

DEVELOPMENT VENTURE STRATEGY OF SMALL AND MEDIUM SIZE ENTERPRISES (SME-s) APPLYING VALUE METHODOLOGY

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ABSTRACT

Small and Medium Size Enterprises (SME-s) play an important role in the Hungarian economy. However these enterprises struggle with a lot of problems. The Government wishes to support SME-s. For the sake of the cause an inter-departmental committee was founded in the beginning of 1998.

The task was to develop venture strategy of SME-s applying Value Methodology.

The author was the head of the Value Analyst team.

As a result of this work a methodology has been created for the SME-s development.

INTRODUCTION

During the recent years developmental strategy of the Small and Medium Size enterprises was drafted in several manners. The purpose of joining the value methodology means a new attempt targeting to explore vulnerable points of conceptions and implementation processes till now. Now at first we focus all factors and conditions which aren't capital demanding above all (seeing that application value methodology isn't required to ascertain that the entrepreneur capital is the primary condition of an enterprise) but which are factors and values of attitude, will, behavior, conduct, etc.

On part the Government the following demands have arisen:

- Supporting the developmental strategy of SME-s with the use of value methodology;

- Supporting the Contractor Incentive Program of the Government, what provides definite support for entrepreneurs in the sphere of the industry at the first step.

CONCEPTION RELATING APPLICATION OF VALUE METHODOLOGY

In countries having developed market economy application of value methodology is aimed at improvement of the efficiency. In Hungary a special status dominates. Turning to the market economy meets with enormous difficulties and needs significant sacrifices. In our judgement application of value methodology may support a quicker "learning" and developing the market economy. Hungary has to meet the requirement of not only the market economy but the globalization as well. **This means that we have to accomplish a market economy which complies the globalization as well.** The value methodology is one of the implements which can support this development effectively, and **can reinforce positions of Hungary at entering the European Union.**

It can be drafted generally that application of value methodology can promote a more efficient joining the international economic connections, since improves the "transparency" of the Hungarian economy.

One of the results provided by the value methodology is the possibility that the chosen technical proposals or other resolutions may be successful economically as well.

IDEAS ABOUT THE HUNGARIAN-USA
COOPERATION IN VALUE METHODOLOGY

For us maybe the most important object of the Hungarian-USA value methodology cooperation is the usability of value methodology even during the transition period. In our opinion as a result of the joint work methodological achievements have been accomplished which can be applied in most of the former socialist countries.

NEW CONCEPTION OF APPLICATION OF
VALUE METHODOLOGY

The possibility - that the value methodology can be applied not only for solving internal problems but for increasing the efficiency of international economic cooperations among the countries as well - is also believed as a new conceptual idea. This means that application of value methodology makes availability of additional resources and development of new cooperation forms possible.

OBJECTS OF THE REASARCH

Thus one of the objects of the study was to involve the value methodology into drafting the entrepreneurial strategy experimentally, and collaterally to explore how the value methodology may support functioning of SME-s in the future. Function of value methodology in the economy is fairly known. It is also known that the value methodology basically needs team work. The small size enterprises aren't in possession of employees required for the team work, thus the present situation differs from the practice till now.

An other purpose of the study was the examination of the company connection to explore the possibilities supporting the more efficient cooperation among the companies. In this case we thought of the large companies and the contractor SME-s.

For taking the preliminary steps in the Contractor Incentive Program, and drafting the developmental strategy of the small and medium size enterprises the former Ministry of Industry, Trade and Tourism operated an Inter-departmental Committee (IC). The members of the team performing the value methodology work were organized from participants of the IC. The value methodology team was managed

by a professional leader-team¹, which elaborated the strategy of the research, performed the professional preparation of the team and managed the project continuously. Keeping the course of the study in the proper direction was supported by the very fact mentioned above that the leader-team consisted of not only value analysts but experts from other disciplines. The information background of the team-work was taken from the case studies and fact analyses compiled by the members of the IC. Since matters were compiled well-known and highly educated experts and professional teams these information were recognized as basic matters. Of course these matters aren't the results of the team-work managed by us.

Further "own purpose" of the leader-team was to support SME-s in the future applying methods of the value methodology.

DESCRIPTION OF THE VALUE
METHODOLOGY ACTIVITY

During our work we followed the rules of methods of the value methodology, and of course we had to take the specific features of the theme into consideration. Special feature of this kind was the simultaneous presence of both the lack of information and the enormous quantity of information. Several thousand pages of professional subject-matters have been worked up by members of the leader-team. These subject-matters contained information of great importance for judgement of the general economic position, but didn't contain enough information for performing the value methodology assessment. In the domestic and international specialized literature appropriate subject-matters could be found merely "per tangentem", therefore researches had to be started at basic research level.

DEFINITION OF THE PROBLEM

On the basis of the general economic and economy-policy analyses both current and completed up to the

¹ Members of the leader-team: prof. Dr. Géza Ambrózy, Head of Department of Finance of the High School of Finance and Accountancy; prof. Dr. József Hegedűs, Ph.D., CVS., Chairman of the Society of Hungarian Value Analysts; Dr. János Lasányi, international jurist, innovation expert; Ms. Katalain Kajtár, CVS., president of the UNILAB value analyst company; Ms. Tünde Horváth, economist, AVS.

spring of 1998, scope of the Hungarian economy can be summarized as follows:

- The market economy has been evolved.
- Among the member states of the former COMECON (Council of Mutual Economical Aid) Hungary was one of the regions where development of the market economy advanced with the highest speed, cultural level and highly educated expert team of the country evoked significant attraction for the operating capital.
- Role of SME-s strengthened to the enormous degree in the domestic economy. Neither the companies nor the governmental administration were prepared for this as required.
- Creation of the old purpose - the entrepreneur state - can be realized by means of SME-s, therefore putting the enterprise development strategy into a system and support of changes in the process are the most important present-day economical task.
- For providing scope of the Hungarian economy and for "realization" of the special domestic possibilities, selection of an enterprise development strategy should be practical which is able to comprehend both the production and the service spheres. For implementation of this application value methodology seems to be the most appropriate.
- Difficulties emerged recently are of not merely production, manufacturing and technological but company management, organizational, trade-strategic (soft science) character as well. For solving these problems at present exclusively application of value methodology seems to be appropriate.
- Etc.

In our opinion application of the value methodology is one of the most effective measures for integration of the various professional stand-points and elaboration of an efficient enterprise development strategy.

FUNCTION ANALYSIS

The leader-team drafted the functions and compiled a function scheme (Table 1) which was discussed by the team. Changes proposed by the team were accepted by the leader-team.

Following these, ranking and weighting of functions had happened on the selected function level. The results are given in Table 2. It was surprising for the leader-team that several functions deemed to be important by them had been essentially "refused" by

the team during ranking (e.g. F26, F64, F91, etc.). The leader-team accepted the opinion of the team and further on during the analyses they worked according to the modified function scheme. In our opinion these very results came into being because only small number of entrepreneurs took part in the work of the team. We deem to be significant to verify these experimental results together with wide range of enterprises later on.

Measure of performance of the single functions one by one. Results are given in Table 3. It can be stated that most of the functions were under-performed or non-performed at all.

IMPROVEMENT OF FUNCTION PERFORMANCE ESTABLISHMENT OF THE PROPOSALS

The real situation is characterized by our compilation showing the assessment of function performances. In this place we take no notice of the detailed description, first of all statements derived from the value analysis.

Assessment of function performances draws the attention to the lack of complexity, which concerns the governmental and civilian organizations dealing with the enterprises. Although these institutions are dealing with the basic conditions (capital, information, protection of interest, etc.) on the other hand improvement of the entrepreneurial culture and attitude aren't deemed to be important by them. Dividing lines of ways of life can be found along the employers and employees. Even the moral-ethical values aren't balanced. In Hungary these are influenced more considerably by the evil precedents than abroad ("swindler-extorter entrepreneurs", maffias).

On the basis of interpretation and comparison of functions we can call the attention to several problems. "State organization" of the domestic profession structure shows at negative direction, its effect isn't "enterprise-friend". Notwithstanding the fact that several new profession cultures are arising the professional structure is influenced by custom-effects. Numerical restriction of education of a number of professions/trades - or generally fields of professions/trades - means weakening of the "main body of entrepreneurs". For example; approach of "Teaching of engineers isn't necessary, because there is no industry" is the opposite of the natural movement of enterprises. Existence of engineers is one of the basic conditions of the industry and existence of entrepreneurs is the other.

Participants of the market have to reckon with the fact that they may be losers, and may become bankrupt. Even if only 50% of the losers will start with a new enterprise, this should bring significant quality and structure changes, because they start with a different new enterprise. Interpreting of functions this process should be deemed to be the natural logic and movement of enterprises. The competition is also a natural instrument of these processes and movements. It can be observed that enormous capacities are developing along these processes, followed by bringing new entrepreneurial structures into existence, and higher and higher level demands are initiated by new efficient methods (idea producing-, connecting-, background-industry). Using the language of the value methodology; new product functions arise, new habits take shape. All these give new meaning and sense to not only the information flow, but to the resource structure of the enterprise development. Facts written above manifest themselves in a lot of under-performed functions. In addition the team ranked several functions to an extremely low level, which functions should support the above mentioned movement of natural logic. Explanation for all these is the strong success of partial interests. On this basis it can be stated that at drafting enterprise development strategies sectoral and other institutional considerations mustn't be enforced and considered.

PROPOSALS

Our conclusions suggest that at present and during the next few years an institution system is and will be required which can plan, organize, implement and control the SME-s. In addition we have to reckon with a great number of tactical and operative elements which must be continuously changed according to the changing conditions.

Our proposals and essential coherence of these are summarized in Table 4. In accordance with our purposes in our compilation illustrating the list of strategic, tactical and operative elements we had the intention of demonstrating the different state- macro- and micro-economy levels, although these can't be separated from each other "clearly".

The SME-s should be a part of the current economy policy and the governmental entrepreneurial activity implementing thereof. At the same time at present it must be recognized that the following should be of focal point: if the Government intends to strengthen the flow of the risk capital from economic-policy

considerations, the SME-s sector should be given prominent role in it.

In accordance with our original purposes on the basis of our conclusions a proposal has been drafted with the aim of propagating the value methodology and improving the readiness for its adoption:

- We deem to be practical to implement the National Value Methodology Project² elaborated earlier, which should help the improvement of the general readiness for adoption, and should provide the infrastructure and condition system of its application in the sphere of the SME-s.
- Joining the value analyses to the contractor target programs would be practical. If these were planned and organized with the use of value methodology the efficiency should be increased by 20-30%, to say nothing of the positive effect of the application of the methodology on the change of attitude.
- It goes without saying that development of SME-s and implementation of its institutional system should be performed practically with the application of value methodology. It doesn't need any verification that function scheme presented in this lecture can't be substituted with any other kind of methods.
- On the basis of foreign (USA) precedents it should be useful to make measures to prescribe the application of value methodology at using up any state (public) money above volume limits determined by the Public Purchase Act and the Budgetary Act.

Moreover it is also recommended that implementation of our proposals and realization of value methodology tasks should be integral parts of the government program organized and coordinated by the Ministry of Economic Affairs. For professional support of this program the Society of Hungarian Value Analysts should be invited.

² The National Value Methodology Program has been elaborated by the Society of the Hungarian Value Analysts on behalf of the Ministry of Industry, Trade and Tourism in 1996.

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Table 1: Function system of strategy of enterprise development
(particulars)

F0 DEVELOP STRATÉGY

F1 Improve competition position

F11 Advance becoming entrepreneur

F111 Help stabilization

F112 Strengthen operation

F113 Make research on possibility

F114 Draft possibility

F115 Create competition position

F12 Mobilize sources

F121 Concentrate capital

F122 Mobilize capital

F123 Advance increase of employment

F124 Advance manpower mobility

F13 Strengthen competition sphere

F131 Improve trade-structure

F132 Mediate innovation-policy

F133 Support competition mentality

F14 Strengthen enterprise

F141 Strengthen success

F142 Strengthen positions

F143 Strengthen product mentality

F144 Create legal sphere

F2 Mobilize participants

F21 Strengthen identity

F211 Draft communicational philosophy

F212 Create image

F2121 Create central image

F2122 Create regional image

F2123 Create local image

F213 Help tradition keeping

F214 Advance identity

F22 Influence conduct

F221 Explore regional advantages

F222 Increase demand level

F223 Influence consumption

F224 Shape attitude

F2241 Influence mentality

F2242 Mediate targets

F23 Draft future image

F231 Choose developmental direction

F232 Draft deviation requirement system

F233 Strengthen optimistic conduct

F24 Strengthen human consciousness

F241 Help self-expression

F242 Teach self-respect

F243 Encourage to strengthen self-confidence

F244 Help liberation from inhibition

F25 Help mental attachment

F251 Shape status symbols

F252 Mobilize for imitation of ideals

F253 Recall successes (experiences)

F26 Operate measures system for skill development

F261 Introduce creative workshops

F262 Encourage to develop algorithm usage

F263 Train for thinking in functions

F27 Help in attachment to the universal human culture

F271 Promote adjusting to values

F272 Encourage to create value

F3 Strengthen marketing process

F4 Manage innovation

F5 Help in concept making

F6 Strengthen market protection

F7 Organize division of labor

F8 Forms base places

F9 Shapes entrepreneurial consciousness

Table 2 Weighted ranking list of functions

Number	Name	Weight No. %
1.	F14 Strengthen enterprise	11
2.	F12 Mobilize sources	11
3.	F41 Mobilize developmental sources	9
4.	F11 Advance becoming entrepreneur	7
5.	F61 Enforce economical policy	6
6.	F51 Operate strategy	5
7.	F73 Encourage cooperation	5
8.	F52 Enforce innovation policy	5
9.	F62 Shape market concept	4
10.	F23 Draft future image	4
11.	F81 Operate information bases	3
12.	F13 Strengthen competition sphere	3
13.	F 85 Establish institution system	2
14.	F 63 Protect enterprises	2
15.	F42 Develop innovation structure	2
16.	F84 Strengthen region	2
17.	F71 Join to global markets	2
18.	F83 Organize innovation bases	1,5
19.	F22 Influence conduct	1,5
20.	F21 Strengthen identity	1,5
21.	F72 Improve contractor culture	1,5
22.	F31 Draft marketing policy	1
23.	F32 Shape marketing concepts	1
24.	F26 Operate measures system for skill development	-
25.	F64 Protect product	-
26.	F91 Develop expense conscious attitude	-
27.	F92 Strengthen information consciousness (pressure)	-
28.	F82 Organize Orgver bases	-
29.	F24 Strengthen human consciousness	-
30.	F93 Teach to defend against strategic threats	-
31.	F25 Help mental attachment	-
32.	F27 Help in attachment to the universal human culture	-
	Total	100

Table 3 Function Performance Assessment

Number	Name	Performed function	Under-performed function	Non-performed function
1.	F14 Strengthen enterprise		X	
2.	F12 Mobilize sources		X	
3.	F41 Mobilize developmental sources		X	
4.	F11 Advance becoming entrepreneur		X	
5.	F61 Enforce economical policy		X	
6.	F51 Operate strategy		X	
7.	F73 Encourage cooperation		X	
8.	F52 Enforce innovation policy		X	
9.	F62 Shape market concept			X
10.	F23 Draft future image			X
11.	F81 Operate information bases	X		
12.	F13 Strengthen competition sphere		X	
13.	F 85 Establish institution system		X	
14.	F 63 Protect enterprises			X
15.	F42 Develop innovation structure		X	
16.	F84 Strengthen region			X
17.	F71 Join to global markets			X
18.	F83 Organize innovation bases		X	
19.	F22 Influence conduct	X		
20.	F21 Strengthen identity			X
21.	F72 Improve contractor culture			X
22.	F31 Draft marketing policy	X		
23.	F32 Shape marketing concepts	X		
24.	F26 Operate measures system for skill development			X
25.	F64 Protect product			X
26.	F91 Develop expense conscious attitude			X
27.	F92 Strengthen information consciousness (pressure)		X	
28.	F82 Organize Orgver bases		X	
29.	F24 Strengthen human consciousness			X
30.	F93 Teach to defend against strategic threats			X
31.	F25 Help mental attachment	X		
32.	F27 Help in attachment to the universal human culture	X		

