to a foreign branch [5].

II. METHODOLOGY

The research was performed in the form quantitative questionnaire survey [25]. Academics and students of six institutions participated in the country-wide research. The company data and the data of annual reports were checked from the publicly available company registries for all the respondents, thus ensuring the reliability of answers given to the questionnaire. The questionnaire was completed online with the help of an interviewer and a manual. It took 45 minutes on average to fill out the questionnaire and it contained 120 questions. The respondents could take a break during the completion of the questionnaire and continue later but it was suggested to fill it out in one go, if the executive had enough time. There were several sections in the questionnaire and the respondents could move between the sections, go back and modify the answers. If the respondent asked, we prepared a short preliminary analysing report about the current state of research in 60 days after closing the project. The questionnaire was always completed online, with personal participation. The managers of surveyed companies in all cases had more than 5 employees and have operated for at least 2 years. The research has been going on for three years and the queries are continuous. The current analysis was made on the basis of evaluating 697 responses

received in 2018. The statistical analyses were made with Office 15 Excel application and IBM SPSS Statistics 23 software.

III. RESEARCH RESULTS

84% of the 697 interviewed SME actors operate as a limited liability company, 8% as limited partnership, while the rest as public limited liability company or cooperative. Around 20% of them comes from the services sector, 20% from the construction industry and 20% from trading and vehicle repair sector. 10% is the share of processing industry. The remaining 30% is divided in almost equal 5% shares among agriculture, game, forestry and fish farming; accommodation services, catering and transport as well as storage. More than half of the respondents compete on national markets, while the fourth of them operate only on local or regional areas. About 40% of respondents are planning to expand their enterprises by 1-3 employees in the next 3 years, while almost 20% of them are aiming to increase the staff by 4-5 people.

30% of the responding executives think that they work together with significantly more loyal co-workers than their competitors and the excellent management and leadership is a serious competitive advantage of the company. 40% of them, however, reports that there are some minor issues with low work morale and 20% feel like the weak capabilities of middle management lead to smaller problems in everyday life.

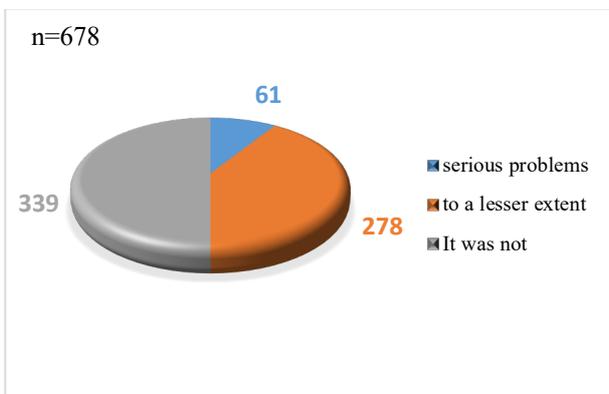


Fig. 2. Low work morale

source: own research

10% of the respondents regard the low work morale, the lack of qualification and special skills as a serious issue (Fig. 2). The solution to this can be the participation in different training programs, further education and workshops. However, 30% of respondents solve this internally in three-fourth of the cases. Workplace rotation or external training courses are used only in the remaining one-fourth of the cases. Those companies, where the lack of skills or qualification is the main problem, almost always try to solve the problem with external training courses or rotation. The more local is the company, the more inclined to solve the training internally, within the company (p=0,04).

60% of the respondents say that the employees are not against changes and are able to absorb new information. 55% thinks that there are no issues with the innovation skills of

employees and 70% is confident that their relationship with IT technology is also seamless.

90% of respondents pays their staff time-based salary, while 50% compensates them on the basis of their performance (Table 2). Only 30% would consider the competencies that employees apply during work.

TABLE 2 TYPE OF COMPENSATION

Type of compensation	pcs	%
Time rate (fix salary)	633	90,8
Tariff system	21	3,0
Age-based (seniority-based)	54	7,7
Competence (capability) based	203	29,1
Performance-based	332	47,6

source: own research

The occurrence of various problems was much higher where the remuneration was time- or performance-based. The degree of problems was significantly higher in the area of innovative activities initiated by the employees where the remuneration was based on performance (p=0,000). On the same area, the problems significantly decreased when the company switched to competence-based salaries (p=0,023). In case of performance-based salaries, the number of serious issues was significantly higher with those employees, who found it difficult to absorb the novelties (=0,002). In those companies where the remuneration was differentiated according to seniority, the number of serious problems due to the lack of expertise was significantly higher (p=0,005).

The respondents use several different reward systems. 37% of them, however, admitted that they do not use any incentives at all (Fig. 3, 4).

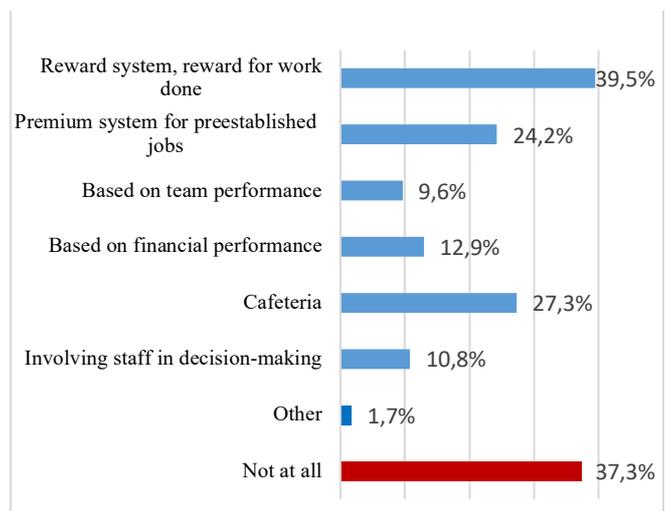


Fig. 3. Reward system

source: own research

It can be concluded that the expansion of market operation has significant impact on the implementation of the reward system. The more expanded is the market where the company operates, the more probable that it will use some kind of an incentive system (p=0,001). This may be due to

the higher number of competitors, more employees, need for more skills, greater expertise and the appearance of wider knowledge and perspectives.

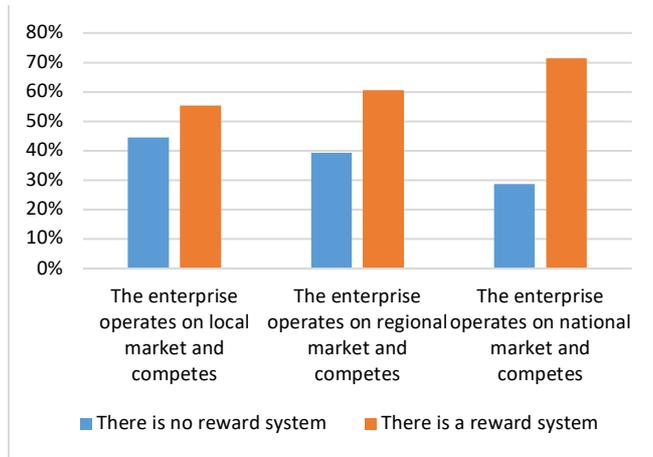


Fig. 4. Reward system

VI. CONCLUSIONS

Many research projects have dealt and are dealing with generation Y and Z, because they are entering the labour market in increasing numbers and their impact on corporate culture is more and more significant. The companies have already awoken from the first surprise caused by this generation and – instead of resistance - they are actively looking for the solutions. Many areas should be changed for this. The high degree of fluctuation, the competition for workforce and the greater and higher expectations of employees towards their employers encourage the companies to use increasingly sophisticated methods to retain their co-workers. Other organisations are thinking of changing their whole approach, for example by switching to a project-based organisational form [16]. The partnership of organisations and the subsequent sharing of experiences and information has also become important [2]. The results of the research point out that the actors of SME sector have not been prepared for the new world of workers yet. Typically, they still use the traditional remuneration system and they do not regard the reward system as an important element in retaining employees. It can be detected, however, that the wider horizon the company has and the wider the market it operates on, the more it will try to implement new alternatives in its everyday life. The future generations like the possibility of independent work, like to be their own employers, to set up their own enterprise. Freedom is very important for them [30]. Therefore, in the future the number of micro- and small companies, as well as start-ups will further increase. Their role and attitude to employees will have an even greater role in the labour market.

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