Entrepreneurial Behavior on the Edge: Key Strategic Factors that can Save You From Crises

Attila Petheo
Small Business Research Center, Corvinus University of Budapest, Hungary

Roland Zs. Szabó
Strategic and International Management Research Centre, Corvinus University of Budapest, Hungary

Abstract

The global crisis brought a rare opportunity to test our traditional management thinking on the edge. We took this challenge and asked 305 SME managers' opinion about entrepreneurial success in their industry. Besides the global crisis the emerging market context made our research extreme, we conducted our research in a vulnerable economy. We found that proactive strategic behavior (eg.: choosing the right competitive environment) is more crucial than any other factors that can lead to superior performance. Executing the right strategy needs proper value proposition and resources (especially financial and social).

Introduction

This paper is not about the crisis, but we would like to make the best of this opportunity and cross the borders of the frameworks of traditional management theories, in accordance with Pettigrew (1985, 1987) who pointed out, that higher level strategic and organisational changes are related to economic recession.

Entrepreneurship involves identifying and exploiting entrepreneurial opportunities. However, to create the most value entrepreneurial firms also need to act strategically. This calls for an integration of entrepreneurial and strategic thinking. The fields of strategic management and entrepreneurship both focuses on how firms adapt to environmental change and exploit opportunities created by uncertainties and discontinuities in the creation of wealth (Hitt and Ireland, 2000).

For the purposes of the research we use the definition of Zahra and Dess (2001) that entrepreneurship refers to the identification and exploitation of previously unexploited opportunities. As such, entrepreneurial actions entail creating new resources or combining existing resources in new ways to develop and commercialize new products, move into new markets, and/or service new customers (Hitt et al., 2001). Outside sources of knowledge are critical to the innovation process in general and in particular in the context of changing knowledge environments. Hence, firms confronted with volatile and hectic environments where existing knowledge related to products or markets become obsolete quickly, should aim at reconfiguring their existing knowledge (Van den Bosch et al., 1999). The process of knowledge reconfiguration is already an innovation, since it provides a platform for producing new product-market combinations.

The ones emphasising the role of the external environment think that the other researchers pay too much attention on the individual characteristics, personality of the entrepreneurs and they don't put enough emphasis on the external structural opportunities and pressures. Byers et al. (1997) for example criticized the studies about entrepreneurship because their authors often praised highly the founders and top managers, if the business proved to be successful. Several studies dealing with the establishment and early stage of the innovative organisations showed tight connection with the environmental conditions and the evolvement of the new organisation (cf. Kimberly, 1979).

Despite of the long debate in the literature, the relationship between entrepreneurial success and the role of internal and external factors are still disputed, moreover, we have little empirical evidence about how entrepreneurs perceive and react to global crises. If a firm wants to succeed in such an uncertain situation:

- What is more valuable: to have general knowledge/resources or industry specific knowledge / resources?
- Is it better to run a small or a large corporation?
- Which industries are affected most?
- Does strategy and strategic planning matters?
- What are the key success/failure factors?

Theoretical Foundation

Internal Factors of Entrepreneurial Success

Academic researchers have spent considerable time on the quest to predict who will succeed as an entrepreneur and who will fail (Gartner et al, 2006). These diverse writings emphasize certain traits seem to be associated with entrepreneurs; as such are necessary for effective entrepreneurial behavior (Hortoványi 2010). Collins and Moore (1970) studied 150 entrepreneurs and concluded that they are tough, pragmatic people driven by needs of independence and achievement. They seldom are willing to submit to authority. Based on the study of 2994 entrepreneurs Timmons (1994) for example in analyzing more than 50 studies found a consensus around six general characteristics of entrepreneurs: (1) commitment and determination; (2) leadership; (3) opportunity obsession; (4) tolerance of risk, ambiguity and uncertainty; (5) creativity, self-reliance and ability to adapt; and (6) motivation to excel.
A related stream of research examines how individual demographic and cultural backgrounds affect the chances that a person will become an entrepreneur and be successful at the task. A great deal of research on the socio-cultural backgrounds of successful entrepreneurs was conducted in the 1980s and 1990s (Byers et al, 1997). Such trait-based theories of entrepreneurship – when taken as a whole – are inconclusive and often in conflict (Stevenson, 2006), hence their validity is increasingly being called into question. There is no real evidence supporting one generally applicable entrepreneurial personality; and personality testing does not provide a good indicator who will, or will not, be a successful entrepreneur.

Gartner in 1988 had critiqued the „long-held and tenacious viewpoint in the entrepreneurship field" and set the research focus toward a new direction: „what the entrepreneur does, not who the entrepreneur is" (Sharma and Chrisman, 1999:26). The research question shifted from areas such as the determination of the psychological characteristics of entrepreneurs toward an assessment of the cognitive

and behavioral aspects of the entrepreneur with an increased emphasis on context and on the entrepreneurial process (Cornelius et al. 2006).

Entrepreneurs as they engage in entrepreneurial activity must assess the perquisites for success. The question "How do entrepreneurs perceive their chances of success?" was a turning point from typologies of entrepreneurs toward the study of psychological traits. Cognitive psychology provides new and profound insights into the thinking of entrepreneurs and how they engage with the entrepreneurial process. The research about entrepreneurs' cognitions (perception, memory, experience, intuition, and judgment) has focused on thinking about the future (e.g., intentions and vision) and decision making. Entrepreneurs seem to be prone to insights, brainstorms, deceptions, and ingeniousness (Bird, 1992; Shaver and Scott, 1991; Hornsby et al, 2002). In addition, entrepreneurs exhibit extreme optimism in their decision-making processes and are prone to overconfidence (Busenitz and Barney, 1997; Hatch and Dyer, 2004; Shepherd and DeTienne, 2005).

In summary, researchers note that first, entrepreneurs hold intense mental visions of desirable futures to maintain their long term goals through surprises, shortages and barriers, and second, they utilize heuristics to cope with the uncertainty and urgency they face. These processes produce fast, perhaps biased, decision making (Hortoványi, 2010).

Regarding the performance of start-up and promising small firms the issue is their survivals. Timmons (1994) reviewed the works of over two dozen authors and noted several ingredients of successful venture creation, such as the importance of a lead entrepreneur, building a team with complementary skills, a triggering idea for a product or service, a well developed business plan, a network of people and resources and appropriate financing. In entrepreneurship, however, uncertainty and risk are always present, and entrepreneurs are always faced with the possibility of failure. No matter how carefully is the new venture is developed ultimate decision is brought by the market in the form of sufficient demand.

Even though their contribution is so strong, the majority of family businesses do not survive beyond the third generation (Upton and Heck, 1997). One explanation for the high mortality rate of family businesses may be a decrease in the entrepreneurial orientation displayed by successive generations of owner-managers.

Failure forms a fundamental component of entrepreneurship (McGrath, 1999). While many scholars strive to understand and thereby avoid failure (e.g. Romanelli, 1989), others argue that failure provides an important learning opportunity for continued entrepreneurship (McGrath and Cardon, 1997), and acts as a catalyst for further economic and business development (McGrath, 1999). Yet failure is not a simple notion (Wickham, 2003). It implies the absence of success, and like success, it can only be understood in relation to people's goals and expectations. Failure happens when expectations are not met; the question is the degree of failure (e.g.: 'the business fails to perform as planned, hence additional financial support is needed' more severe issue than 'the business fails to achieve strategic objectives').

The perception of and/or tolerance for failure may significantly impact whether would-be or nascent entrepreneurs pursue opportunities of which they are aware, despite the high risk and effort involved in starting a new business. These cultural perceptions may also impact the attributions individual entrepreneurs make for setbacks they experience, and how they change their behaviors accordingly in decisions to continue to develop the business despite hardship or to cut their losses and close the

business immediately (Cardon and McGrath, 1999). More broadly, cultural perceptions of failure may profoundly influence the allocation of resources towards risky ventures.

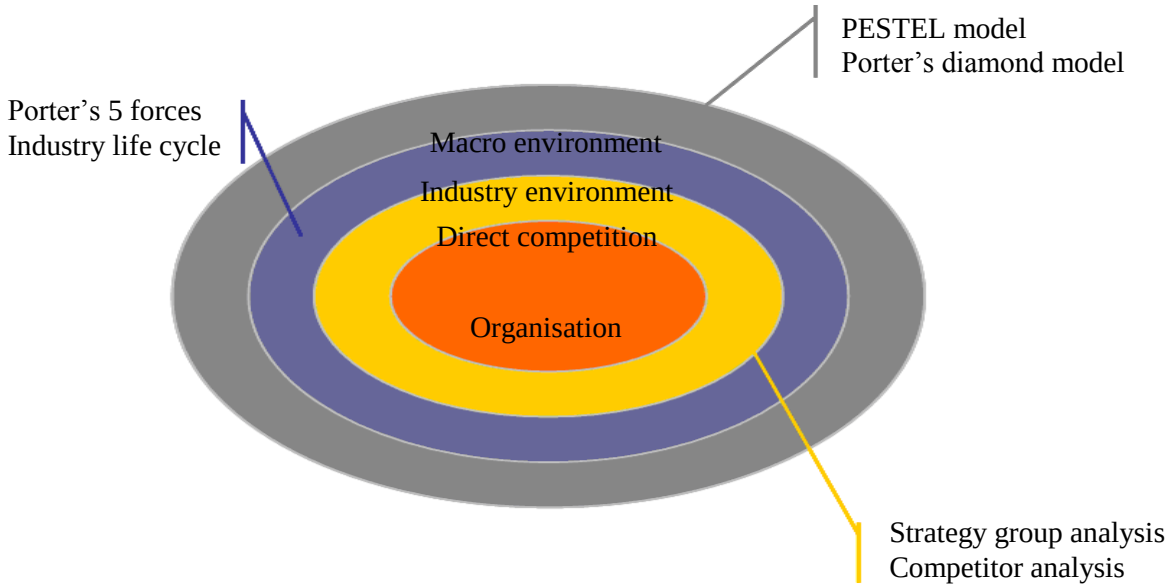
Failures might be caused by circumstances the entrepreneur could not control, such as a poor economy. This is in contrast with mistakes, which are seemingly due to avoidable errors, or the inability of entrepreneurs to properly steer their ventures. Most of the young and small firms spend efforts to stabilize their activity, for example engaging in strategic planning is no longer the privilege of bigger ones (Papp, 2006; Szabó, 2005; Nagy, 1996).

External Factors of Entrepreneurial Success

Strategic management examines the external environment on three levels: macro environment, industrial environment and direct competition environment. The internal environment is determined by the resources and abilities. There are existing analyzing methods for each level which are demonstrated on Figure 1.

The more proactive an enterprise is, the better it can cut itself adrift from the external environment. However a global crisis affects almost everything and generates a significant change in the structure of the industry as well. In the middle of the 1970's the global economy showed the sign of the large corporate structure not being the primary factor in facilitating development. Cornelius et al. (2006) suppose that two consecutive oil crises caused the increase of the role of the small enterprises.

FIGURE 1: The levels of the external environment and related strategic tools



Source: Balaton et al. (2007)

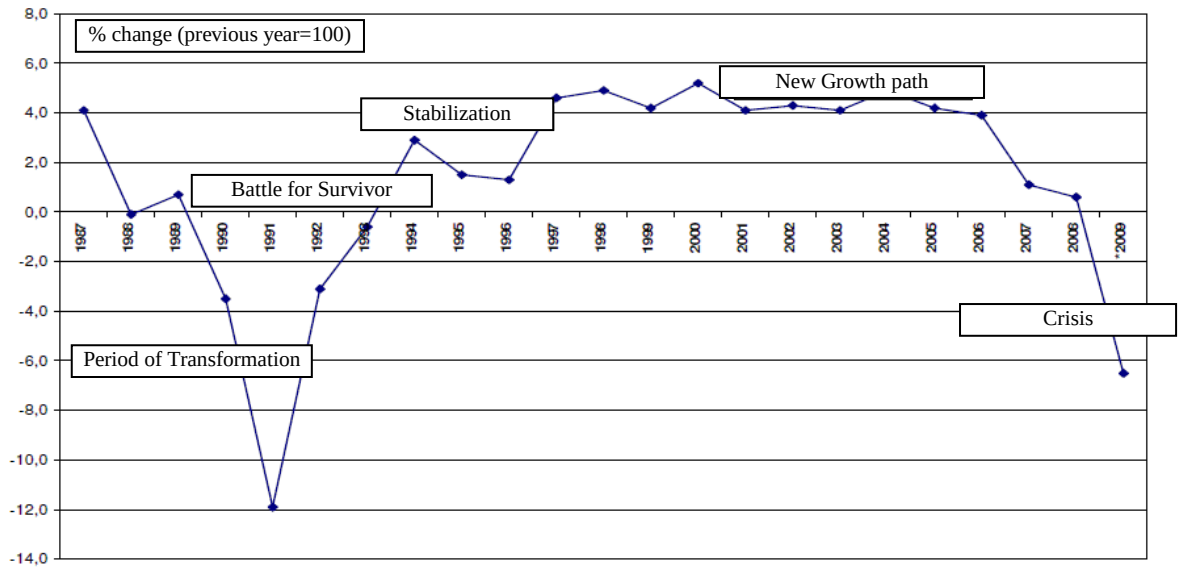
Several large enterprises were strike by serious economic difficulties and unemployment became one of the main problems of the western societies. Besides that, the large corporations seemed to be more inflexible and slower during the adaptation to the new market conditions and in exploiting breakthrough innovations.

Carlsson (1992) found two major explanations why the researchers turned their attention towards smaller enterprises: on the one hand the change of the global economy (in connection with the strengthening of the global competition, the increase of uncertainty and the fragmentation of the markets), on the other hand the change of the characteristics of the technological processes. The global financial crisis that burst out in 2008 and the demand crisis following that drew the attention again to the macro environment and environmental adaptation in the significant industries.

As Szabó and Zetkó (2005) have found the Hungarian economy follows the economic cycles of the USA with a delay from of half to one year. In spite of the fact that the Hungarian enterprises had time to prepare for the economic crisis, they performed extremely poor in minimizing the harmful effects of the crisis. The global crisis didn't avoid Hungary either, moreover it even stroke Hungary harder because of its defencelessness (MKT, 2009). The effect of the crisis on the GDP is shown on Figure 2.

While privately owned micro and small businesses did exist even in the planned economy socialist regime, the development of the Hungarian SME sector started in the late 1980s, after the start of the transition to the market economy. The Company Act of 1988 as well as the Law about Sole Proprietorship provided basically everybody the freedom to set up an own business. In the first part of the 1990s, a large number of new firms were established. As a result the number of businesses tripled ending up to have over a million registered business unit in 1995 (Szerb and Ulbert 2002). This activity was fueled by necessity motives because of massive downsizing in the state owned large business sector as well as by opportunity motives to supplement the market and ease the shortages (Tyson et al 1994).

FIGURE 2: The change of Hungarian GDP between 1987 and 2009



Source: data of the national accounts (KSH) (MKT, 2009)

The following eight years in the 1996-2004 time period of the SME development was characterized by both positive and negative changes. While the numbers of newly established businesses first stabilized then begin to decline the quality of the start-ups increased and a small proportion of existing businesses started to grow. However, as the competitive pressure of mainly large, foreign owned multinationals increased, especially in the retail and construction sectors, the weaknesses of the Hungarian SMEs become prevalent (Kállay and Lengyel 2007).

The contradictory development of the Hungarian SME sector has continued after the 2004 EU accession. Increased openness to foreign competition and now worldwide recession are the current challenges Hungarian small businesses face. Hungarian economy was strongly affected by the financial crisis. There are several reasons for that:

- Besides under-financing, inadequate innovation, insufficient managerial skill and weak cultural embeddings have hampered the competitiveness of smaller firms. In addition the macroeconomic climate had also negatively hit the further development of the SME sector. Political cycles repeatedly caused imbalances in the government budget that was followed by cyclical adjustment. Not only overregulation, high social security and income taxes but frequently changing regulation also contributed to the increasing uncertainties of starting and running a small business in Hungary (Papanek et al 2007). The long waited EU funds not seem to be arrived, and the disappearance of foreign resources forced Hungarian government to sign agreement with IMF. The new economic policy focusing on budget deficit could not slow down the 6,5% recession in 2009.
- The Hungarian economy is extremely open, the value of export and import compare to GDP is over 100%. In year 2009 decreasing export forced several companies to lower production, lay off people and even close down plants.
- The third reason is the structural weakness. Still far too much state bureaucracy, social security, oversized local governments, health and educational system reform is still on their way.

Methodology

Annual Research Program Results

At Small Business Development Center of Corvinus University of Budapest we ask 300 students yearly, to interview an entrepreneur and ask about his/her motivation and find out what are those characteristics, which made them successful as an entrepreneur.

The gained results are quite robust, the importance of factors changes very slowly over time. There are for main motivations to become entrepreneur: (1) Realization of an idea, personal fulfilment (2) Autonomy (3) Financial gains (4) Loosing their job, no other possibility to make their own living.

Entrepreneurial performance depends on experience, knowledge and motivation:

- Practical experience or previous performance is a good indicator, much better than school results. Learning by doing means, that entrepreneurs collect most of there skills and abilities by experiment, which empower them to run and renew their businesses.
- Technical or industrial knowledge makes business less risky. Collecting industrial knowledge as an employee helps entrepreneurs to recognise business opportunity, value risk, evaluate different options.
- Business and managerial skills helps team building, building-up controlling functions, system development and growth. Gaining business and managerial knowledge at schools (University/MBA) is not enough, experiential learning proved to be essential.
- Entrepreneurial skills can be gained in several forms, like in family business, previous job, or own previous company. Independence, responsibility and creativity are such influencing factor, which hardly can compete with a paid job.

Research in Crisis

The aim of the research was to examine the first reaction of the Hungarian SMEs to the crisis. To answer our research question about entrepreneurial success in crises we used semi-structured questions where we gave the opportunity to entrepreneurs to tell with their own words, what were the decisive factors at that time, and what would be in 1-2 years from that time in order to succeed in their industry. We used the data derived from a complex survey where besides the basic company information, the survey included five blocks and 44 questions covering all major functional fields of the business from strategy through innovation, knowledge management, HRM, finance, risk management, and marketing. The examined time period is 2007-2009.

The survey was conducted in November-December 2009. After an initial telephone call for approval a face-to-face interview was carried out with one of the owners who were part of the top management. The initial sample is based on HBI Company Data database that includes 51 600 companies, with all important data. The aim was to collect a total sample size of 300, out of 600 pre-selected firms. Since the response rate was higher than expected we stopped calling at 378 and ended up, with 305 interviews.

Most of the entrepreneurs, who denied the interview, were afraid of sharing their financial data, and even those who filled out the questioner asked for guaranty of full anonymity. (Entrepreneurs became very suspicious during the crisis.) Firms were randomly selected but we paid attention to regional, size and industry representativeness. Since we aim to examine only SMEs, we limited according to number of employees and kept the size distribution of the sample as compared to the total number of businesses reported by the Hungarian Statistical Office (KSH).

As a result we received a sample with mainly micro enterprises where 90% has less than 2 million EUR turnover. As we were interested on the reaction, we focused on established companies, with more operational experience.

Table 1. The distribution of the sample based on the overall turnover (N=251)

	2007		**2008**		**2009**	
millió HUF	**frequency**	**%**	**frequency**	**%**	**frequency**	**%**
0-4	17	7,05	22	8,76	28	11,29
5-9	13	5,39	13	5,18	14	5,65
10-19	19	7,88	16	6,37	24	9,67
20-29	18	7,48	25	9,96	14	5,65
30-49	24	9,96	21	8,37	22	8,87
50-99	47	19,50	49	19,52	49	19,76
100-499	77	31,95	75	29,88	73	29,44
500-999	17	7,06	21	8,37	16	6,45
Over 1000	9	3,73	9	3,59	8	3,22
Total:	241	100,00	251	100,00	248	100,00

Table 2. Operational experience in years (N=286)

	Frequency	Valid percent (%)	Cumulative percent (%)
0-1	6	2,1	2,1
1-3	24	8,4	10,5
3-5	15	5,2	15,7
5-10	58	20,3	36,0
Over 10 years	183	64,0	100,0
Total	286	100,0	

Results

Perception of the Crisis (winner or loser)

Table 3. Perception of the crisis

	Frequency	Valid percent (%)
Loser	214	78,4
Winner	59	21,6
Total	**273**	**100,0**

It was a shocking result that 4 out of 5 firms felt their self a loser of the crisis. Only every fifth company said that they are winner of the crisis (Table 3). We tested the association between the 'winner or loser' variable with firm size, firm age, industry experience and corporate strategy. Firm age, industry experience has no significant relationship with winner or loser status. There is significant correlation between size and the winning (Pearson Chi-square 15,086, sig. 0,001), because medium size firms are more likely to be winner of the crisis (Table 4).

Table 4. Perception of the crisis by firm size

		Number of employees by EU definition		
		Micro (0-9)	Small (10-49)	Medium (50-249)
Loser	Count	139	62	11
	Expected Count	135,3	58,5	18,2
Winner	Count	32	12	12
	Expected Count	35,7	15,5	4,8
Total	Count	171	74	23
	Expected Count	171,0	74,0	23,0

We got very interesting result, when we tested whether all industry has the equal share of winners and losers. We made deeper analyzes, where we included other variables, and also qualitative data. We got four different groups, according to the level of crisis effects (Table 5).

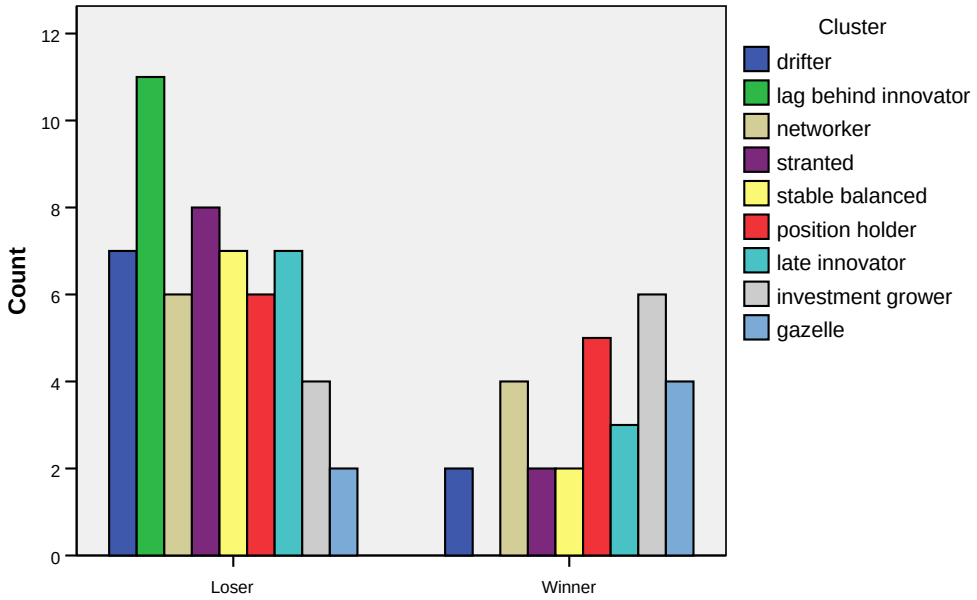
Table 5. The impact of the crisis on different industries

Absolute winners	**Losers, but with good chance for fast recovery**
Info-communication (ICT) firms Niche market players (e.g.: billboard production) Business support services (tax advisor, accountant, liquidator)	Printing industry Financial service brokers Services connected to construction businesses (architects, alpine-techniques, experts) Tourist industry (Wellness hotels)
Untouched by the crisis, stable firms	**Losers, who need long period for recovery**
Agriculture, farm producers Business support services (maintenance and repair, utility providers, market research, trainers) Textile, Food producers Wholesale and small retailers	Car dealers Catering industry (restaurants and bars) Manufacturing Building industry

We also analyzed the relationship between the corporate strategy and the winner-loser variable. 100 out of 300 companies we selected from our previous research database (3000 firms), where we had many other information about the firms, and where we made cluster analysis according to Miller's configuration theory (Miller 1986, 1996), which is a proper tool for studying the different strategy configurations. According to these 100 firms we knew which cluster they belong to.

Gazelles and investment growers are more likely to be a winner than a loser. Position holders are equally distributed, and drifters and lag behind innovators are absolute loser of the crisis (Figure 3).

FIGURE 3: Distribution of winners and losers by strategy clusters



Key Factors of Entrepreneurial Success

We asked the entrepreneur what the key factors of entrepreneurial success were in the crisis. We divided the period of the crisis into two periods: 2009 and 2010/2011 and asked the question for both. The questions were open ended, but we could identify several categories shown in Table 6.

Table 6. Success factors in the crisis

What were the key factors of entrepreneurial success and failure in the first year of the crisis? (N=243)	What will be the key factors of entrepreneurial success and failure in the next 1-2 years? (N=260)
1. External environment (58) 2. Quick and conscious strategic adaptation (52) 3. High working capital and low debt (51) 4. Keeping costumers (34) 5. Social capital and networks (14) 6. Price/quality ratio and cost effectiveness (13) 7. Innovation (12) 8. Other factors (eg: luck and firm size) (9)	1. Price/quality ratio and cost effectiveness (52) 2. High working capital and low debt (51) 3. Keeping and access to new costumers (41) 4. Finding new opportunities and innovation (31) 5. Quick and conscious strategic adaptation (29) 6. Social capital and networks (24) 7. External environment (23) 8. Larger firm size (9)

Typical responses in the categories:

1. External environment:
    a. There were no winners, all the industry suffers
    b. Political turbulence and unforeseeable taxation system
    c. Some industry collapsed while others benefited from the crisis.
2. Quick and conscious strategic adaptation
    a. Those who could react to the changes on time became winners.
    b. Sudden cost cut, but not forgiving long term growth options.
    c. You have to think before the market.
    d. It is not enough to find the right strategy but it has to be executed efficiently.
    e. Efficient supply chain is the key from which cost advantage can be drawn
    f. We failed, because we were focusing on only one industry segment, we had to diversify ourselves
3. High working capital and low debt
    a. Small firms, with no slack resources were extremely vulnerable to the crisis
    b. Huge changes in the cost of debt financing run the business into bankruptcy
    c. There is poor access to financing in the market. Those who have good connections to financial institutes could acquire businesses.
4. Keeping costumers, and get access to new ones
    a. The Nr. 1 issue in the crisis was to keep costumers
    b. Many costumers went into bankruptcy, it's a key issue to find new ones
    c. Some of the competitors closed their doors that gave us new access to costumers
    d. The most important task is to keep profitable costumers
    e. The winners could stabilize their markets
    f. International markets can save the low performance of the local markets
5. Social capital and networks
    a. The winners could get closer to their partners (costumers, suppliers etc.)
    b. Access to capital is a key factor!
    c. Lobby and political connections determines the viability of a company
6. Price/quality ratio and cost effectiveness
    a. Competitive pricing is more important than ever
    b. The winning strategy is not to offer the lowest prices, but to raise quality and keep profitability
    c. Lower your operating costs, raise (cheaper) capital
7. Finding new opportunities and innovation
    a. As the crisis became deeper, new opportunities were born
    b. You can gain costumers from bankrupt companies
    c. Winners should always look for new opportunities
    d. It is not enough to give better quality, but to serve costumers needs
8. Firm size
    a. Larger firms had more chances, because they had more resources
    b. More capital means more possibilities to maneuver
    c. Larger firms can have larger influence on the industry and the government
    d. A larger firm could loose more, but also keep more

Besides the time period comparison, we also looked for the difference between the perception of the loser and the winner firms, but we have not found a significant difference.

Implications

Advancing Timmons' Model

Regarding the performance of start-up and promising small firms the issue is their survivals. Timmons (1994) reviewed the works of over two dozen authors and noted several ingredients of successful venture creation, such as the importance of a lead entrepreneur, building a team with complementary skills, a triggering idea for a product or service, a well developed business plan, a network of people and resources and appropriate financing. In entrepreneurship, however, uncertainty and risk are always present, and entrepreneurs are always faced with the possibility of failure. No matter how carefully is the new venture is developed ultimate decision is brought by the market in the form of sufficient demand.

The starting point is the model suggested by Timmons (1994), which proposed that the entrepreneurial process is opportunity-driven, led by a team, and characterized by parsimonious [less is better] resources. Taking Timmons' original model one step further, Hortoványi (2010) proposed that entrepreneurial managers are firmly committed to the exploitation of a given opportunity, to do so they need to overcome severe resource gaps (as opposed to "parsimonius"), and finally, they also need to move beyond their close, initial core team if they are to overcome the encountered resource gaps.

Based on the above mentioned results, we suggest that in crises not the opportunity driven commitment is necessary, but quick and causious strategic adaptation is more important. Moreover, we agree that parsimonious resources and resource gaps are caracteristics of the SMEs, and only those will succeed in the crisis that can handle financial and demand market insuffiencies. To overcome these barriers a closer connection through social capital and networks to the partners are required. The proposed model is shown in Table 7.

Table 7. Advancing Timmons' model

Timmons' model	Hortoványi's model	Proposed model
Opportunity-driven	Commitment	Quick and causious strategic adaptation
Parsimonious resources	Resource gaps	Access to finance and offer for the market need
Entrepreneurial team	Social capital	Social capital and Networks

Strategic Adaptation

Steady changes characterize the environment of the organisations, and the pace of these changes is more and more accelerated. Organisations, members of the organisation in an industry have to accommodate themselves to the steadily moving, uncertain environment, which means bigger and bigger challenge and difficulty. Child (1972) changed the reactive picture about the environmental adaptation. He pointed out that not only the environment can have influence on the firm, but the enterprise can also influence its environment. The top managers of the firm, who has influence on the strategy and structure (dominant coalition) of the enterprise, have a chance to choose, and if the environmental

conditions are soft enough even to maintain the strategy and structure that is advantageous for them. In the dynamic world the international, macro, industrial and micro level changes bring continuously an effect on the enterprises. The firms can give answers for these challenges in different ways (Child, 1972, Hortoványi and Szabó, 2006):

- Isolation: The enterprise doesn't follow the environmental changes, it recognizes these late, and doesn't react on them consciously.
- Legging behind: The enterprise tries to recognize the major environmental changes, but often gives inadequate answers for these challenges.
- Late follower (reactive adaptation): The enterprise often recognizes the major environmental changes and follows typically a reactive strategy that responds to the environmental challenges afterwards
- Fast follower (preactive adaptation): The enterprise is usually able to forecast the major environmental changes, and follows a preceding, preparing on time behaviour.
- Trend setter (proactive influence): The enterprise is able to forecast the major environmental changes, prepares itself for those in time and adapts itself to them with proper responses, it even endeavours consciously to influence the environmental conditions.

The organisational inertia (the ambition of the organisations not to change their accepted behaviour without external constraint) is the characteristic of almost all organisations (Bakacsi, 1996). The endeavour to stability and security rise from the depth of the life of man. Because of the constraint from the changing environment only those dynamic organisations will be viable, which are able to prove their maintenance through steady adaptation.

At the time of crises the most successful companies were those who could proactively or preactively adapt to their environment. The crisis had different impact on different industries, those who could trade their industry specific resources to liquid resources (eg.: cash) could proactively influence their competitive environment. Isolation does not seemed to be a winning strategy, because all the industries were more or less impacted and led to loss of potential gains.

Firm Size Matters

Early studies (cf. Audretsch, 1991) indicate that not only is the likelihood of a new entrant surviving quite low but also that the likelihood of survival is positively related to firm size an age. Audretsch and Ács (1990) found for example, that the majority of start-ups are very small – in most cases too small to survive within the industry. According to the authors, the reason for the survival of these firms can be found in their learning strategy. Even if companies tend to be below optimum size they can survive and grow by continuous learning and adaptation. Many of the new firms will of course fail, but the results indicate that industry dynamics is positively related with the success of new entrants.

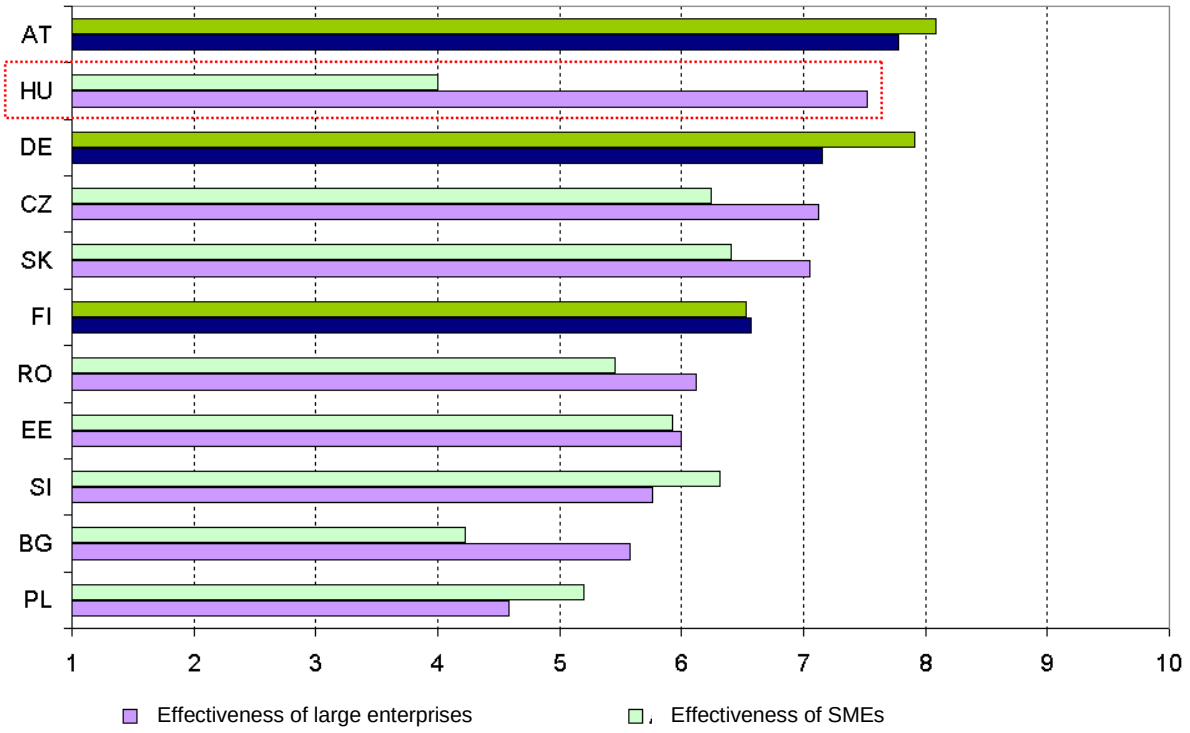
In addition, while small firms appear to have a higher growth rate, they also have a tendency to exit the industry more rapidly (Szerb and Ulbert, 2002; Román, 1991). In most industries these two tendencies offset each other, which provide explanation for why small businesses do not exhibit a higher growth rate than large companies (Landström, 2005). Our results also supported that larger firm size is more viable.

The Role of the SME Sector

The importance of the small and medium size enterprise (SME) sector is well-known: They constitute about two-third of the employment, 50-60% of GDP, one-third of export, and make significant contribution to innovation all around the world. While the Hungarian SME sector has a large number of businesses entities, the competitiveness most of these firms and the whole SME sector is very low. However, there is a partial disagreement between entrepreneurs, the government, and some experts about the reasons of this unsatisfactory performance. Entrepreneurs blame the government for the high tax and social security burden, and the unpredictable government policy while government and some independent expert call the attention to the lack of entrepreneurial and managerial skills, networking and missing strategy including innovation (Strategy for the Development of Small and Medium-sized Enterprises 2008). Hungarian SMEs have an average employment of only 3,21 while the EU has 4,3. The over-dominance of the micro sized businesses can be seen from the share of the employment data.

If we look at IMD competitive ranking and Global Competitiveness Index Hungary fell rapidly between 2000 and 2008. In year 2007/2008 Hungary fell 15 places on the ranking, and a warning sign, that it even differs from neighbouring countries performance. The IMD survey makes it possible to compare effectiveness between small and large enterprises.

FIGURE 4: Large companies and SMEs effectiveness 2008



Source: Versenyképességi évkönyv Magyarország (Yearbook of competitiveness Hungary) 2008, p. 50.

The figure shows that the bad performance caused by low effectiveness of SMEs. We come to similar results, if we compare to EU averages. In the European Union SMEs performance is about 2/3 of large companies, while Hungarian SMEs have only 40% of added value.

The deteriorating of SME sector started two years before the crisis, and hit in very bad condition. The decreasing competitiveness is not only the consequence of macroeconomic unbalances in state

budget, or crumbling institutional condition, rather internal factors influencing individual competitiveness. In this study we examined some factors of competitiveness of small businesses.

Limitations

As the sample is rather small (N=305) we have to keep in mind several limitations, like it is limited to analyze at regional or industry level. The characteristics of Hungarian SMEs also limits results, like small size, less developed organizational structure and less added value on average compare to European SMEs.

Conclusions

The global financial and market demand crisis offered a good opportunity to test our former knowledge and management thinking about entrepreneurial success and failure. The crisis caused threats and opportunities at the same time. We tried to identify those factors that lead to success.

We found that a larger firm has better odds to succeed, but quick and cautious strategic adaptation is a more important factor. Those who could act proactively could benefit from the crisis. Besides, general knowledge/resources like financial assets and markets, and access to them through broad social capital and network configuration give more free space to deliver the planned strategy. Deep industry specific knowledge/resources could run the business into heaven or hell, depending in which industry it operated.

The key success factors at the time of crises seems to be the following:

1. Choose the right external environment, industry
2. Get access to financial assets
3. Get easy access to stable and defendable markets
4. Offer the right price/quality products
5. Lower your costs to keep profitability
6. Continuous look for new opportunities
7. Grow fast but keep resilience

Acknowledgements

This research was supported by TÁMOP 4.2.1/B-09/1/KMR/-2010-0005. We would like to thank to Lilla Hortoványi for her valuable comments.

References

Audretsch, D & Z Ács 1990. The entrepreneurial regime, learning and industry turbulence. Small Business Economics, 2(2), pp: 119-128.

Audretsch, D 1991. New-firm survival and the technological regime. The Review of Economics and Statistics, 73(3), pp: 441-450.

Bakacsi Gy 1996. Szervezeti Magatartás. Közgazdasági és Jogi Könyvkiadó, Budapest

Balaton K - Hortoványi L - Incze E - Laczkó M - Szabó ZsR - Tari E 2007. Stratégiai és üzleti tervezés. Aula Kiadó, Budapest

Bird, BB 1992. The Roman god mercury: An entrepreneurial archetype. Journal of Management Enquiry, 1(3), pp 442-453.

Busenitz, LW & J Barney 1997. Difference between entrepreneurs and managers in large organizations: Biases and heuristics in strategic decision making. Journal of Business Venturing, 12(1), pp: 9-30.

Byers, T – H Kist - RI Sutton 1997. Characteristics of the Entrepreneur: Social creatures, not solos heroes. In Dorf, RC (ed. The Handbook of Technology Management, CRC Press: Boca Raton, FL

Carlsson, B 1992. The rise of small business: Causes and consequences. In Adams, William James (ed. Singular Europe: Economy and polity of the European community after 1992, University of Michigan Press, Ann Arbor, MI

Child, J 1972. Organizational structure, environment and performance: the role of strategic choice. Sociology, 6: 2-22

Collins, OF & DG Moore 1970. The Organization Makers: A Behavioral Study of Independent Entrepreneurs. Appleton-Century-Crofts.

Cornelius, B; H Landström & O Persson 2006. Entrepreneurial studies: the dynamic research front of a developing social science. Entrepreneurship Theory and Practice, 30(3), pp: 375-398.

Gartner, WB 1988. „Who is an entrepreneur?" Is the wrong question. American Journal of Small Business, 12(4), pp: 11-32.

Gartner, WB; P Davidsson & SA Zahra 2006. Are you talking to me? The nature of community in entrepreneurship scholarship. Entrepreneurship: Theory and Practice. 30(3), pp: 321-332.

Hatch, NW & JH Dyer 2004. Human capital and learning as a source of sustainable competitive advantage. Strategic Management. Journal, 25, pp: 1155–1178.

Hitt, M. A. and Ireland D. R. 2000. The intersection of Entrepreneurship and Strategic Management Research. In Sexton, D. L. and Landstrom, H. A. (eds.) Handbook of Entrepreneurship, Blackwell: Oxford, pp. 45-53.

Hitt, M. A. and Ireland D. R. and Camp, S. M. 2001. Guest editors' Introduction to the Special Issue Strategic Entrepreneurship: Entrepreneurial strategies for wealth creation. Strategic Management Journal, 22: 479-491

Hornsby, JS; DF Kuratko & SA Zahra 2002. Middle managers' perception of the internal environment for corporate entrepreneurship: Assessing a measurement scale. Journal of Business Venturing, 17 pp: 253-273.

Hortoványi L – Szabó ZsR 2006. Pillanatfelvétel a magyarországi közép- és nagyvállalatok vállalkozási hajlandóságáról. Műhelytanulmány. Budapesti Corvinus Egyetem Vállalatgazdaságtan Intézet. Versenyképesség Kutató Központ, Budapest. www.competitiveness.hu

Hortoványi, L. 2010. Entrepreneurial Management in Hungarian SMEs. PhD Thesis Work, Corvinus University of Budapest, Budapest

Kimberley, JR. 1979. Issues in the creation of organizations: Initiation, innovation, and institutionalization. Academy of Management Journal, 22, pp: 437-457

Landström, H 2005. Pioneers in entrepreneurship and small business research. ESEN, Springer: New York

McGrath, RG & MS Cardon, 1997. Entrepreneurship and the functionality of failure. Paper presented at the Seventh Annual Global Entrepreneurship Research Conference, Montreal, Canada

McGrath, RG 1999. Falling forward: real options reasoning and entrepreneurial failure. Academy of Management Review, 24(1), pp: 13-30.

Miller, D 1996 Configurations revisited, Strategic Management Journal, Vol. 17 Issue 7, pp. 505-512

Miller, D. 1986 'Configurations of Strategy and Structure: Towards a Synthesis', Strategic Management Journal. 7: pp. 233—249.

MKT 2009. A magyar gazdaság lehetséges és sikeres reagálásának útja a mai globális világ kihívására. MKT, Budapest

Nagy, A 1996. A vállalkozások stabilizációs előfeltételei. Ipargazdasági Szemle, 27, pp: 15-21.

Papanek, G. - Borsi B. - Tompa T. 2007 A magyar gazdaság versenyképességét magyarázó tényezőkről, (Factors influences competitiveness of Hungarian Economy) Külgazdaság, Vol 51 no 3-4. pp. 10-38.

Papp, I 2006. Tanulás és stratégiaalkotás kis- és középvállalatoknál. PhD Thesis Work, BMGE: Budapest.

Pettigrew, AM 1985. The awekening Giant: Continuity and Change in Imperial Chemical Industies. Basil Blackwell, Oxford

Pettigrew, AM 1987. Context, and Action in Transformation of the Firm. Journal of Management Studies, 24: 649.670

Román, Z 1991. Entrepreneurship and small business. Journal of Business Venturing, 6(6), pp: 447-465.

Romanelli, E 1989. Environments and strategies of organization start-up: Effects on early survival. Administrative Science Quarterly, 34, pp: 369-387.

Sharma, P & JJ Chrisman 1999. Toward a Reconciliation of the Definitional Issues in the Field of Corporate Entrepreneurship, Entrepreneurship Theory and Practice, 23(1), pp: 11-27

Shaver, KG & LR Scott 1991. Person, process, choice: the psychology of new venture creation. Entrepreneurship Theory & Practice, 16(2), pp: 23-45.

Shepherd, DA & DR DeTienne 2005. Prior Knowledge, Potential Financial Reward, and Opportuntiy Identification, Entrepreneurship Theory and Practice, 30(1),91-112

Stevenson, HH 2006. A Perspective on Entrepreneurship. Harvard Business School, pp: 1-13.

Strategy for the Development of Small and Medium-sized Enterprises 2008, Ministry of Economy and Transport, www.nfgm.gov.hu

Szabó ZsR – Zetkó K 2005. Az EU-USA gazdasági kapcsolatrendszere – Növekvő forgalom, élesedő viták a bilaterális kereskedelemben. XXVII. OTDK. 2005. április, Sopron.

Szabó, ZsR 2005. Strategy Formulation Processes, “In Global Competition” research program 2004-2006, working paper No. 13, Budapest: CUB

Szerb, L & Ulbert J 2002. A kis- és középes vállalkozások növekedési potenciáljának átalakulásáról. Vezetéstudomány, 33(7-8), pp: 36-46.

Szerb, L- J. Ulbert 2002 Entrepreneurial growth and the role of venture capital in Hungary In: Varga, A. and L. Szerb (eds. Inovation, entrepreneurship, regions and economic development: International experiences and Hungarian challenges, University of Pécs, pp. 122-146

Timmons, J 1994. New Venture Creation (4th edition) Irwin: Burr Ridge, IL

Tyson, L. - T. Perrin – H. Rogers 1994 Promoting Entrepreneurship in Eastern Europe, Small Business Economics 6(3) June 1994, pp. 1-20

Upton, NB & RKZ Heck 1997. The family business dimension of entrepreneurship. In: Sexton DL & RW Smilor (eds. Entrepreneurship: 2000, Upstart Publishing: Chicago, IL. pp: 243–266.

Van den Bosch, F. A. J., Volderba H. W., and de Boer M. 1999. Coevolution of Firm Absorptive Capacity and Knowledge Environment: Organizational Forms and Combinative Capabilities. Organization Science, 10: 551-568

Versenyképességi évkönyv Magyarország 2008, GKI Gazdaságkutató Rt.

Wickham, PA 2003. The representativeness heuristic in judgments involving entrepreneurial success and failure. Management Decision, 41(3), pp: 156-167.

Zahra, S. A. and Dess, G. G. 2001. Entrepreneurship as a field of research: Encouraging Dialogue and Debate. Academy of Management Review, 26: 8-10.