Main drivers for settlement of creative and knowledge intensive companies in the Budapest Metropolitan Region

The managers' view

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The managers' view

ACRE report [No 6.4]

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Accommodating Creative Knowledge – Competitiveness of European Metropolitan Regions within the Enlarged Union

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AMIDSt, University of Amsterdam

ACRE

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Executive summary

The results of the present (WP6) report originate from the analyses of qualitative in-depth interviews. This method is suitable to investigate the subjective individual level of interviewees (emotions, motivations, attitudes), that cannot be obtained by quantitative surveys. In the present phase of ACRE project it was the managers of firms and companies acting in the creative knowledge sector who composed the target group of the survey. The aim of interviewing was to understand the drivers behind the decisions of the managers of selected knowledge intensive and creative industries to settle at a certain location in the metropolitan region and to estimate the relative importance of the location factors that played a role in their decision making process.

The survey has been carried out in different sub-sectors: computer games and webdesign, business and management consultancy activities, and motion picture, video, radio and television activities. In the selected branches the research was conducted on three levels: sole proprietors, "small" enterprises with 2-6 employees and "large" enterprises with 6-200 employees. Altogether 19 in-depth interviews were carried out in the selected branches and 4 similar interviews were conducted with network actors of the individual branches to provide additional information.

At the end of 2004 there were 724 thousand active economic organizations in Hungary of which 264 thousand were operating in the field of creative industries and knowledge intensive industries. Thus, the ratio of these organizations made up 36.4 percent of the active economic organizations registered in the country. In the creative knowledge sector (as defined by ACRE consortium) 872,000 persons were employed in the studied year and the firms realised nearly 48 billion EUR revenues.

A significant part of the organisations in the creative industries and knowledge intensive industries is located in the Budapest Metropolitan Region (BMR) and mainly in the core city Budapest. In the BMR altogether roughly 112,000 companies and sole proprietors were registered in 2004 employing 427,000 people and producing 28 billion EUR revenues as a total.

Based on the number of enterprises and employees *Law and business* is the most significant knowledge intensive sector in the BMR, and it is also one of the leading sectors in terms of the revenues. Within the sector Law and business "Business and management consultancy" sub-sector plays the most prominent role. In 2004 84 percent (nearly 25,000 active enterprises) of the enterprises were registered in this branch. Altogether 49,500 persons occupied in the BMR comprise 55.5 percent of those of national total in the law and business sector. The sub-sector is outstanding within the sector also in terms of revenues: 68 percent of the revenues were produced here.

The *ICT sector* in the area of BMR comprised ca. 8,700 registered enterprises in 2004. Concerning the number of the firms the BMR has an outstanding representation: 53.6 percent of them are to be found here. The ICT sector employed almost 57,000 persons and with revenues totalling at 8.5 billion EUR it is one of the most fundamental sectors. In 2004 the number of enterprises belonging to the "Software consultancy and supply" sub-sector approached to 6,500. The sub-sector however displayed considerable spatial disparities within the BMR: though the companies were concentrated overwhelmingly in Budapest, the progress was significantly more dynamic in the settlements of the agglomeration. The weight of the BMR (including Budapest) within the sub-sector is prominent at all-national level: 61.3 percent of enterprises registered in Hungary, 74 percent of the employees and 83.5 percent of the revenues were originated from the BMR.

BMR has an outstanding position within Hungary with regard to the *creative industries*. In 2004 creative industries comprised 65,071 registered enterprises where 194,000 persons were employed and the annual revenues nearly reached 11 billion EUR. "Motion pictures and video activities, radio and TV activities" belong to branches not being among the most important creative industries but displaying a highly dynamic development of revenues and profit and a clear-cut dominance of the BMR. The revenues show an extreme concentration with the share of the capital with revenues in both sub-sectors exceeding 90 percent of the national total.

Considering the main results of in-depth interviews we can state that hard factors play a decisive role in site selection of enterprises within the BMR, while soft factors were mentioned only by chance. The most important location factor is the price of office (i.e. either the rent to be paid in leasing or the price of the property in the case of purchase). According to the managers interviewed the office market provides a fairly abundant choice in the BMR, but regarding supply and prices there are considerable differences between Budapest proper and the agglomeration. The problem of localisation of the seat of the enterprise (distance from the clientele) has been losing significance for the ICT sector and Software consultancy sub-sector. Within the Motion picture, video, radio and TV activities sub-sector location has higher importance.

For the economic sectors and branches the second main factor of settlement is traffic and public transport related accessibility and availability. In the course of site selection a surprisingly relevant factor is the place of residence of the management, leadership of the enterprise from the would-be seat (office).

Informal links are crucial for the development of ventures in the BMR. Here the size, profile and activities of firms are decisive. These relations have utmost importance for the smaller enterprises, but in general firms with good contacts draw clear-cut economic advantage. References have a prominent importance at informal meetings and formal confers.

The size and age of the firm have a fundamental effect also on the search for manpower and clientele: smaller ventures and enterprises find them in the beginning through personal contacts, then with the progress and growth of the firm the clientele gained through business partners and workers recruited by head hunter ventures are coming to the fore.

Clustering hardly has any traditions in the BMR but appears in incipient forms. The phenomenon differs by sectors and sub-sectors in the BMR. In ICT sector there are signs of clustering, on the other hand no sign of clustering could be experienced in Business and management consultancy sub-sector, whereas there has been a kind of „anti-clustering" in Motion picture, video and TV activities sub-sector.

Financial support from the central and local governments and from the EU has different weight for the individual sectors: they play a subordinate or negligible role for Business and management consultancy and Software consultancy sub-sectors, but for Motion picture, video and TV activities sub-sector, and especially for the cinema industry they are of utmost importance and instrumental in their operation.

Concerning the limiting factors and competitiveness of the Budapest Metropolitan Region a general trend present in all sectors and branches of economy is the concentration of enterprises in Budapest. It means that the ventures here face the sharpest competition. Another negative factor for the competitiveness of sectors is striving of the actors of Hungarian economy and enterprises to be independent: there is a frequent lack of willingness to collaborate, drawbacks in the operation of professional networks. There are also considerable deviations in cooperation with universities, research institutes and public institutions by sectors and branches. It can be stated, on the whole, that the collaboration between the sub-sectors investigated and the institutions mentioned is at a low level.

When stimulating economic growth the inadequate concentration of human and material resources is frequently encountered. It is usual that not the best qualified specialists are employed in the SMEs because their labour is too expensive and their number is decreasing.

In the BMR one of the hindrances is the absence of a concrete business strategy and perspective thinking of micro-, small and sometimes middle-size enterprises. The management of the firms as a rule has some concept and concrete plan of action in the short run but no vision of medium- and long-term strategy determining the advancement of the firm in longer perspective. In this sense the business managers of the enterprises in creative and knowledge-intensive branches are often passive on the market.

In the opinion of the managers one of the main barriers to the progress within the BMR is the poor situation of traffic and public transportation. It should be mentioned that the managers claim the political climate and economic environment are not in favour of the entrepreneurial sphere, from which the small and medium-sized enterprises suffer particularly.

On the other hand, with regard to competitiveness one of the strengths of the BMR is that the metropolitan region concentrates a “critical mass” in social and economic sense. The BMR has a fundamental weight in the creative knowledge sector within Hungary, so for the enterprises operating in this sector the presence in the region is a primary advantage. Most of the economic enterprises are to be found here, the provision of infrastructure is much better than elsewhere, so the local enterprises are in a favourable business position in comparison to the countryside firms.

With regard to the labour force the BMR is in a good position either. On the one hand its universities provide reserves for skilled and educated people, on the other hand it serves as a magnet for the countryside manpower.

In Budapest there are services of higher standard and the supply of goods is more abundant than elsewhere in the country. In this sense cultural services can be mentioned among the main strengths of BMR and especially of Budapest. The capital city plays a decisive part in the cultural life of Hungary and branches of cultural industries are overrepresented in the BMR area.

1 Introduction

The ACRE project started in October 2006 can be subdivided into 4 main research stages. In the first, preparatory stage, between October 2006 and March 2007 the researchers delivered a literature review on the theory of creative and knowledge-based industries (WP1), the consortium partners analyzed current paths of creative knowledge regions and presented them as local reports with a similar structure (WP2) and on the basis of these reports a comparative study could be produced, making conclusions about similarities and differences between the selected city regions (WP3).

The second and still running stage commenced in April 2007. It could be labelled as the empirical phase of investigations as the research teams have attempted to reveal the part played and position occupied by the creative knowledge sector within the studied metropolitan regions applying quantitative and qualitative methods (questionnaire survey, interviewing). Altogether three target groups of experts within the creative knowledge sector are being involved in the survey and interviewing: i) highly qualified specialists and workers with university degree in creative knowledge sector; ii) managers occupying leading positions in creative and knowledge-based firms and iii) transnational migrants.

Between June and November 2007 a questionnaire survey among Graduates and Workers as target groups engaged in the creative and knowledge intensive sector was carried out in order to investigate their opinion about local conditions. Main results of this survey were summarized in the WP5 ACRE report.

In the following period of the project between December 2007 and June 2008 professional interviews were conducted with leaders of firms (managers, managing directors) which were involved in the creative and knowledge-based sectors. The aim of interviewing was to understand the drivers behind the decisions of the managers of selected knowledge intensive and creative industries to settle at a certain location in the metropolitan region and to estimate the relative importance of the location factors that played a role in their decision making process. Special attention was also paid to the regulatory role of local and city governments and governmental and European grants as well. Qualitative interviewing is extremely suitable for a better understanding of the subjective opinion of the persons interviewed and also for obtaining auxiliary information that could not be provided by statistical analyses of the results gained by quantitative surveys. Applying qualitative methods the principal statements of WP5 Report could be specified further, and the position of creative knowledge sector within BMR can be analysed not only from the viewpoint of the employees but from that of the employers as well.

Surveys have been conducted in the following (sub)sectors: i) *Software consultancy /Computer games and web design*, which is part of sector 'Computer and related activities' (722 in the NACE classification); ii) *Business and management consultancy activities*, which is included in the economic sector 'Law and other business services' (code 741 in the NACE classification); iii) *Motion picture, video, radio and television activities* (codes 921 and 922 in the NACE classification). Managers of firms of various size (private entrepreneurs, micro-, small and medium-sized enterprises) operating in the selected sectors within BMR were asked for a professional interview of 30-60 minutes. It was aimed at getting information about the history of the enterprise, its current state and future prospects, labour management, activities of professional networks, tenders and financial problems relating to the enterprise and last but not least about the major factors that affected site selection for the firm.

The current report (WP6) presents the most important results of the in-depth interviews. The report can be subdivided into four main parts. After a short introduction the second chapter provides a short description about the role and position of creative knowledge sector within the BMR. The third chapter is composed of the summary of research design and methodology with an insight into the elaboration and application of the interview guide and the sampling process. The most relevant results of the survey – with special emphasis on the opinion of managers – is introduced and discussed by the fourth chapter. At the end of the report a short concluding chapter can be read.

2 State of selected sectors in the Budapest Metropolitan Region

2.1 Short introduction of the sectors and sub-sectors at the national level

In this chapter the position of the selected sectors and sub-sectors is presented briefly, on a national level. For our analyses data about the number of enterprises, their number of employees and annual revenues (in 1000 EUR) were supplied by the Central Statistical Office of Hungary (CSO). This set of data was available in a cleaned and structured form for 1999 and 2004[1].

At the end of 2004 there were 724 thousand active economic organizations in Hungary of which 264 thousand were operating in the field of creative industries and knowledge intensive industries. Thus, the ratio of these organizations made up 36.4 percent of the active economic organizations registered in the country (Table 2.1). In the creative knowledge sector (as defined by ACRE consortium) 872,000 persons were employed in the studied year and the firms realized nearly 48 billion EUR revenues (Table 2.1).

Table 2.1 Basic data of selected sectors and sub-sectors on national level

	Enterprises	Employees	Revenues (mn EUR)	Enterprises	Employees	Revenues
Total	***724254***	***3788859***	***213 780***	***100,0***	***100,0***	***100,0***
Creative knowledge sector	***263570***	***871927***	***47911***	***36,4***	***23,0***	***22,4***
ICT	16275	121657	19 665	2,2	3,2	9,2
Software consultancy (722)	10754	24430	1 349	1,5	0,6	0,6
Law and business	70115	169389	4 712	9,7	4,5	2,2
Business and management consultancy (741)	51245	89213	3 267	7,1	2,4	1,5
Creative industries	150331	432729	17 465	20,8	11,4	8,2
Motion picture, video, radio, TV (921-922)	4610	11370	974	0,6	0,3	0,5

The selected sub-sectors and the sectors they belong to have different share in the economy of Hungary. Of the three sectors it is creative industries that should be mentioned in the first place. 20.8 percent of the active economic organizations registered in the country in 2004 were classed into this sector, encompassing more than 150,000 enterprises. The firms operating in creative industries employed ca 433,000 persons (11.4 percent of the total employed) and the revenues exceeded 17 billion EUR (8.2 percent). Such a considerable weight of creative industries within the national economy could be explained by the wide range of the sector in the interpretation and its definition by the ACRE consortium so it embraces relatively many branches. As shown by data of Table 2.1 the sub-sector Motion picture, video and film plays only a minor part on a national level. This sub-sector had 4610

[1] For the definition of sectors and their subdivision by branches and NACE codes in detail see Annex I and the ACRE 2.4 Report (Kovacs et al. 2007).

enterprises, employed 11,370 persons and the revenues at ca. 1 billion EUR did not even reach 1 percent. Only the revenues realized (nearly 6 percent) are worth mentioning.

Law and business rank second of the three sectors. Its firms numbered more than 70,000 and employed nearly 170,000 people in 2004, and the enterprises realized more than 4.7 billion EUR from the various activities. On an all-national level it has a sizeable share concerning the number of enterprises: each tenth of them belongs to the sector. With regard to the ratio of employees and revenues its significance is much lower. Within this sector Business and management consultancy sub-sector plays a major part: nearly three fourth of the enterprises were operating, 53 percent of the workers were employed, and 70 percent of the revenues was realized in this branch of economy.

ICT sector occupied the third place concerning the number of enterprises (16,000) and that of employees (122,000) in 2004 representing ratios between 2 and 3 percent on an all-national level. At the same time a high profitability of the activities is indicated by the annual revenues close to 20 billion EUR making up 9.2 percent of the national total, thus having overtaken the two other sectors. A remarkable notion emphasizing the high significance of informatics and telecommunication is that in Hungary 40 percent of the revenues of the enterprises operating in creative knowledge sector originates from ICT sector! Inside the sector Software consultancy (Computer games and web design) stands out with the number of enterprises constituting two thirds of all economic units. Both the ratio of employees (20 percent), and share in revenues (6.8 percent) indicate the presence of a high number of micro- and small enterprises on an all-national level. It is not accidental that the share of this sub-sector is very low (about 1 percent) on national level by all the three parameters studied.

For the understanding of the part played by the individual sectors and branches it is indispensable to take into account the dynamics of their development: progress or decline. Creative knowledge sector had a period of expansion somewhat over the national average between 1999 and 2004, even if this development could not be considered very dynamic. There have been however substantial differences between the sectors and sub-sectors. The revenues of enterprises involved in ICT sector had grown considerably, at a rate well over the national average. Apart from the high profit making ability of the sector this trend was due to the newly established firms and broadening employment. Within the sector Software consultancy had not proven to be dynamic with regard to the revenues, in spite of the appearance of the new ventures employing more workers than the ones founded previously.

Due to the positive trends in the national economy ICT sector managed to raise its weight in employment by 0.5 percent and in the field of revenues by 1.4 percent in the economy as a whole over the studied period. Software consultancy was successful in retaining its positions (0.4–0.2 percent growth in the country’s number of enterprises and employees), whereas it was stagnant concerning the revenues.

After the turn of millennium Law and business sector has shown a very dynamic progress, the range and standards of its services expanded steadily and the same was valid for Business and management consultancy sub-sector. The number of both the enterprises and employees rose by more than one third; the latter was really high in national comparison (Table 2.2). This development was not so rapid in the field of Business and management consultancy but also surpassed the national average. Nevertheless, the revenues have dropped considerably both in the sector and in the sub-sector over the past ten years. It is not accidentally because the sub-sector enforced its positions as far as the number of enterprises and employees is concerned (capturing a higher share by 0.3-1.3 percent at national level) but the revenues decreased by 0.4 percent.

Table 2.2 Dynamic progress of selected sectors and sub-sectors between 1999 and 2004

percent

	Enterprises	Employees	Revenues
Total	*21,1*	*6,3*	*84,4*
Creative knowledge sector	29,5	6,3	88,1
ICT	**46,9**	24,6	**118,7**
Software consultancy	**65,5**	**45,6**	78,5
Law and business	39,2	**36,7**	68,1
Business and management consultancy	40,7	24,0	43,2
Creative industries	19,0	-2,2	60,8
Motion picture, video, radio, TV	26,9	-8,4	**161,0**

The advancement and dynamics of creative industries sector had lagged not only behind the two other sectors but it also had in comparison with the national trends. It reached the national average growth rate neither in the number of enterprises nor in revenues, and there was a drop in the number of employees. Some of the branches within the sector however showed a dynamic progress. So Motion picture, video, film, radio and TV activities hardly exceeded national average as regards the increase in the number of ventures and there was even a decrease in the number of employees, but the revenues tended to grow dynamically (161 percent). An extreme boom characterized Motion picture and video activities (NACE: 921) where revenues tripled (a 218 percent growth between 1999 and 2004). In national comparison creative industries sector had lost in significance (-0.4 – -1.2 percent); in contrast Motion picture, video, radio, TV activities managed to retain positions.

2.2 Description of the sectors and sub-sectors in the metropolitan region

In 2004 about 254,000 operating enterprises were registered in the BMR, and they employed nearly 1.5 million persons. Creative knowledge sector had a significant share concerning both the number of the firms and employees and the revenues generated: in the BMR altogether roughly 112,000 companies and sole proprietors has been registered employing 427,000 people and producing 28 billion EUR revenues as a total (Table 2.3). Thus, a significant part of the organisations in the creative industries and knowledge intensive industries are located in the BMR and mainly in the core city Budapest within the whole agglomeration. While the share of Budapest within the total number of economic organisations in Hungary was 26.5 percent in 2004, within the creative knowledge sector it was 33.6 percent. If we take the Budapest Metropolitan Region, 35 percent of all organisations was located here, whereas 42.3 percent of those operating in the creative knowledge sector. Indicative of BMR is that ca. half of the active population worked and nearly 60 percent of the revenues were generated here in 2004 (Table 2.4).

Compared with the data of 1999 several remarkable changes took place during the five year period until 2004 in the creative knowledge sector of the BMR. The number of companies involved in had increased by 30 percent. The increase of the number of employees lagged behind the growth of businesses over the time period in concern. The former had risen from 389,000 to 427,000 which represented a 9.9 percent increase. In relation with the revenues the creative knowledge sector succeeded to nearly double the revenues: the economic ventures received 15 billion EUR in 1999 and it had risen to 28 billion EUR by 2004.

As regards the number of firms and employees the relative weight of the BMR within Hungarian economy was on the increase between 1999 and 2004. The same is valid for the share of creative knowledge sector, even though its growth was not so spectacular: both the number and ratio of employees showed a considerable expansion and in this respect the weight of the BMR rose by 1.6 percent. With regard to the revenues however the BMR had not been able to boost its weight, in spite of the massive increase of the revenues produced by the enterprises (Table 2.5).

Table 2.3 Enterprises, employees and revenues in the selected sectors and sub-sectors of the BMR, 2004

	Enterprises			**Employees**			**Revenues (mn EUR)**		
	Budapest	BMR	Country	Budapest	BMR	Country	Budapest	BMR	Country
Total	192 215	253 498	724 254	1 217 259	1 482 829	3 788 859	91 828	113 657	213 780
Creative knowledge sector	88 548	111 588	263 570	368 707	427 057	871 927	24 016	27 999	47 911
ICT	6 856	8 717	16 275	43 250	56 767	121 657	6 179	8 468	19 665
Software consultancy	5 202	6 590	10 754	15 453	18 073	24 430	1 008	1 126	1 349
Law and business	23 814	29 396	70 115	78 603	89 702	169 389	2 819	3 140	4 712
Business and man. consultancy	20 523	24 931	51 245	42 858	49 520	89 213	2 019	2 211	3 267
Creative industries	51 500	65 071	150 331	165 939	194 009	432 729	9 595	10 887	17 465
Motion picture, video; radio, TV	2 557	3 056	4 610	8 430	9 093	11 370	904	926	974

Table 2.4 The importance of BMR in the selected sectors in Hungary (2004, percent)

	Enterprises			**Employees**			**Revenues**		
	Budapest	Aggl.	BMR	Budapest	Aggl.	BMR	Budapest	Aggl.	BMR
Total	*26,5*	*8,5*	*35,0*	*32,1*	*7,0*	*39,1*	*43,0*	*10,2*	*53,2*
Creative knowledge sector	*33,6*	*8,7*	*42,3*	*42,3*	*6,7*	*49,0*	*50,1*	*8,3*	*58,4*
ICT	42,1	11,4	53,6	35,6	11,1	46,7	31,4	11,6	43,1
Software consultancy	48,4	12,9	61,3	63,3	10,7	74,0	74,8	8,7	83,5
Law and business	34,0	8,0	41,9	46,4	6,6	53,0	59,8	6,8	66,6
Business and man. consultancy	40,0	8,6	48,7	48,0	7,5	55,5	61,8	5,9	67,7
Creative industries	34,3	9,0	43,3	38,3	6,5	44,8	54,9	7,4	62,3
Motion picture, video; radio, TV	55,5	10,8	66,3	74,1	5,8	80,0	92,8	2,3	95,1

Table 2.5 The change of BMR's relative weight in the selected sectors in Hungary between 1999 and 2004 (percent)

	Enterprises	**Employees**	**Revenues**
Total	0,5	1,3	1,9
Creative knowledge sector	0,2	1,6	0,0
ICT	-2,2	-3,2	0,7
Software consultancy	0,6	1,2	-1,5
Law and business	-0,4	0,3	-13,7
Business and management consultancy	2,9	-0,8	-17,1
Creative industries	1,2	4,3	4,1
Motion picture, video; radio, TV	1,2	-1,7	2,7

2.2.1 ICT and Software consultancy

ICT sector in the area of BMR comprised ca. 8,700 registered enterprises in 2004-ben; about four fifth of them was seated in Budapest. Concerning the number of the firms the BMR has an outstanding representation: 53.6 percent of them are to be found here. The ICT sector employed almost 57,000 persons and with revenues totalling at 8.5 billion EUR it is one of the fundamental sectors. In 2004 in the BMR highest revenues per firm and per employee were registered in the ICT sector, with 971,5 thousand and 149,2 thousand EUR respectively. National figures in the same sector were 448,4 thousand EUR per firm and 76,6 thousand EUR per employee in that year. The development of the sector was especially dynamic in the agglomeration zone (outside of the core city) between 1999 and 2004: the number of enterprises rose by 63.4 percent, that of the employees doubled and the revenues showed an increase of 319 percent in this period!

The sub-sector Software consultancy and supply within the ICT sector shows an ambivalent picture: three fourth of the enterprises belonged here, it employed two thirds of the labour force and produced a mere one seventh of the revenues. In spite of this, the weight of the BMR (including Budapest) within the sub-sector is prominent at all-national level: 61.3 percent of enterprises registered in Hungary, 74.0 percent of the employees and 83.5 percent of the revenues were originated from the BMR.

In 1999 the number of enterprises belonging to the software consultancy and supply sub-sector approached to 4,000. Until 2004 this number had risen to over 6,500 producing an increase by 67.1 percent. The sub-sector however displayed considerable spatial disparities within the BMR: though the companies were concentrated overwhelmingly in Budapest, the progress was significantly more dynamic in the settlements of the agglomeration (a nearly 120 percent increase). The same can be said about the change in the number of employees, because the sector expanded dynamically in this sense: the number of workers in the BMR approached over 18,100 in 2004, which meant an increase by 48 percent compared to 1999. The agglomeration displayed an even more dynamic development in this field too (76.4 percent). The change in the revenues within the agglomeration was slightly more spectacular: during the studied time interval there had been a 142 percent increase in this zone even though this makes up just more than a mere 10 percent of the 1.1 billion EUR total in the BMR.

In spite of an upward trend of enterprises and employees in ICT the BMR had significantly lost from its relative weight on national level after the turn of the millennium (decrease by 2-3 percent). It had only managed to improve its position in respect of the revenues. Trends just opposite to those within the sector prevailed in Software and consultancy and supply sub-sector: the weight within the economy of the BMR grew concerning the number of enterprises and employees, but the region lost from importance in revenue generation (Table 2.5). Analysing the significance of the ICT sector within the economy of the BMR it can be stated that all the three parameter values increased their importance (by 0.4 percent, 0.2 percent and 1.0 percent). There was some decline in the revenues in Software and consultancy and supply sub-sector.

2.2.2 Law and other business services – Business and management consultancy activities

Based on the number of enterprises and employees Law and business is the most significant knowledge intensive sector in the BMR, and it is also one of the leading sectors in terms of the revenues (see Annex II). Nearly 90,000 persons were employed in 29,400 enterprises in 2004 and the revenues realised by the firms totalled over 3.1 billion EUR (Table 2.3).

Between 1999 and 2004 the number of firms in the sector increased from 21,300 to 29,400 (a 38 percent growth), and this dynamic expansion had been mainly due to enterprises launched in the settlements of the agglomeration zone, where the growth reached 51 percent. A similar growth was registered among the labour force: between 1999 and 2004 the number of workers increased from 65,300 to 89,700 (a 37.4 percent growth), and this dynamic expansion had been mainly due to enterprises in Budapest. The latter is to indicate a prevalence of larger firms with more employees operating in Budapest. A higher profitability of them is shown by the fact that whereas the enterprises of the capital city doubled their revenues between 1999 and 2004, those in the agglomeration had suffered substantial loss in returns (decreased by nearly 62 percent). The weight of this industry has been lately in close correlation with the importance of the BMR and did not change considerably, which means that 40 percent of the enterprises and slightly more than half of the employees are to be found in the BMR. It was only the revenues generated by this sub-sector which displayed a drop in the share of the BMR, from 80 percent down to 67 percent between 1999 and 2004. This is to indicate that firms of the countryside in law and business are closing the gap with those of the BMR in terms of the number and quality of enterprises and, as a result in their efficiency and profitability.

Business and management consultancy activities sub-sector plays the most prominent part within law and business sector. Already in 1999 78 percent of the enterprises registered in law and business sector belonged to this sub-sector. In the following years the expansion – especially in the agglomeration zone – continued and 84 percent was reached by 2004 (nearly 25,000 active enterprises). Due to this progress close to half of the enterprises active in this sub-sector have concentrated in the BMR (Table 2.4).

Altogether 49,500 persons occupied in the BMR comprise 55.5 percent of those of national total in the law and business sector. A similar is the share of the sub-sector within the sector as far as the ratio of employees concerned (55.2 percent).

The sub-sector is outstanding within the sector also in terms of revenues: 85 percent of the revenues were produced here in 1999, but it is true that this proportion dropped to 68 percent by 2004. This process can be explained by a rearrangement going on within the sector: Labour recruitment and provision of personnel is gradually coming to the fore at the expense of legal, accounting, book keeping, auditing and market research.

About the trend of the development of the sub-sector it can be stated that the number of the enterprises rose very dynamically (81 percent) in the agglomeration zone but this growth was not followed a corresponding expansion in employment and revenues. Firms in the agglomeration zone were particularly adversely affected (an overall drop of revenues by 77 percent). I.e. the core city and the agglomeration zone were characterised with opposite trends: the firms founded in Budapest were less numerous, but they employed more persons and produced higher revenues, whereas the agglomeration zone experienced the expansion of micro- and small enterprises to meet local demands.

Due to the above trends the all-national position of the BMR within the sector did not change much between 1999 and 2004 with regard to the number of enterprises and employees but its weight in the distribution of revenues decreased substantially (-13.7 percent). So there occurred a gradual shift of the centre of gravity towards the cities in the countryside after the turn of the millennium. A similar fall was felt in the share of the BMR within the revenues of Business and management consultancy activities (-17.1 percent), where the competition was very likely to be sharpened by an increased number of the enterprises. This setback could primarily be attributed to a drop of the revenues generated by the enterprises of the agglomeration zone (the weight of the zone decreased by more than 30 percent).

Within the economy of the BMR the ratio of the sector and sub-sector was up (by ca 1–1.3 percent) in relation with the number of enterprises and employees but it was down in revenue generation (ca -1– -1.3 percent). The positive shift was thanks to the firms seated in Budapest, whilst for the decline the ventures in the agglomeration zone can be blamed those having produced less revenue (here the sub-sector suffered a -8.4 percent loss of weight).

To sum up: Law and business sector is prominent, and as its part Business and management consultancy activities are very important industries, however, their development is not enough dynamic in recent years.

2.2.3 Creative industries – Motion picture and video activities, radio and TV activities

BMR has a favourable position with regard to the creative industries. In 2004 the sector on the territory of the region comprised 65,071 registered enterprises where 194,000 persons were employed and the revenues nearly reached 11 billion EUR. The high number of enterprises led to the situation that 43.3 percent of the firms operating in creative industries is to be found in the BMR. Between 1999 and 2004 the number of enterprises in creative industries had grown somewhat below the average (22.5 percent) even though it had brought the largest number of new enterprises. This expansion was primarily due to the firms founded in the agglomeration zone; in this respect Budapest was lagging behind the national average.

After the turn of the millennium the rise in the number of the employees of the sector was far from being so dynamic: between 1999 and 2004 this increment added only 8.2 percent to the earlier number of 179,200 employees with a rate of development below the national average equally in Budapest and the agglomeration zone. Although the rise in the revenues produced showed a more favourable trend (67 percent in Budapest and 117 percent in the agglomeration zone), the dynamics did not reach the national average either for this indicator. In spite of the above “negative trends” the BMR managed to improve its positions in all of the three indicators for the sector and with regard to the number of employees and the size of the revenues the relative weight of the agglomeration increased by 4 percent. It is to be admitted however that within the economy of the BMR the relevance of the sector have shown a somewhat downward trend for the three indicators.

Motion pictures and video activities, radio and TV activities belong to branches not being among the most important creative industries but displaying a highly dynamic development of revenues and profit and a clear-cut dominance of the BMR. Between 1999 and 2004 the number of firms had risen from 2,364 to 3,056 making up a 30 percent increase. Although a large portion of them is to be found in Budapest, the expansion in their number is clearly more dynamic in the settlements of the agglomeration (an increase of 67 percent). At this point it is worth to distinguish between the two branches, because they have divergent proportions and trends of development. It is indicated by a much more dynamic expansion of enterprises classed into Motion picture and video activities in the BMR (a growth of 34 percent) and the expansion was higher then the BMR average both in the capital city and the agglomeration zone, whereas at Radio and TV activities it was typical only of the agglomeration zone (a growth of 79.5 percent) Due to the development trends mentioned above the national level, 81.8 percent of the enterprises in Motion pictures and video activities are located in the territory of BMR.

An overwhelming part of employees are concentrated in the BMR: 80 percent of the employees of the national total operated in the BMR in 2004. However, the number of persons employed in both of the branches had been reduced nearly by 1,000 between 1999 and 2004 which can be attributed to those working in radio and TV activities. In the studied period there was a thorough decrease in the number of employees acting in Budapest in both branches and in the agglomeration in Radio and TV activities. The only exception is made up by the enterprises of the agglomeration zone operating in Motion picture and video activities, where the number of persons occupied in the branch where a 67 percent increase had raised the number of employees to 470.

The revenues show an extreme concentration with the share of the capital with revenues in both branches exceeding 90 percent of the national total and in motion pictures and video activities reaching 97 percent by 2004. Increase of the revenues is a proper illustration for changes taking place within the branches: *Motion picture and video activities* reached a 228 percent growth of its returns, whereas radio and TV activities doubled their income. Enterprises in Budapest were especially successful in the dynamics of revenues.

Taking into account the joint values of the two branches the BMR could improve its positions in relation to the number of enterprises and the amount of the revenues. It is worth however studying the two branches separately because considerable differences might be discovered. Within Motion picture and video activities branch the BMR was successful to increase its economic weight according to the three indices (number of enterprises: 4.1 percent; number of employees: 3.0 percent; produced revenues: 2.7 percent). The first and second are due to the increased importance of the agglomeration, the third is thanks to the profitability of the Budapest firms. In Radio and TV activities branch the weight of Budapest was reduced both in the number of enterprises and employees by 5 percent thus diminishing the weight of the BMR in aggregate but this was counterbalanced by the profit making ability of the firms in the capital and the final balance had proven to be positive. Within the BMR economy both branches retained their share with stagnating proportions of positive nil.

2.2.4 Creative employees of selected sub-sectors living in the BMR

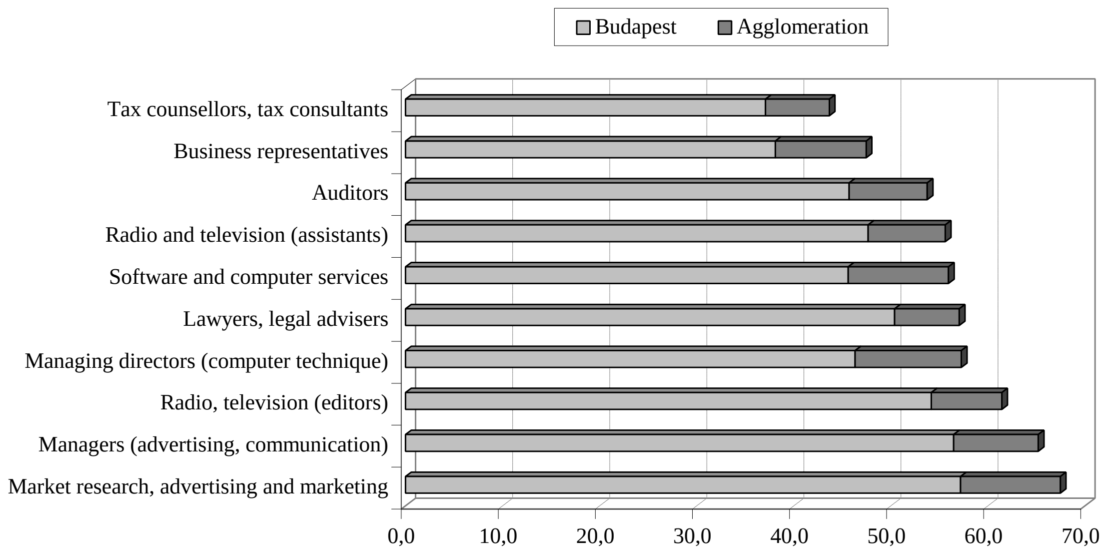
Data of the 2001 national census reveal the main features of spatial distribution of labour force in the creative knowledge sector in Hungary and in the Budapest Metropolitan Region. Using the dataset a short overview on the residential background of experts working in the selected sectors and sub-sectors of the BMR and also information about the demographic profile (age, educational level) of workers.

Taking into account the weight of BMR measured by its averaged economic performance we categorised the occupations into three groups: 1 group: outstanding role (with

60-100 percent of employees); 2. group: average role, corresponding the average weight of BMR (with 30-60 percent of employees); 3. group: negligible role, below the national weight of BMR (with 0-30 percent of employees).

Among the selected sectors and sub-sectors it is the specialists acting in Business and management consultancy activities who fall into the first group: of them more than two thirds of the experts engaged in the sphere of market research, advertising and marketing in Hungary live and work in the BMR. Although the importance of local TV studios has risen in the cities o the countryside the ratio of editors within Radio and TV activities branch was still 61.5 percent in the BMR. We should also note that in almost all branches of the creative knowledge sector a major part (from 57 percent to 68 percent) of the high rank managers and professionals live and work in the BMR (Figure 2.1).

Figure 2.1 Ratio of creative employees living in the BMR



In the second category (where BMR concentrates 30-60 percent of total employees) the ICT sector is the most prominent. In 2001 more than 50 percent of the 42,000 employees working in the ICT sector in Hungary lived in the BMR, predominantly in Budapest. 56 percent of the experts active in Software consultancy sub-sector (to be classed into the ICT sector) live on the territory of the BMR. More than 10 percent of people occupied in this sub-sector are residents of the BMR. To this category belong also occupations in Law and other business services: more than half of lawyers, legal advisors, and auditors are concentrated in Budapest, and the ratio of Tax counsellors, tax consultants – in accordance with the economic weight of the BMR is over 40 percent. These results support the concept about the outstanding role of the BMR in the selected sectors and sub-sectors.

The national census of 2001 contains also data on the demographic profile and educational attainment of employees working in then different creative occupations. It can be stated that in occupations within the ‘knowledge intensive industries’ (especially ICT, Law and business) the share of highly educated employees tend to be generally high. The proportion of employees with university and college degree is extremely high (above 75 percent) in all of the selected sub-sectors: in the fields of law and business (auditing activities, legal services, tax counsellors), in occupations of the ICT sector (software consultants, analysts etc.). Within the ‘creative industries’ the proportion of employees with higher education is somewhat lower, highest ratios can be found in the field of ‘electronic media’ (Radio and TV activities) as well.

The ratio of young age group is above 25 percent in the ICT sector. This age group is especially dominant among ICT professionals, software managers and computer network managers. Young people are also overrepresented in the field of ‘market research, advertising and marketing’. To sum up: in the selected sub-sectors there is a higher-than-the-average presence of the representatives from the younger generations (at the end of their twenties and beginning of thirties) of high educational attainment, typically with university degree.

3 Methodology

Empirical studies in the framework of ACRE project could be subdivided into three stages. The first stage a query of quantitative character was put (sending out 200 questionnaires altogether) aimed at getting acquainted with the opinion of the highly qualified specialists of employee position working in creative knowledge sector in the metropolitan regions about their residence, conditions in workplace and attitudes towards the Budapest Metropolitan Region. In the second stage (running at present in 2008) in-depth interviews of qualitative character were conducted with experts in leading position of enterprises engaged in creative and knowledge intensive industries (managers, managing directors etc.) about the situation of the sector/sub-sector in general and the position of their firm in particular. The third stage to come will also comprise in-depth interviewing of international migrants.

3.1 Characteristics of qualitative methods and short methodological background to in-depth interviewing

The results of the present (WP6) report originate from the analyses of qualitative in-depth interviews. This part of the survey is not aimed at drawing statistical conclusions for a large entity of people through the investigations into a smaller sample. In comparison with the quantitative questionnaire the basic difference is that qualitative interviewing puts a strong emphasis on getting familiar with the subject of the interview as an individual, his/her emotions, motivations, scale of values; the subjective individual comes to the fore. Information can be obtained those generally unavailable by quantitative queries. Naturally this type of survey is much more time consuming and requires personal interviewing therefore its technique also differs from that used in quantitative questionnaires. This method is not based on a random representative sampling and it could not even be deployed because it could not lead to finding the necessary target group.

There is a well defined procedure of conducting qualitative in-depth interviewing, which can be subdivided into the following phases:

i) *Defining the target group* – to decide about who should be the persons to be interviewed and in what form;
ii) *Elaboration of the topics* – keeping in mind the objectives of the interview in relation to the target group the topics to be tackled are to be determined in the first step. Then the list of questions within the topics is to be organised i.e. those to be asked of the subjects (the selection of topics). The groups of questions and the questions will form a sequence fixed in advance or be varied during the interviews.
iii) *Sampling process* – After the selection of the target group and elaboration of the list of topics and questions, the spheres need to be determined (both in economic and geographical sense) from which the representatives of the target groups could be chosen and the number of interviews to be conducted should be fixed. In the course of these

operations the size of the given sector/sub-sector, the typical size of firms and the spatial distribution of enterprises within the metropolitan region (if the latter is divisible into parts) are to be duly taken into account. The sampling process as a rule is preceded by statistical analysis, then after defining the number of interviewees the list of addresses of the interviewees is compiled by an overview of databases by firms.

iv) *Preparation for the interview and its performance* – the next step is to establish contact with the tentative interviewees by telephone, alternatively by e-mail. After the date is fixed the interview is preformed, which usually is sound recording to ease the work of the inquirer and to promote the subsequent analysis.

v) *Summary and evaluation of the results* – Eventually the results of the interviews are summarised and evaluated in a written form, with the previously put aims and topics kept in mind.

3.2 Process of interviewing in the Budapest Metropolitan Region

In the previous chapter the theoretical principles of in-depth interviews were tackled whereas in the present one the most important procedures of practical implementation within the BMR are reported briefly.

3.2.1 Defining the target group and elaboration of topics of the interviews

As in was mentioned in the introductory chapter, in the present phase of ACRE project it was the managers of firms and companies acting in the creative knowledge sector who composed the target group of the survey. In the case of sole proprietors it was the entrepreneur whilst in micro- and small enterprises it was the general manager. For the medium-size enterprises the managing director seemed to be competent enough to substitute the president or president-general director because the latter two are difficult to reach and to conduct an interview with them is most complicated. General managers as a rule are prepared to provide the necessary information.

The topics of the interviews contained 8 large clusters of questions (Annex III). After a short introduction of ACRE project the first of them referred to the interviewed person: his/her position and task in the firm, a story of professional career. The second group inquired about the evolution history of the enterprise (firm), its main profile and auxiliary activities. The third cluster formed a survey on the clientele of the firm, its size and the location of seats etc. The following group of questions dealt with the issue of labour force recruiting (place, circumstances, channels of recruiting, requirements from the colleagues) and that of the professional networks and contacts (the importance of informal relations, collaboration with business associations, public institutions etc.). Naturally, the most important group of questions was related to site selection and its key factors. A special emphasis was put on the motivations of site selection, the relevance of hard and soft factors, advantages and inconveniences of the big city, the part the latter plays within the sector and on the significance of the setting of the seat within the metropolitan region. The last two clusters inquired about the role of the public sphere and finances and investigated into the plans of the given venture for the future, including possible change in its location, and target areas where it might move to.

The ACRE consortium applied the so called semi-structured topic of interview which means that the topics (groups of questions) chosen could be varied by the interviewer freely or the prepared list of questions could be completed with new ones if he/she felt it indispensable for obtaining the necessary information.

3.2.2 Sampling process

As a first step of the sampling process three sub-sectors of economy were selected those incorporated in the project for all the studied metropolitan regions uniformly. Accordingly, the survey has been conducted in the following sub-sectors: i) Software consultancy/Computer games and web design, which is part of sector 'computer and related activities' (722 in the NACE classification); ii) Business and management consultancy activities, which is included in the economic sector Law and other business services (code 741 in the NACE classification); iii) Motion picture and video activities, radio and television activities (codes 921 and 922 in the NACE classification).

In the selected sub-sectors – keeping in mind an earlier statistical result that the average size of firms falls into the micro-enterprise category in all the selected sectors and sub-sectors the research was conducted on three levels: sole proprietors, "small" enterprises with 2-6 employees and "large" enterprises with 6-200 employees (Table 3.1). This terminology stemmed from our statistical calculations on the average size of enterprises and differs from the official EU nomenclature (Table 3.2). Based on the official definition the studied enterprises belong to the SME sector.

Table 3.1 Average indexes of selected sectors and sub-sectors

	Employees/ enterprise	**Revenues/ enterprise**	**Revenues/ employee**
	%	***EUR***	***EUR***
Total	***5,2***	***295 173***	***56 420***
Creative knowledge sector	***3,3***	***181 777***	***54 950***
ICT	7,5	1 208 295	161 640
Software consultancy	2,3	125 442	55 220
Law and business	2,4	67 204	27 820
Business and management consultancy	1,7	63 753	36 620
Creative industries	2,9	116 177	40 360
Motion picture, video, radio, TV	2,5	211 280	85 660

Table 3.2 Official definition of SME sector in Hungary[2]

Size	Employees	Maximum annual net revenues	Maximum balance-sheet ratio of the previous year
Micro	0-9	2 million EUR	2 million EUR
Small	10-49	10 million EUR	10 million EUR
Medium	50-249	50 million EUR	43 million EUR

Following the subdivision by sector and firm size, criteria for the geographical (spatial) selection for the sampling process were also set. This aimed at the considerable differences in the number of economic organisations between Budapest and its agglomeration to be duly taken into consideration. For this purpose the core city area was divided into 'centre' and 'periphery'. The former comprises the districts 1-14 of the capital (making up 'Small' Budapest formerly), whilst the districts 15-23 were handled as periphery (outskirts) and methodologically included in the agglomeration. Whether for the category 'agglomeration' the interviewee was chosen from the agglomeration zone proper or from a peripheral district of Budapest, two criteria were decisive: the average size of enterprises and the prevalence of the agglomeration zone vs. core city within the sub-sector in concern.

Taking into account all the three selection criteria, the 18 subjects of in-depth interviews focal for the qualitative surveys were chosen as shown in Table 3.3.

Table 3.3 Sampling of interviewees

Sub-sectors **Size of firms (employees)**	**Computer games, electronic publishing (722)**		**Business and management consultancy (741)**		**Motion picture, video, radio TV (921-922)**	
	Budapest	Agglomeration	Budapest	Agglomeration	Budapest	Agglomeration.
Self-employed	1	1	1	1	1	1
2-5; „small" (micro)	1	1	1	1	1	1
6-200; „big" (SME)	1	1	1	1	1	1

Legend	**Sample area**	**Number of interviews**
	Budapest – Inner districts (1-14.), Centre	9
	Budapest – Outer districts (15-23.), Periphery	4
	Agglomeration	5

Apart from the basic interviews, similar in-depth interviews had to be conducted with the network actors of the individual sub-sectors, at least one by each of the latter. These interviews were to provide additional information about the role of the selected sectors and branches played in the domestic and international economies, their operation, about the situation of networks and collaboration on the national and regional levels and the part shared by the BMR.

[2] Hungarian regulations on the definition of SME have been adapted to the EU legislation and practice. According to the Act on SME i.e. Act XXXIV/2004 effective since January 1, 2005 one of the conditions for being classed an economic venture as SME is that the share of the state and local government (separately and altogether) should remain below 25 per cent.

3.2.3 Preparatory work, carrying out the interviews and analysis of results

After completing the sampling process, a search for the ventures and interviewees started according to the parameters fixed. Two methods were applied basically: through the acquaintances of the researchers conducting the survey (using contacts and network capital) and from internet and statistical registers of firms. When the list of addresses became completed the management of the enterprises were contacted by phone. In the case of a positive response an e-mail was sent out with the brief description of the project. It contained necessary information on the purposes and circumstances of the professional interview and simultaneously the list of topics and questions was forwarded to the interviewee. The latter is a well accepted practice in Hungary to gain the confidence of the interviewee, to promote his/her preparation for the interview and to accelerate its performance.

In spite of a relative low ratio of the rejected requests (under 30 percent within the individual sectors) a search for interviewees, the establishment of contact with them and fixing a date had proven a highly time and energy consuming undertaking.

After fixing a convenient date the professional interview proceeded. Its length varied widely (from 30 to 120 minutes) with an average of 45–50 minutes. The duration and success of the interview were largely influenced by the attitude of the asked person, his/her empathy and willingness to communicate. In this respect considerable differences were by sub-sectors and representatives. Virtually this was the only problem in the course of the survey; e.g. interviewees from the Business and management consultancy sub-sector (in comparison to the two other sub-sectors) had proven to be extremely taciturn and the talk with them was much less informative. This is why it was not possible to find a balance in the final report among the three sub-sectors and the corresponding chapter is much shorter than the other two.

All the interviews have been taped which highly promoted the subsequent analyses and was instrumental in writing the final report (with built-in citations). The latter were typically accepted because due to the topics at stake and questions to be asked having been sent in advance the interviewees were prepared for them. The managers and employees were allowed not to answer the inconvenient questions. Sometimes this occurred when asking about the revenues of the firms. Perhaps it is attributed to a general lack of confidence in the recent past owing to a compulsory provision of information for the internet register of firms available for public.

As it had been planned earlier 6 interviews were conducted both in Business and management consultancy, and Motion picture, video, radio and TV activities sub-sectors, and 7 in Software consultancy sub-sector. Altogether 4 in-depth interviews were conducted with network actors: by 1 in Business and management consultancy and Motion picture, video, radio and TV activities sub-sectors and 2 in Computer games and web design branch. Thus in the frame of workpackage a total of 23 interviews were accomplished in the BMR.

Supported by sound recordings each interview was resumed in Hungarian on 3–4 pages making much easier the evaluation of the results and the compilation of the report. In the course of the latter the relevant and most interesting statements were cited.

4 Analysis and main results of the in-depth interviews

4.1 Sub-sector 1: Software consultancy

4.1.1 Overview of the interviewed firms

Table 4.1 summarises very briefly the main information and characteristics of firms of the sub-sector included into the research:

Table 4.1 Enterprises of software consultancy taking part in the interviewing process

Code	Location	Employees	Revenues	Short characteristics
C1	Budapest – Centre (District 11)	1	No data	Freelance, private entrepreneur working at home, electronic publisher
C2	Budapest - Periphery (District 22)	3	No data	Micro-entrepreneurship acting on local governmental level
C3	Agglomeration	4	40 mn HUF	Micro-entrepreneurship producing and distributing business administration software
C4	Budapest – Periphery (District 22)	5	20-30 mn HUF	Micro-entrepreneurship producing and distributing business control and management software
C5	Agglomeration	12	80-100 mn HUF	SME producing and distributing business control and management software
C6	Budapest – Periphery (District 10)	25	100-200 mn HUF	SME producing and distributing telecommunication software
C7	Budapest – Periphery (District 14)	30	100 mn HUF	SME of web design and web application, development of sales distribution system
CNA1	Budapest – Centre (District 1)	3 persons permanent staff, 80-90 persons non-permanent staff	120,000 HUF	Network actor with 153 members (companies, entrepreneurships, institutions) acting on the field of information science
CNA2	Budapest – Centre (District 2)	2 persons permanent staff	No data	Network actor integrating 19 information science organizations

<u>The interviewed firms</u>

C1 – During the change of power he lost his job, then launched a venture of his own and he still considers himself necessity entrepreneur. He was engaged in real estate sale until 1999, and then switched to real estate informatics and database building. Up to now he has had 7 firms altogether, now he has one. Main profiles: real estate database building and operation of internet websites relating to real property (electronic publishing). Clientele are from Budapest exclusively. For the time being engaged in real estate mediation and building of a network in real estate informatics.

C2 – Previously he worked as an employee in software development. Became a sole proprietor in 1993 (necessity entrepreneur) and founded a limited liability company (Ltd Co.) in 2004. Main profiles: software development, services, maintenance. Works for local government circles with a prevailing clientele inside Budapest.

C3 – Prior to the change of regime he worked as an employee: a software developer and programmer at a state owned company. Later he became part of the private sphere and has dealt with the development and sale of special management software. The venture was founded in 2007 by splitting from another firm as an Ltd Co. They wanted to try to capture the market in another structure. Main profiles: introduction of a management software (development) and subsequent support. Being a young firm they do not have a wide clientele; they are in the phase of building. Their business partners are SMEs from the agglomeration and, to a lesser extent from Budapest.

C4 – Earlier he worked for an American–Hungarian joint venture as a software developer but when he recognised considerable problems in labour management and business strategy, he founded a firm of his own (a family venture). At the beginning the Ltd. Co. was engaged in the development of information systems for the foreign trade then advanced gradually. The firm has worked out a complex system of corporation management and still engaged in it (software development, support and sale). The clientele is mainly from Budapest, but they have partners in the agglomeration as well.

C5 – The firm was founded in 1991, he has worked here since 1996. Obtained share in 1999 and when the founders sold the firm in 2003, he took it over. Main profiles: development and sale of a classic company management system and softwares for palm computer system (in two thirds development, one third related services). The clientele is concentrated in Budapest, but they have partners in the agglomeration too. The enterprise is planning to expand abroad.

C6 – He was engaged in website development and after graduating became a freelance software developer. Later he worked for a hardware and software development firm as a programmer. The present Ltd Co. he found together with a friend because they could not realise professional ideas. Main profile: development of telephone softwares, and those for telephone exchanges. The clientele primarily include big service companies (pl. T-Com, Invitel, Pantel) with nationwide network. They have partners in big cities and towns in the countryside.

C7 – He is engaged in computer techniques since the mid-1990s. At the beginning was engaged in computer graphics then switched to website development. The venture was launched together with a co-owner at the end of the 1990s. At present the Ltd Co. has two main profiles: a) development of web applications (website development, partner registers, project management software, Helpdesk system etc.); b) development, selling and operation of a special motor component sale system. The business partners of the two spheres are different: in the web branch they have clientele from the whole country (with a prevalence of Budapest) including local subsidiaries of foreign firms; the other branch is dominated by foreign partners primarily from Central and South Eastern Europe.

CNA1 – The association was established in 1991 by four former state organisations. The main task of the non-profit organisation is to secure the free information flow towards the society and companies. Its further activities are in the fields of ICT strategy building, support for infrastructure development of informatics and providing access to the internet for the public. The organisation currently has altogether 153 members.

CNA2 – The non-profit organisation functions like a federation of 19 associations being active in the field of informatics. This umbrella organisation was established in 1997 for obtaining political support and providing lobby activity for the ICT sector. Nowadays the organisation provides information, programmes and marketing also for the public.

4.1.2 Transformation of sector – Past, present and possible future

The boom in informatics started after the change of regime in Hungary; the emergence of the sector started in the first half of the 1990s. The ICT sector is essentially concentrated on Budapest and its metropolitan region spatially because here was its stepping stone and the headquarters of the largest and the leading firms and also a major part of the smaller enterprises are found here. The experts are classified into three generations. The first generation includes investors and professionals who created the Hungarian computer sector in the 1990s (Albacomp, Graphisoft etc.). Nowadays this generation is over 55 and they gradually retire from activities in informatics. The second generation is composed by the new managers of the big companies and large organizations of the sector aged between 35 and 45 years whereas those under 35 years represent the emerging third generation. The latter might be managers in some branches but they lack experience and are not cooperative enough. The latter characteristic is not promising for the perspectives of the sector. As for the future prospect of the sector, Hungary and BMR have nothing to do but to further develop the ICT sector.

> *„The only existing things in a real world are those also at present and available in the virtual world. It is much more expedient to build up these virtual worlds than to practice the traditional means of advertising and propaganda." (CNA1)*

At the same time there are considerable anomalies in the development of the sector. One of them is that long-term strategies and images for the future are missing. A future development of entrepreneurship in inconceivable in a lack of strategic thinking. The manager should realize what is indispensable for the evolution of his/her business.

> *„The most serious trouble is that most of economic organizations, small and medium-sized enterprises are preoccupied with everyday problems of survival to such an extent that for them the markets of the future are hardly visible. Part of the medium-sized enterprises in Hungary already sees future perspectives and markets. (CNA1)*

Nowadays the information technology sector is controlled by the transnational firms not only in Hungary but all over the world. The problem with these firms is that unless the technology and techniques of the multi are matched with and adopted to the local circumstances, they might easily enter into conflict and the development fails in the given country. The presence of transnational firms in the ICT sector leads to some drawback: in a multi firm it is the top manager who is entitled to work out a long-term strategy whereas managers in lower positions are responsible for the fulfilment of projected quarterly receipts, and this by no means promotes the collaboration between the two levels of leadership.

For the future development of ICT considerable human and financial resources will have to be mobilized. Some experts claim that investors do not come to the country currently; on the contrary, they rather tend to abandon Hungary and Budapest. Social reasons are lying as well behind that, because there is a lack of developers and programmers in the Hungarian ICT industry (lack of human resources). In a word, there is a sore lack of skilled workforce, or at least Hungary is running out of it. On the other hand, social attitude should be changed in the country, the energies joined and cooperation fostered in the economy in order to build civil society. Hungary badly necessitates middle class which would be able to sponsor undertakings, to employs workers and would not depend on state support.

Recently some concrete ideas have been released concerning the future development of ICT sector. According to one of them Budapest could be the hub of call-centers. As a problem appeared that in spite of the exhausting intellectual work (psychological and mental stress) it could not be found any solution for the recreation and regeneration of manpower. The workforce has been replaced instead, but this is not a solution in the long run. Another barrier was an inferior command of foreign languages among the Hungarians compared to West Europe.

> *„Our students do not have the skills of oral communication required because Hungarian education is not interactive (i.e. not communication oriented) but centered on planting knowledge. One of the shortcomings of IT industry in Hungary roots in a training system which is rather theoretizing instead of being user oriented”* (CNA2)

For the development of creative industries however, the Hungarian education system might be an advantage, because in this sector cultural factors play a certain part. It means that the more accomplished and versatile is the worker, the wider range of specific requirements of the potential customer could be met, the more alternatives of solution could be offered and the more sophisticated solution might be suggested. In an economy producing for the consumer market though there is a declining demand on services of such kind.

Apart from call-centers another option for the BMR is moving a headquarter of an EU institution to Hungary because Budapest is now one of the few big cities virtually without any specialized institution of the organization. In this respect the settlement of the European Institute of Innovation and Technology in the Hungarian capital is an important achievement also for the future development of R&D sector.

Summing up: the BMR has high potentials in the ICT sector, but the present trends and factors are warning to professionals and politicians to take urgent socio-economic measures for materializing a positive shift.

An image of the future of economic organizations led by the interviewed persons is overviewed below. The opinions about prospects and plans for the future are rather divided and they can be grouped along the „passive–active” scale of values rather than along the „pessimistic–optimistic” scale. It means that from the opinions voiced by the interviewed persons as a rule in leading position did not reflect a general pessimism stemming from the economic situation in the country. Concrete ideas to be put in the practice and strategies chosen varied according to the size of the firms. The impression is that the managers of the larger enterprises with more employees (e.g. C6 and C7) outline the future trends more definitely and they are more active in strategy building for the future whereas the minor enterprises (e.g. C1–C4) are rather passive:

> *„Expansion of the enterprise does not figure in our current plans. Earlier we had a permanent problem that there were not enough clients and capacities could not be used fully. The situation has changed by now. The main objective is to maintain the firm." (C4)*

> *„To reach a size of business of 50–60 persons under the auspices of a highly and professional director with a task of management who has the skills, is trained properly, has a routine and commitment and possesses the appropriate contacts." (C7)*

A possible expansion of the enterprise (engagement of new employees) is always associated with the amount of tasks to be fulfilled; the two must be harmonized with each other. Size of business should always be adjusted to the work to be performed actually.

As it has turned out from the interviews, firms in Hungary basically face two problems: on the one hand there are few good specialists on the domestic labour market (or they are too expensive), on the other hand the Hungarian market is very limited. It is not by accident that the managers of medium-sized businesses (with 10–30 employees) tend to expand towards south and south-east Europe (Croatia, Romania, Russia). Micro-businesses (5–10 employees) head for the cities in the Hungarian countryside.

4.1.3 Typologies of networks

<u>The significance of networks in the ICT sector</u>

> *„Networks rule the world in all spheres of life, the time for solo champions is over. The computer business is a sphere where collaboration is a must." (C1 and CNA1)*

In general it can be stated that in the ICT business big networks operate on the world market and the sector is based on their resources. On the whole a high level of collaboration is typical of the sector, still there is a considerable difference between the operation of Hungarian and international networks. Transnational enterprises and networks are able to take up large volume of work whereas Hungarian firms are highly specialized in a particular segment. In this country each firm strives to be independent instead of being cooperative but eventually it is proven to be a hindrance. Though small teams are versatile, quick and flexible, after specialization they are unable to perform work of large amount. Also the economy of scale exerts an essential influence upon networking as owing to the characteristically limited size of firms the Hungarian companies are unable to step on the international market; their demand raising potential is low.

As the enterprise reaches a certain level of turnover, it becomes ready for the collaboration with other firms, but if it remains too small, actually all the others turn into challengers and the maximum it can achieve is to operate as a supplier or subcontractor. As specialization and tiny size hinder the undertaking of significant ventures, cooperation between enterprises would be an imperative necessity. Also the scarcity on the Hungarian market should stimulate firms to collaborate owing to their reliance on each other. Still there is a weak cooperation both among the actors on the market and a lack of traditions in the professional alliances. Networking is not typical in Hungary; it occurs frequently that after launching a joint work the stronger firm buys the former partner. So the ultimate goal is not networking but the growth of business. Though domestic partnership is not a success story, the opposite is valid in international cooperation. Networking has proven to be easier with foreign companies than with the Hungarian ones.

Network building and operation might differ by sub-sector and branch. There are certain spheres of the ICT sector where (in spite of the above situation) fruitful relations prevail between the partners. Hopefully a change in generations would bring about a general attitude as follows:

> *„There is a fair collaboration in our branch within the sector but these firms are in fact rivals of each other. Correct professional and even friendly relations do exist but naturally internal business information of firms is not part of any communication. We help each other anywhere we can." (C3)*

The enterprises in informatics that had been surveyed (with the exception of network actors) were not associated professionally with universities, research institutes and offices of administration. It was typical however that the firms belonging to the same sector and sub-sector as a rule maintained personal and friendly contacts. It is important to have colleagues who could be consulted if problems emerge. It is a frequent case that firms have some work made by other enterprises if they do not have enough capacities but it is necessary for a complete solution of the task, e.g. firms in software development often have links to firms delivering hardware for the customer. In the initial phase of the venture the managers try to enlarge the circle of clients through personal ties, then – as the firm develops and grows – works undertaken through the mediation of clients and professional contacts. This way the size and age of the firm make an impact on the way of the enlargement of the clients' circle. Advertisements in the printed press and internet are not considered a proper tool for promoting the growth of business, and it is an especially typical opinion of the management of smaller enterprises. Hungarian small and medium business allegedly does not deal enough with marketing activities; no sufficient attention is paid to and few experts are involved.

Medium-sized and larger enterprises (with a staff over 10) are more frequently affiliated with professional associations what is not typical with the smaller ones. The goal is to join a circle of professionals which is perhaps not so suitable for making an advantage of at the moment, but might occur useful at any time. Another aim is to collect information for future activities. These are professional associations for the protection of common interest.

<u>Significance of informal links for the enterprises</u>

Informal contacts are evaluated by the interviewed persons – without any exception – as highly important and decisive for the activities of the firms. Much depends on to what an extent these contacts might be turned useful because they are considered the most efficient capital in the business sphere:

„Informal contacts are very important because there is only thing that counts when making business: who knows who. Nevertheless, there might be cases when this rule must be transgressed." (C3)

In the opinion of business managers cordial informal contacts prove to be advantageous for the business in the long run, because only who is accepted and has good reputation can get work easily and make profit. Size, profile and activities of the firm are essential for the quality of informal contacts. They are strikingly important for small enterprises, as in the initial phase of their emergence and during economic recession they are able to survive or develop.

The primary issue on the agenda of informal meetings and confers – apart from the time since the enterprise is on the market and its main profile – is the reference. It is the reference the new clients can be captured and the firm can be built further. To create a proper reference and demonstrate is a difficult task, particularly for the starting or small firms, because they are virtually unknown. Their strategy might lead to success primarily through creativity.

„Reference counts very much; in the beginning it was very difficult to move ahead in a lack of it. We started as a small enterprise, with meagre development capacity and capital. It is not so easy to establish yourself on the market as an unknown small limited liability company. This is why we had to produce something that draws the attention on the market. After we had the reference to do the deals became easier." (C6)

The experience obtained by the managers interviewed has shown that the smaller enterprises benefit from the reference of larger and well-known firms and reference works performed for them. They have better chances to win a tender against firms of similar size and profile when they refer to having worked with a well established business. Professional elite are an acquaintance with each other and similar working contacts foster the market position of the smaller firms. Within the IT sector it frequently occurs that the reference is checked before closing the deal and establishing business contacts. Along with the proper reference, it was accuracy, reliability, flexible adaptation, and – with respect to software firms – cost effectivity and safe operation that were mentioned by the managers as the most important factors of good reputation.

4.1.4 Localisation factors

As a general opinion was voiced by the managers asked that informatics and software development are the industries where the importance of localisation is diminishing gradually. The role of „distance" being emphasized some years ago has become less for the clients. This is because in this sector remote services could provide the same results as the local ones. In spite of that a personal contact with the clients keeps on being important in Hungary because the use of and access to internet are not as common as in West Europe or in the USA.

In Hungary and in the BMR site selection for the firm is controlled by the hard factors almost exclusively. All the managers said that the most important aspect was the price i.e. the rental fee of the office or how much does it cost to buy it? In this respect the enterprises try to reduce the costs because these expenditures are fixed with a heavy financial burden.

There are various opportunities to minimize the costs: family businesses prefer to have their cottage as residence built in a way to make it suitable to accommodate an office (e.g.

C4), or the flat of the managing director includes an office which is the registered seat of the firm (e.g. C1, C2). In this case – although the primary function is not finding an ideal headquarter but dwelling – when choosing the flat or house, soft factors are coming to the fore (location, tranquillity, silence, green space etc.). The benefits: the time otherwise spent with travel to the place of work and the rental fee of the office both are spared.

> *„I am planning to lease an office but I have just heard a price and became frightened. I cannot afford to rent premises. Now I have a good deal and if I succeed perhaps I could lease an office and pay the rental fee. A headquarter in an office building is a more friendly solution anyway and it might even be cheaper than leasing a flat." (C2)*

Enterprises employing several people are enforced to lease or purchase an office. In this respect the stock and choice of offices were considered adequate by the managers interested, but the rental fee was admitted a seriously limiting factor. It occurs frequently that the firm has its headquarters in an office which is possessed by the director, and no rental fee has to be paid. The choice of an appropriate office is a financial consideration and depends on the receipts of the firm.

> *„If finances do not matter, i.e. the firm is not cost sensitive, there are options to choose an adequate office at Budapest." (C3)*

When selecting sites for the network actors, low rental fees have played an eminent part, for these organizations as a rule have low receipts and a weak financial background. In our case however ability in servicing is a primary requirement: lecture halls and laboratories, offices for experimental work must be available, and contact should be maintained with young developers all day long. A general opinion is that it is worth to maintain an office in Budapest, even if the enterprise pursues virtual activities and the office has to be leased.

Concerning the rentals there are considerable differences between Budapest and the metropolitan region. The managers interviewed usually had not had concrete information about the prices but they estimated them as being three-four times higher on an average in Budapest than in the agglomeration, and they did not mean the best office buildings in the downtown. It might be added that to buy a cottage in Budapest and convert it into office costs at least twice or three times more that in the countryside.

Along with the rental fee the most important factor with the office is infrastructure. In the opinion of the managers the offices nowadays are equipped with all amenities so it can be regarded as a location factor. Another positive circumstance is that lately residential parks and condominiums have been constructed with premises to be leased as offices or other places of work. An essential part belongs to internet link and speed. A frequent complaint that ADSL communication is not available or the speed is very low as compared with the west European one. This should have been a trivial requirement, nevertheless it is not. The equipment and representative character of the office is not an immediate provision, it depend on exclusively if the firm's agent goes to see the customers or the latter visits the office. The *size of the company's seat (office)* is important from the viewpoint of a subsequent growth and expansion. The latter often involve a change of the company's seat. Owing to high expenditures the enterprises try to avoid a frequent move from one place to another.

Finally there is the group of factors concerning *transport–accessibility–availability*, which is the second location factor to the rental fee or purchase price of the office. In the opinion of the managers the worst conditions in Budapest are related with transport. The interviewed persons were highly dissatisfied with the transport conditions and situation of public transport perhaps because accessibility and quick availability are key criteria in seat selection. At Budapest however they take unrealistically long time and this is an adverse factor for the enterprises.

There are considerable differences between the strategies of enterprises seated in the capital and those operating in the agglomeration. The former strive to move inside the city towards downtown, whereas the latter would move as closer to the boundaries of Budapest as possible and be based at places of fair accessibility or in the vicinities of transport junctions.

> *"There is no sense to spend 3 or 4 hours every day with driving to the centre because you have an office there. The customers also prefer places to call on close to Budapest. Had we an office in the downtown a better accessibility could not be guaranteed either owing to the traffic." (C3 in the agglomeration zone)*

> *"If we could afford we would move inside the city, maybe to the downtown. An easy accessibility is a primary requirement, together with car parking, preferably of the firm's own. This is important because with the expansion of the enterprise the employees arrive from very different places. The favourable proportion of price/value is essential for being able to buy the property." (C7 in District 14 of Budapest)*

The location of the company's seat affects thoroughly the composition of labour force by the place of residence. Our interviews have suggested that this prompted business managers – especially those of small and medium enterprises employing several workers – to carefully choose the future seat and consider how the new place would be accepted by the employees, i.e. how the latter would be able to access it? Experience shows that in case this aspect is left out of consideration the employees might be replaced and their composition by residence would change. The location of the seat affects the circle of customers just as the clients' setting has an effect on site selection of firms. In case of network actors the location of the target group and easy availability is essential when choosing the seat.

Quite surprisingly, the *place of residence of the business management* exerts a strong impact upon the choice of the seat. Independent of the size of the firm the distance between the future headquarters and the residence of directors, managing directors was a decisive factor in each case.

As in the enterprises investigated a major part of employees go to work by car, the parking opportunities should be taken into account along with the easy accessibility. This might be a problem with the firms operating in the capital and an advantage of those in the agglomeration.

When interviewing soft location factors were discussed only by chance. In our experience they have a limited role in site selection if any. They emerge during site selection primarily when the residence (cottage) is also the seat of the company and in the agglomeration zone, where due to the lower rental fees and real estate prices the business managers have better opportunities to count with soft factors.

"Soft factors might emerge in site selection but it depends on finances. Those who are better off might rather take them into account." (C3)

Of soft factors the importance of a *calm and quiet environment* was mentioned by the managers in the first place. Of the social factors a neighbourhood with very poor outer appearance and social composition could be an excluding circumstance.
At the same time our survey suggested that with the growth of the firm the employer is getting to care much less about the place of residence of his/her employees.

"Beyond a certain level (business size) it is very difficult to see to how they reach the workplace. Had the seat been in the agglomeration it would be almost impossible to provide transport for all the 30 workers day by day. It is complicated to recruit somebody telling him he should go to work to a remote town every day. White collar manpower and intelligentsia tend to be concentrated in big cities and the larger is the city the more are the non-manual workers. We would never be able to recruit many labourers in the countryside." (C7)

4.1.5 Image of the city

Opinions of the interviewed managers about Budapest as a city vary strongly. These opinions are highly subjective however, so shaping a uniform image is impossible. It is also made difficult because the cognitive picture and image of the city are influenced by a lot of environmental, social, demographic and individual factors which differ strongly by persons.

As it was voiced by one of the managers, image of the city is largely target group dependent, i.e. it depends on the social and economic position of the strata investigated how they see the city. In the chapter below the drawbacks and advantages of Budapest are collected, at least those which turned out to be more or less univocally held by the business managers asked.

<u>Disadvantages of the city</u>

Most of the business managers listed the negative characteristics of the city and the problems, positive features were mentioned hardly. This can be explained partly with the fact that in everyday work they as a rule face the "limiting factors" of urban life.

The most acute problem in Budapest concerns the unsolved transport and public transport and related problems of the big city (noise and air pollution). In the opinion of the managers on the one hand individual transport is made slow and uncomfortable by the jam-packed traffic, and on the other hand public transport is expensive and poorly organized which also corrupts the image of the city. A serious trouble that there is heavy transit traffic all over the city including the downtown and no routes exist to avoid them. A heavy air and noise pollution is also a great burden and spoils the image. The lack of calm environment and tranquillity was indicated as a general problem.

"Although everything is available at Budapest as far as the cultural, sports, relaxation facilities are concerned, I do not like the place personally. Budapest is an accelerated,

whirled city where one hardly finds or cannot find the harmony needed if one already reached a certain age." (C7)

It can be stated in general that managers living in the city do not resettle to a farer settlement because their workplace is within easy reach and they have a work to be done, but many of them voiced desire for a calm life in the countryside.

It was the network actors who complained particularly about the neglect of the built environment and the low quality of life in the big city. In their opinion the built environment needs a thorough renewal. This includes the bad shape of public roads and also concerns the obsolete building stock. Through the eyes of a foreigner Budapest is charming and it still attracts a mass of tourists, for a visitor it is a dynamically developing hub, but for the local resident it is hardly livable showing the signs of a general decline.

"If you are more than 30 you do not like the roads you have to drive on, the air is polluted, and the green space is scarce. Budapest is built up excessively, with the air polluted, green areas are scant. There are miserable general conditions in any of the inner quarters. It is a dirty metropolis which has already reached world standards in this respect, with an inferior quality of life." (CNA2)

The main problem is that the downtown is an especially unsuitable place for recreation, for the reproduction, regeneration of labour force and its revival necessary for human creativity:

"This is too little for a foreigner to invest in a creative industry. No wonder that transnational companies start with green field investment in the suburbs with green areas are close and where they are able to provide a proper healthy working environment and recreation for their employees." (CNA2)

<u>Advantages of the city</u>

Most of the interviewed managers hold that the strong sides are related with the servicing function. Opportunities for daily shopping meet the demands and easily available close to the residence or working place. Cultural services are evaluated positively and there are many institutions of general and higher education. There is a rich choice of popular entertainment, but the options for special social strata (e.g. for creative workers) and subculture could be widened. Opinions have divided about leisure time and sport activities, some were satisfied, others remained dissatisfied. One of the managers mentioned natural values in the capital and its region and Buda Hills which offer hiking and walking opportunities. Summing up: these opportunities for relax and recreation are available and at the disposal of the public but the use of some sporting facilities might be expensive. Certainly opportunities for mass sports should be developed in Budapest.

Concerning ICT sector modern office buildings (e.g. in Infopark) were constructed with the requirements of creative workers duly taken into account, i.e. with fitness studios, massage parlours, shopping sectors which had not been built in the first modern office blocks. Similar industrial parks attract paying demand especially medium sized enterprises of solid capital. Accordingly, clustering has started in the BMR, but this process is weakly developed and perhaps generated artificially because some experts maintain that clustering is not inherent in the culture of Hungarian informatics.

Investigating recreation opportunities by generations it must be stated that Budapest is primarily for the younger cohorts under 30, what entertainment and night life are concerned. Satisfaction of the cultural and leisure demands of the older people is partly subordinated to the negative effects of advertising culture.

Perhaps part of the advantages of Budapest is that business managers have not mentioned one of the typical problems of metropolises i.e. poor public security. Although there occurred street riots over the past years but the situation as a whole is improving in this respect.

4.1.6 The sector and the city, the position in the national scenario

The present chapter is about how the managers see the position of Hungary in informatics and software development. As there was only one enterprise (C7) among the surveyed ones which had entered the international market, little information was obtained on the international role of Budapest in the ICT sector.

It was the unanimous opinion of the managers that Budapest and the BMR play an eminent and decisive part in creative industry, especially in informatics and software development. The role of Budapest in software development is more important than in any other industry. There are few important firms dealing with software development in the countryside; they are concentrated in the capital and its agglomeration. This is partly due to differences between the levels of economic development of the capital and countryside:

> *"Informatics is useful in a modern economy, and it produces for a market characterized by modern outputs. Hungary faces a problem related to the dual character of economy: the countryside is not advanced enough to use and produce technologies of high standard like Budapest does. This is why the national capital plays a decisive part in the ICT sector." (CNA2)*

There is a keen competition for the enterprises operating in the BMR, especially when they try to capture market segment. Most of the domestic firms are seated in Budapest and there has been an increasing share of foreign business in the sector with headquarters typically in the capital which is a growing challenge for the Hungarian enterprises.

Besides the above there are other economic and social reasons why it is just the national capital which plays the main part in the ICT sector. A trivial cause is that a larger city involves a more extensive market, a major part of enterprises and customers are here. So the demand and potential clients are concentrated in Budapest and in the environs and they are easily available by firms seated in the capital. Some of the businesses have evolved into all-national networks, making possible a further expansion of the enterprise.

Accommodation of the company seat in Budapest has advantages from the logistical viewpoint as both the motor road and rail network are centered at the capital making the contacts with subsidiaries in the countryside easier.

> *"As wholesale traders and dealers in hardware and software are to be found in Budapest in the long run it is worthwhile to be seated in Budapest or at least in the*

BMR. Procurements, supply and servicing would involve high costs if they had to be arranged from a city or town in the countryside." (C5)

It should be stated that as regards the ICT sector a "critical mass" of enterprises and employees is accumulated in the metropolises (in Hungary at Budapest). It is not the case with the cities of the countryside and this is why the development of the sector is hampered in these regions.

The setting in Budapest is favourable from the aspect of financing, because here the firms are better off than in the provincial towns and the extra profit of the sector is produced in the BMR, partly through governmental orders. In general, a bigger city provides better opportunities for the entrepreneurs both professionally and financially. Besides, as it was voiced by one of the managers, tax and financial audit is not so frequent here owing to the large number of enterprises.

Based on the majority of the statements by the managers it is to be concluded that besides the above mentioned practical advantages (concerning market, labour force, logistics and finances) to be a firm with a business address at Budapest in itself does not mean anything in business life (e.g. search for customers, establishing contacts, participation at tenders).

For a major part of the enterprises surveyed the circle of customers, independent of the site being in the capital or the agglomeration, is concentrated in Budapest. Basically it is relating with the large market and a great number of potential customers. Of the companies there was one maintaining contacts with clients all over the country.

The enterprises are planning the expansion of the network of their customers in the near or distant future. The orientation of expansion depends on the company seat and its size: smaller enterprises with offices registered in the capital would open towards the settlements in the agglomeration, the larger ones would rather establish subsidiaries in the cities of the countryside whereas firms in the agglomeration would diffuse towards other settlements within the BMR.

Let us return to the issue of personal presence on the spot. Despite the role and significance of localization considered vanishing by the managers, they emphasize the importance of the presence of the firm, maintenance of a local office if the company has a wide circle of customers beyond the BMR. Local representation might be instrumental in holding contacts and adds a kind of confidence capital. Business contacts develop faster and work is easier if there are subsidiaries in provincial towns and regions.

"The firms have realized that to maintain an office in a place where they have a chance to win tenders and to coordinate work on-site might be an advantage." (C5)

In the opinion of network actors the share of Budapest has diminished within the European market and ICT sector. Still in 1999–2000 Hungary and Budapest were anticipated as the eminent country and capital of the newly emerging East Europe, but it has changed by now. The main reason is that politics have neglected informatics and the initial advantage has vanished. Budapest stepped onto the international scene and is at present there primarily with cultural industries and services. By the intellectuals forming public opinion not only cultural industries but other branches of creative industries should also be developed. In the opinion of network actors however the economic and political background is missing, the significance of creative industries is not legitimate i.e. not accepted by the politics and consensus is not searched for (the governmental, business, academic and civil spheres undervalue each other mutually). The managers interviewed unanimously held that the ICT sector would remain

Budapest-centered. The role of the BMR is to stay decisive but it might turn somewhat moderated.

4.1.7 Recruitment of labour force

A skilled labour force is indispensable for informatics with software development included. According to a unanimous opinion of the managers it is a mistaken notion that in Hungary and in the BMR there is a large number of skilled manpower which is a support to the development and competitiveness of the sector. To find well-trained specialists with knowledge readily applicable in the practice is becoming increasingly difficult and their number is getting less and less.

> *"There are specialists on the market however good specialists are becoming less and less. The reason is that the market is very big and there are so many firms on this market. Consequently, labour force of high quality is getting ever more expensive." (C7)*

Naturally within the BMR there is a considerable difference between the capital and agglomeration. There is a higher supply of potential employees in the former. With respect to labour force recruitment the settlements of the agglomeration are handicapped; it is much more difficult to find workers. Either because the company seat is far from the residence (commuting from Budapest) and it is complicated to reach the place of work or the settlement is well supplied with workplaces and there are many jobseekers on the labour market (e.g. Budaörs). The agglomeration however has one advantage: those having given preference to the site as a rule are proven to be more loyal to the firm.

There is a basic correlation between the size of enterprise and the manner of recruitment of labour force. The larger is the firm the more conscious strategy is chosen for the selection of the future colleagues. Evidently larger enterprises and those of solid capital can afford more spending and are able to apply a wide range of means. Micro- and small enterprises look for employees by making use of network contacts and if they fail they place advertisements; medium-sized and big enterprises – along with the application of the classic ways of recruitment – often turn to head-hunter companies.

> *"When the firm was smaller we sought for workers through personal contacts. Since we have grown up there is a demand on special knowledge so we hire head-hunter companies." (C7)*

> *"Earlier we placed advertisements too but we often made blunder in recruitment. Then the idea of hiring a head-hunter company came in which has proven to be more expensive but energy and time saving, because there is a preliminary filtering. We remained more or less satisfied with the head-hunter company. The main problem is that really good specialists rarely occur and they are very much in demand." (C6)*

The number of the employees in the enterprises is always adjusted to the tasks to be fulfilled. No sign is here of swollen staff or the employment of redundant manpower still met in some public institutions.

In the course of future colleagues it is professional experience and skills what really count; other qualities (finished education, command of languages etc.) come next. Business managers put professional experience and knowledge ahead diplomas and high-level theoretical learning. This is partly because after the change of regime higher education became mass phenomenon and polytechnic and university diplomas have become devaluated. On the other hand liberalization in higher education brought a decline of education standards in many institutions.

> *"There are much skills and knowledge in this discipline that cannot be learned in higher education partly because in the latter often taught things which are very far from the real life. Nowadays a diploma is a preliminary qualification for fulfilling tasks fairly. We had a colleague with a diploma from a school of economics, nevertheless it had taken almost two years he was furnished with skills indispensable for independent work." (C3)*

In the ICT sector testing candidates for employees is a general procedure with the larger enterprises conducted by a representative of the management or by a head-hunter company using a professional (and often language) test prepared beforehand. Besides professional skills the jobseeker must meet some personal requirements what is not so easy to survey in the opinion of the business managers. Among the positive personal characteristics expected are reliability, flexibility, fair skills in communication, command of language(s) and (for some jobs) good appearance. Those meeting the requirements are employed under work contract for a fixed term in the enterprises surveyed.

4.1.8 Role of governments, subsidies and finance

<u>The role of central and local governance</u>

An opinion of the managers voiced generally was that the present political and economic environment in Hungary is far from being for the benefit of entrepreneurship creating adverse conditions especially for the small and medium-sized business.

The main circumstance curbing economic development of the country is a lack of seeking for consensus both in the political and economic life so in a lack of a common goal no measures could be taken for the progress of the national economy in general and of the ICT sector in particular.

> *" A narrow-minded circle of professionals are not aware of a win-win option in game theory and are convinced that if they are the winners the other party has to be the losers. Sometimes it is easier to persuade an Irish or Danish colleague to collaborate than the representative of the next-door firm." (CNA1)*

Urban management at Budapest is extremely unfavourable for the BMR. In the opinion of the experts the existing two-tier system composed of the 23 self-contained district governments and the Municipality of Budapest is an unsuitable structure for an adequate direction of such a big city. As no change in the present system is expected in the near future a sort of solution would be the collaboration of 2–3 district governments for the implementation of projects and programs as it has already been shown in some cases.

The network actors emphasized that the civil sphere's ability to enforce interests is very weak not only in Budapest but all over the country. The gravest problem is that financing of NGOs is not solved, there is a lack of money and there are few efficient organizations in Hungary including the BMR.

> *"There is no place for NGOs in the system because for the time being they lack the finances necessary for operation. Civil organizations started in early 1990s but soon it had become clear that the official politics would not tolerate their interference in decision making. NGOs raise useful concepts and they suggest good ideas but there is great antagonism between state administration and the civil sphere. Civil thinking has not been integrated into state affairs. The former does not have control over the latter and the confidence indispensable for collaboration is missing." (CNA2)*

Perhaps there has been a positive shift in this sphere but the opportunities of the domestic NGOs are lagging far behind their west European counterparts. The cooperation could be ever more fruitful because civils are faster and more creative than the government whereas the latter disposes of the finances.

Concerning the central economic policy the managers complained about the tax burdens and contributions to be paid after wages and salaries which are unrealistically high even in European comparison. The former are hindrance to the promotion of micro- and small business whereas the latter make human resources very expensive for enterprises employing several workers. Administration fees relating to the operation of the firms are also a considerable item.

The managers of surveyed enterprises had not been in work relations with state administration and local governments before (with one exception). Those managers having had some previous experience rather reported their negative impressions than fruitful ones. The attitude of local governments, their policy and the measures taken did not support the sector and individual firms. The enterprises however had frequent relations with institutions of state and local government property but operating as independent economic units and actors on the market. These cooperations were evaluated as much more easier and successful. The enterprises (with the exception of the network actors) did not collaborate with universities and research institutes either and usually they did not even seek for establishing such contacts.

<u>State, local government and EU tenders and grants</u>

Summing up it can be stated that in the operation of firms surveyed the state, local governmental and EU support plays a minor part if any. It is not typical at all that they had been granted financial support or were seeking for participation in bids called by state and local authorities. There was a general opinion among the managers that neither the administrative system of competitions nor the conditions of tenders favoured micro- and small enterprises (with less than 50 employees).

From the administrative viewpoint the problem is that the process takes too long and the cycle is also too long from sending in the application until the transfer of the price. Besides there is too much paper work involved. The system of tenders must be improved towards more flexibility, shorter terms and quicker reaction.

“Everything is endless with the tenders, it takes a long time from the call for bids until the implementation. I am trying to avoid investment through bids but if we were short of finances we would not refuse to consider participation in tenders for support.” (C3)

“We heard from our business partner that it lasted nearly one year until the whole tender procedure was over and the price received, so the whole venture had to be prefinanced. It is inconceivable to participate in a tender just sitting and waiting for the result though the contractor could know beforehand if co-financing of the project would be materialized. I do not understand why the simpler tenders cannot be judged within 1–2 month.” (C5)

When a low sum is at stake there is no sense of applying for support; it is easier to economize from the budget of the enterprise. Naturally this is a problem for the smaller firms with less capital to be employed.

In the opinion of the managers call for bids are inadequate, SMEs are unable to obtain money for development through the system of tenders. Applications are unrealistic because the announcer of competition either lacks a concept about which types of investment should be supported within the sector or (being inexperienced) has no idea about the expenses necessary for the given investment consequently scales are perceived wrong and minimum sum to be competed by SMEs is determined mistaken for the projects to be supported.

„To support this kind of service we provide for our SME clients the minimum sum to be applied for was 20 million HUF (80.000 EUR) in the beginning, what accounts for a project with a budget of 40 million HUF (160.000 EUR) with 50 percent prefinancing. Note that SMEs do not spend more than 3–4 million HUF (12.000–16.000 EUR) for the implementation of similar projects. In spite of that some years later the minimum sum to be applied for was still 5 million HUF (20.000 EUR).” (C5)

Another problem with the system of competitions is that the calls for bids set very high rates of growth as requirements for the firms to become entitled for support (at present 6 percent) that are impossible to meet.

The above conditions create problems for SMEs employing 5–20 workers. For the larger firms (30–50 persons) it is just the size which poses a hindrance to a successful participation of enterprises in the competition.

“The present size of the firm is somewhat problematic because our enterprise is suffering from the “medium size syndrome”: neither we are big enough yet, nor we are small any more. We are too large to participate at tenders for SMEs but we are still not large enough to be considered by local authorities as a significant employer worth to be supported.” (C7)

As it was written above one of the major shortcomings of civil organizations and associations for the protection of common interest is that they are short of capital and their financing is not resolved. The existing system of financing however enforces them to take up tasks from the fulfilling of which they do not profit professionally. A frequent practice is that these organizations finance a particular project from a sum of support addressed to another project. Dependence of the financing from state and local authorities however might influence negatively the unbiased approach and impartial activities of these organizations and associations.

4.2 Sub-sector 2: Business and management consultancy activities

4.2.1 Overview of the interviewed firms

Table 4.2 summarises very briefly the main information and characteristics of firms of the sub-sector included into the research:

Table 4.2 Enterprises of business and management consultancy activities taking part in the interviewing process

Code	Location	Employees	Revenues	Short characteristics
B1	Budapest – Centre (District 2-3)	4	Over 200 mnHUF	Micro-entrepreneurship with the major activity of auditing, (accounting for 90 percent of the turnover), taxation consultancy, firm transformation management, valuation, screening
B2	Agglomeration Telki	2	40 mn HUF	Micro-entrepreneurship, consultant on various activities related to the financial management of SME-s, merit payment organisation management, valuation of productivity, controlling, management transformation, strategic planning, marketing and PR activities, crisis management
B3	Budapest – Periphery (District 2)	1+1	No data	Individual entrepreneur, used to work in socialist firm transformation now does auditing (100 percent), screening. She takes part in the training of auditors via the Chamber of auditors.
B4	Budapest – Periphery (District 17)	10	20-30 mn HUF	SME in the development of business management softwares, development of data bases. Auditing, counselling on financial, and taxation systems
B5	Budapest – Periphery (District 18)	1	80-100 mn HUF	Family business with no real employees. The entrepreneur does counselling, solving specific problems of firms on book keeping, counselling on accountancy and informatics and the combination of the two, he solves specific problems through software development
B6	Budapest – Centre	15	Over 500mn HUF (estimated value)	SME with international circle of clients on auditing, accountancy and related consultancy
BNA1	Network Actor	No data	No data	Chamber of Auditors

The interviewed firms

B1 **–** The firm was launched in 1993. At the beginning the interviewee worked alone, later with then with former students. Main activity is auditing, formerly bookkeeping was also important while taxation consultancy represents also a smaller proportion of activities. The main circle of clients is concentrated on firms (mainly SMEs and larger), public institutions and local governments. In financial life (due to professional background) insurance companies, broker firms, investment firms, banks also belong to the clients. Presently the firms have around 80 contracts. Cca. 60 percent of the clients are from Budapest and Pest county the other 40 percent is from the rest of the country.

B2 **–** The firm was established in 2003. At the beginning they sold digital cameras. They are doing consultancy on SME management. In the past 5 years they had around 40 clients, all from different sectors of economy (the largest firm they did consultancy employed 500 people. 75 percent of the firms are from Budapest Metropolitan Region. When contracting it is important for the firm that the client is possible to reach within 1,5 hours.

B3 – The interviewee used to work as and individual consultant from 1990 and established the firm in 1996. The enterprise has not grown the aim at keeping a level. Their clients are more or less constant (share holding companies, non profit companies SMEs and public institutions) from all kinds of economic spheres. Their clients are from mainly Budapest and the Metropolitan Region and from within a 100 km circle round the area.

B4 – The firm was established in 1991 among a circle of close friends. For the management and accountancy software development activity they contract with such large firms as MATÁV (Hungarian Telecom), National Saving Bank, National Post, Ministry of Defence and Interior. For bookkeeping and auditing they contract with SMEs with a maximum turnover of 1,5 billion HUF and 300 employees. 80-90 percent of the clients are from Budapest Metropolitan Region, the rest are from the larger regional centres. There are no contracts with foreign companies but many with international ones.

B5 – The firm was launched in 1995. 90 percent of the contracts are from the BMR, but via the network of informal networks they get to remote parts of the country.

B6 – The firm was established in 1991. They have wide international network of contracts. Within Hungary they work for larger companies, and national institutions.

4.2.2 Transformation of sub-sector – Past, present and possible future

The majority of the interviewed firms are from auditing. It is their prime activity or at least it is among their many occupations. The other three characteristic activities were book keeping, coupled with development of related software and management counselling (to especially SMEs). All the firms interviewed have diversified portfolio and stand on two-three legs (sometimes having two three firms in the family for the different activities).

Auditing is a highly regulated activity not much creativity is allowed in this sphere. There are international auditing standards to keep to. The software are tested and suggested to the users by the Chamber of Auditors. Bookkeeping is different in this respect thought it is regulated to a large extent, innovativity – in a legal and positive sense – is not only welcome but also expected by the clients.

The first law on auditing was passed in 1997. The first general, comprehensive revision of the law happened in 2007, when the related legislation changed with lots of consequences on the sector itself. The changes were called forth by the international expectations, which sprang from EU membership: the EU directives are distinct and the Hungarian regulation had to be harmonised with them. Besides, market in general transformed, its scale and sortiment enlarged. These factors together generated the need for changes in legislation.

According to B1 and B7 the sector (auditing) is ruled by four big multinational firms (KPMG, Price Waterhouse Coopers, Deloy and Earnst and Young). These big firms carry out about 50 percent of classic auditing. With other related services it goes as high as 80 percent. Further 8-10 also international firms take 10 percent of the market. While the cca. 1800 firms with purely Hungarian ownership structure share the rest. There is no other sector, where multinational companies would rule the market to such an extent. In other countries it is much more regulated."

There is an oversupply in auditors, which is due to their training system. In Hungary there are 5800 registered auditors of which 3800 are active. For a comparison, in Austria there are only 700 of them.

The occupancy of the auditors will expectedly shrink as the consequence of the recently passed law from the 67 000 firms, organisations, institutions, municipalities 27 000 have got out of force of auditing[3]. From the rest 40 000 organisations 800 are municipalities.

Classic recruiting practices are not employed in the smaller firms like the interviewed ones. The large firms use them: they put on adverts or go to universities and employ young trainees, assistants. The Hungarian smaller firms mainly work with experienced auditors.

In consultancy the success of business depends on the macro-economic conditions. In critical periods like we are having in Hungary the first thing clients save money on is counselling and marketing. The younger interviewees B4 and B5 claimed that the condition of sustainability is growth. The other firms would not like to grow more; they have no ambition like that. They try to keep their acquired position and clients in the long run.

4.2.3 Typology of networks

<u>Formal networks</u>

Those interviewees whose activity is related to auditing are all members of the Chamber (it is compulsory). They join, as it is required but also find it useful as it means a professional stronghold.

B1 interviewee is also a delegate in the Chamber's delegate meetings. There are divisions in the Chamber, e.g. the budget divisions or money and capital market division. The members of the Chamber meet at division assemblies.

> *„An interesting situation within the Chamber is that the members are colleagues and competitors at the same time." (B1)*

B3 also keep contact with colleagues via the Chamber. Two of the interviewed people used to or still train at the Chamber and are involved in further education of the auditors (train and chair examinations). They find it rewarding.

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[3] The limit of turnover requiring auditing has been raised from 50 million to 100 million HUF by the recently passed law.

By contrast B2 refuses any kind of cooperation with professional organisations (management counselling) due to series of former bad experience and to their incompetence in the field. He also claims that these professional forums limit the creativity of their members and uniformailise them.

Formal organisations in accountancy and financial software development are not typical – especially not for sharing results of development activities. They follow each other's results from a certain distance sometimes adapting certain aspects of each other innovation. It is due to the fact that competition is especially severe among firms pursuing this activity.

All of the interviewees have been involved and some are still involved in teaching and lecturing in higher education. B3 finds it useful to consult with colleagues who are more on the theoretical grounds. Practice and theory in accountancy also matters. There is sufficient connection between education and practice in accountancy (bookkeeping). Experts from professional life are invited to lecture on the field. In other fields like SME management according to B2 there is a huge gap. There are individual initiatives among the interviewees for book writing, publishing on the related matters.

None of the six interviewees cooperate with other firms or take part in consortiums. B1 has never been part of a consortium, he, like the others contracts for work that he does himself or sub-contract for work with trustful individual experts. Most of the firms in auditing see clearly that they stand no chance to get works (projects) that are intended to be given to the larger multinational firms. They could stand the competition if they kept together for a consortium, but they would not act so. Individual experts and micro-enterprises such as BM5 are often invited by larger holdings for special tasks. Interestingly enough firms ask professional questions from each other but it is the matter of mutual trust and close friendships.

Informal networks

The judgement of informal connections is ambivalent. In finding work BM2 finds it the origin of corruption. In getting information and advice informal connections and networks are judged to be extremely valuable (in bookkeeping and accountancy conditions regulators change day after day, they call each other day after day with intricate questions, they enquire how regulations could be interpreted). As they are involved in a kind of activity that requires trust they often get contracts via informal channels. Larger companies contract with them on a competition base, but if they prove to be successful they pass their accessibilities on to other companies. According to B5 and B6 20-30 percent of the contracts are based on personal connections. Majority of the professional questions are clarified via informal channels.

4.2.4 Localisation factors

All the interviewees are connected to Budapest due to family ties and to the fact that they were doing their university studies in the capital city have relatives and friends here. In general they all find it important to be based in Budapest no matter, which part of the Budapest Metropolitan Region they are based. According to the interviewees location within Budapest hardly matters, the choice of place to work has nothing to do with special aspects of their activity.

None of the interviewees were complaining on complications related the smooth going of business arising from their present location. However, they all mentioned traffic as a hard factor of feeling comfortable in Budapest, no matter which zone of the Metropolitan Region they work. Three of the interviewed firms are based where they live; the larger ones have an office different from their place of living.

„The major decision making factor influencing our choice of place for the office was that it should be close to both home and the city centre" home here means the periphery on the Buda side." (B1)

From this statement and other claims it seems that while peripheral location does not seem to matter for the pursued activities (business - management) when it comes to contact keeping and travelling to clients the firms (would) prefer location close to highways and the centre (due to good access to bridges to cross the Danube).

Mobility of the firms in the sector is not typical within the Metropolitan Region, if it happens it is due to family reasons, but never because it would do good to the business. None of the interviewed firms plan to leave from its present place. The older generation of interviewees claim that it is an advantage if the address and the phone number of a firm is the same for over a decade it means trust and credibility.

The older generation inherited location from their earlier lives (pre-entrepreneur), while younger generation business and management entrepreneurs consciously choose location (if it is different from the place of living).

„When the firm was founded after the university years in Budapest we had no choice as only one of us (the owners) had his own flat. As the firm was growing it was more and more in need of a separate office location. The major aspects of choice fitting the needs of the firm were good accessibility, good parking facilities, and the rent. These conditions were all met on the Pest side, relative periphery." (B4, young ambitious manager from a growing enterprise)

Besides traffic as a factor of location one of the interviewees referred to the importance of Internet connection services and capacities. What they pointed out is more the matter of general market conditions than Budapest – there is hardly any competition in this service in the country, at least not enough to make it work properly.

4.2.5 Sub-sector at the location: image of the city

The central role of Budapest is deterministic in business and financial management activities. It is judged to be the focal point of business and intellectual life. This is the place where the number and density of enterprises and institutions is the highest and consequently the number of possible and real clients is the most significant. Besides, the solvency of the demand side is stronger. It is a fact that most of the clients (40 percent of the Hungarian economy) is concentrated in Budapest.

„The colleagues based in the provincial places often say that we are in extremely good situation as for business potentials" – which means that the relative market position of Budapest is generally considered to be most advantageous in the country. Beyond vivid market and the availability of the related services Budapest means no other real advantage for our pursued activities". (B3)

The advantage seems to be a disadvantage at the same time as competition is also the strongest in the Metropolitan Region. The prices of related services are also supposed to be a major drawback in Budapest.

All in all, Budapest is considered to be a good place for business in general, though the interviewed people all claimed that they could do their activity anywhere in the country due to its nature. Interestingly enough none of the interviewees highlighted the fact that without being in the buzz of business life with all the consequential networks and connections they would not get the same kind and standard of contracts.

As referred to it above, the interviewees all complained about the miserable traffic conditions in Budapest. None of them use public transport they all use their own cars to go to the clients. B3 referred to the huge pile of papers and documents to be taken to the clients as a reason for sticking to car use. It seems to be more the questions of presage and convenience instead. They consider the traffic situation in business life in general the biggest drawback; mobility is very limited parking is extremely complicated. This situation has reached such extremes that already hinders the normal flow of people and run of business and influences the image of the city in international business life.

Other aspects of urban life have no impact on the sector's operation. Central location – being based in the CBD means no advantage if one is already in the Budapest Metropolitan Region.

"One appointment on the matter of the contract – problem definition – is followed by weeks of lonely working in the home office" (B5)

As for the general image of Budapest among the interviewees, it can be stated that Budapest provides all the cultural and intellectual and even environmental conditions that are expected from the capital city. The interviewees all use these, while also see the negative aspects of life and bring it up as a reason for leaving the city proper for the suburban area.

"As my activity does not require living in Budapest we preferred to leave the city for the suburban area. Besides the many undeniably great things in the capital city I find in Budapest especially downtown dirt, no tolerance, traces of massive homelessness. We found Telki in the western suburbia ideal for living due to the natural environment, close to highway location and no people from the lower classes." (B2)

4.2.6 Recruitment of labour force

Labour force in financial and business activities is a crucial issue. Budapest as the centre of not only business life but also higher education is an ideal place to recruit an efficient crew for activities pursued by the interviewees. However, according to the findings of the interviews smaller firms – even in Budapest with such favourable assets – prefer to rely on personal contacts and relationships rather then selecting from the rather wide range of choice of experts.

"I work only with my former students, experienced labour force. In my business we have no time to train it is crucial that even people in the assistance have the right to countersign auditing documentation." (B1)

All the interviewees except for BM6 claimed that they would never put on an advertisement for a position in the firm, which seems to the matter of firm size, and the nature of the activity, which requires discretion and trust.

Micro-enterprises also stick to no growth, in case of oversupply of contracts they prefer sub-contracting for work rather than employing new staff.

Smaller enterprises with limited market are also scared that training a talented new colleague (having no commitments to the firm) equals with “bringing up” their own competitors.

“ I would be training my own competitor but if I was to employ somebody he/ she should be a good organiser with management experience, empathy, and wide range of knowledge and interest” (B2)

Even the growing firms such as BM4 and BM6 (the SMEs) first always search for new staff in the circle of or via the network of people they know well. In the second round they turn to means of advertising. They never try at the universities. For work in need of qualified labour force the beginners are not good enough, while activities such as testing or creating databases do not require university diploma.

As for the role of Budapest in the selection of labour the interviewed firms supported the claim that elsewhere in the country they would not find the same selection of labour force, while they also see that the wages are higher in the capital city (but the quality of work is also better).

4.2.7 Role of local governments

Local government has no role, only the national government can influence the activities of the sector. The authorities that have influence are the Ministry of Justice, Ministry of Finance they keep the sector under control. Regulation is the matter of legislation but the government has along reaction time (see the time needed to change the base code (law) on e.g. auditing).

The national and other supporting systems have no role in the sector, while firms they are working for have gained support for services provided by the sector (accountancy software, IT background for the activity).

The chamber (the forum of interest protection) is supported by neither the local nor the national government. Traffic organisation and infrastructure development are the only fields, which could be influenced by them and could do well to the going of business in the sphere.

In the present shaky economic situation the success of the firms is questionable. The state of national economy has a substantial influence on the examined sphere. What all the interviewees pointed out was that they all lack the long-term economic perspective. The fact that the firms in general do not dare to plan to grow due to the many uncertainties influences the success of the business and management firms. The wish to decrease the degree of administrative requirements in business related services (bookkeeping, auditing etc.) also belongs to the category of dreams, as they all admitted.

4.3 Sub-sector 3: Motion picture and video activities, radio and television activities

4.3.1 Overview of the interviewed firms

In mapping the template of companies working in the field of motion picture, video, radio and television we have conducted a total of seven structured interviews (Table 4.3). Six of these are interviews with small and medium enterprises that have activities mostly related to film, animation and television production. The seventh interview was conducted with the press and communication officer of the Motion Picture Public Foundation of Hungary which is the main network actor of the sector.

Regarding main characteristics, radio-related activities seem to be a separate sector in the city, however there have been interviewees who also work or used to work for certain radio stations.

Interviewees have been chosen based on their location (both from the inner and outer districts of the city) and the size of the company. The following table shows the companies indicating their location, main activities, number of permanently employed staff, number of staff subcontracted for certain projects and their approximate yearly turnover.

Table 4.3 Enterprises of Motion picture, video, film, radio and TV activities taking part in the interviewing process

Code	Location	Employees	Subcontractors	Revenues*	Short characteristics
M1	Budapest – Centre (District 13)	1	2	No data	Editing
M2	Budapest - Periphery (District 14)	0	2	6-12 million HUF	Writing, directing, editing, teaching
M3	Budapest – Center (District 11)	6-7/project	30/project	30-40 million HUF/project	Film and TV production
M4	Budapest – Periphery (District 2)	1	~ 30	300 million HUF	Animation, film and advertisement production
M5	Budapest – Periphery (District 2)	5	30-40/project	No data	Animation, cartoon production
M6	Budapest – Center (District 6)	3-4	30-40/project	No data	Visual effects
MNA1	Budapest – Centre (District 6)	No data	No data	6 billion HUF	State funded network actor supporting film production

*Yearly turnover (indicated where turnover per project).

The interviewed firms

M1 – The interviewee is a well-known, experienced editor on the Hungarian film market. The family enterprise was established as a necessity entrepreneurship after the change of regime in the beginning of the 1990s. The main profiles of the firm are film and video services, predominantly digital editing and subsequent works to films, shorts and documentaries.

M2 – The interviewee is a cameraman and director shooting documentaries and films regularly. At the same time he is also involved in teaching, writing and broadcasting. The firm was established in 1996 as a necessity entrepreneurship. Directing, screen playing, editing and shooting of smaller productions are the main activities of the enterprise.

M3 – The interviewee originally studied mechanics, acting and social politics. He became involved into the world of films accidentally. The enterprise was established like a production association by alternative actors of different studios without any professional background. The main profile of the firm is comprehensive film and TV production including preparation, shooting, marketing and distribution.

M4 – The interviewee originally worked as interpreter and translator, in this way she got in connection with an international studio, where she later worked as a producer. The firm was established in 1996 and very soon the interviewee became the general manager. The former enterprise left Hungary in 2002 however the Hungarian party carried on the activities of the firm independently. The main profiles of the enterprise are animation and digital cartoon production.

M5 – The interviewee is originally an interior designer, earlier he worked as illustrator and stage-designer. Later he got to the world of animation and cartoons and established a new production firm in 2000. The main activities of the firm belong to the field of animation and cartoons and shooting commercial films as well.

M6 – The interviewee is originally a cameraman. He established the firm together with his professional friends in 2000. There are currently five managing decision makers in the company. The main activities of the firm are in the field of subsequent digital works and commercial productions.

MNA1 – The institution was established in 1998 and falls under the supervision of the Ministry of Culture. The main profile of the foundation is to give comprehensive support for domestic film productions and the institution is responsible for the distribution of state grants for the sector. The interviewee manages the press and communication issues of the foundation.

<u>Brief summary on the size and activities of enterprises</u>

In the sample there are two self-employed film-makers (M1; M2), one from the downtown and one from the suburbs. It seems rather typical in Hungary that managers of enterprises of such size tend to register the location of the business in their own homes. These mini-enterprises are generally as so-called “constrained-enterprises” which means that they were established only for more advantageous taxation reasons. The next two enterprises (M3; M4) are small enterprises with less than 5 permanent staff. They subcontract other staff when there are specific projects going on, but there is no financial background for hiring them permanently. The two largest enterprises in our sample (M5; M6) are studios that work in international production or have their own production of a significant volume.

All companies in the motion picture, video, animation and television sector are highly dependent on assignments coming from larger productions. Small and medium enterprises generally do one or two specific stage of the work; therefore larger companies subcontract several small ones.

Activities of the companies in the sample vary on a large scale, but are all related to motion picture, animation and television production: writing, directing, cinematography, stages of animation production, visual effects, editing, teaching, acting, etc.. Activities of the smallest companies obviously relate to the skills and previous experience of the founder(s) of the enterprise. They told that when receiving new assignments, they always specifically reach them as persons, not as enterprises.

The following case describes self-employment in the motion-fiction sector very well: one interviewed self-employed (M1) founded the enterprise together with his editor-director partner in 1994, only for more advantageous taxation. The enterprise is involved in several activities related to film-making: directing, writing screenplay, cinematography, editing, etc. The founder also does his other activities within the frame of the enterprise. He teaches at the Film Academy, has private students and leads a radio program. The enterprise is registered in his home; they do not have their own studio, therefore they cannot take over larger parts in productions. Again, productions want to employ hire or his partner to do certain tasks, no one gets in touch with them because of the enterprise, it only provides a legal basis for the activities.

Medium size enterprises are able to undertake more complex tasks than smaller ones. For each new project they subcontract the most suitable professionals, usually the same group of people every time. Opinions on advertisements vary on a large scale. The medium size studio in our sample (M6) specialized in visual effects. They work mostly for films but also take part in advertisement production. The manager believes that it is necessary to take part in advertisements because it provides a stabile financial background to the studio. According to him films and advertisements are cannot be considered as equivalent challenges or tasks. On the other hand manager of a medium size animation studio (M5) thinks that advertisements provide several opportunities for professionals. Besides high payments, they provide freedom in trying new technologies in a professional level. Their studio makes cartoons, animation films and series for foreign productions, while almost always advertisements for Hungary. Medium size enterprises are the ones that aim to attract international productions. In general we can state that smaller enterprises only have domestic customers. Since this is a rather small sector, *"everyone knows everyone"* (MNA1).

A smaller production enterprise in our sample (M3) does mainly film and television production. It is not a very typical office because its staff mainly comes *"from outside the sector"* and they learnt it while doing. They did not study at the University of Drama, Film and Television, they come from small theatres. Of course there are stages where professionals have to cooperate (photographer, editor, etc.), in these cases the office subcontracted them. The manager thinks it is easy to understand the world of film-making and a production, people working in the sector tend to over-mystify it.

> *"You have to understand that this is an ordinary organization that is related to other organizations. You don't need to have a special knowledge to distribute films, advertisements or do marketing. You only have to believe in what you are selling is needed. All I had was this and it works." (M3)*

Motion Picture Public Foundation of Hungary is the main network actor in the motion picture sector in Hungary. It was established in 1998 and is under the supervision of the Ministry of Education and Culture. The Foundation supports all stages of film-making from the creation of the idea of a film, writing screenplay, production till distribution to cinemas. Since it is a rather young institution, its history cannot be yet divided into periods. The Foundation is led by a board of trustees and has five main boards: documentary, scientific, films, distribution and education, research and experimental filming. Bodies of each board propose films to the board of trustees which finally decides on grants.

4.3.2 Transformation of sub-sector – Part, present and possible future

Before the transition there were three locations of state motion picture production in Hungary: in Budapest, Pécs and Kecskemét. Later the latter two were shut down and many of their professionals chose to move to the capital. In the past few years there is a small strengthening that can be witnessed in these cities: a new studio is being built in Pécs, and Kecskemét could remain the centre of animation.

According to the Motion Picture Public Foundation of Hungary, almost all of their clients[4] are located in Budapest and Pest County. Within Budapest there used to be certain areas around which the sector concentrated. One of these is the area of the film factory in district 14 of the city. Most of the offices and studios are now rented by one of the main commercial TV channels, TV2. Lately, there have been a few new companies from the city of Pécs, South-Hungary. Kecskemét is the venue of animation, due to its strong animation history in the socialist era.

Some believe that the Hungarian film industry only now, 20 years after the transition starts to really formulate. In this process the so-called Law on Film (2004) has brought substantial changes and the law is considered to change the sector, tear down the old, socialist structures. Pluralism in the media has evolved, but there was no sign of pluralism till the Law on Film. Only a few studios could stay alive outside the "old" ones and sustain productions from their own budget.

> *"In the social level still the structures of the socialist system were working: people and connections remained the same." (M3)*

Until the Law on Film there were only few studios and enterprises (e.g. André Szőcs with French connections, or Andy Wajna in the US) that had foreign connections and were able to participate in international co-production. Earlier Hungarian movies could appear in the international market only through these connections, or besides take part in international festivals that mean limited publicity. There was no international share in Hungarian film production. International co-production was restricted and Hungarian production did not orient towards foreign markets. The Law on Film helps to attract international productions because of the relatively cheap work force and technical background available. The main novelty of the Law is that it 20 per cent of the expenses can be refunded from the Hungarian state which significantly decreases the costs of the production. This resulted in a significant growth, two-three times of the volume before. Two other facts also had an impact on the prosperity: the two new large studios near Budapest (Etyek and Fót) and the end of the strike of screenplay writers in Hollywood (several productions were supposedly cancelled due to the strike). Presently mainly American productions arrive to Hungary. Respondents in our sample are hoping a real boom in the film industry as the impact of the new Law on Film.

For the benefit of Hungary and all European countries European co-productions are necessary. This is difficult due to national regulations: usually 90 per cent of the support has to be spent in the country of origin, actors and stuff has to come from there, etc. Many studios

[4] All associations and companies have to register at the Motion Picture Public Foundation of Hungary when starting a motion picture production.

and professionals have connections in the US, but there is no real European network at the moment, even though their budget would be lower than American ones. According to the press and communication officer of the Motion Picture Public Foundation of Hungary Eastern-European film-makers treat each-other as enemies. Hungarian film-makers are getting open for international co-productions. However, to the international productions only the so-called service staff (technicians, make up, etc.) and actors for small roles can join in. These productions do not provide opportunities for Hungarian directors, cinematographers or famous actors.

According to the manager of the medium size studio (M6) the Hungarian film industry is based on the system of subcontracting, relatively low prices and quality (!) in the international scene. Therefore his studio plans to provide high quality services in the field of visual effects. He believes that the most talented young professionals all move abroad because in Hungary the sector is not able to provide sufficient incomes for them. He also adds that for the same task a studio in London gets 30-40 times more than in Budapest. In addition the sector works in a rather "provincial" way, not leaving enough space for innovation. New tasks do not improve the sector but privileges and disadvantages are constantly reproducing themselves.

> *"I believe that only the young generations have the chance to raise the Hungarian film industry to the international level. My generation (in their forties) is not able to do that. We cannot adjust to changes, to new environment and new expectations so quickly. We were socializes in a different way, in one word we are mammoths comparing to the youth." (M6)*

<u>Differences within the sub-sector – Animation</u>

As opposed to films, the animation sector has not experienced a generation change. In the institutionalized level (chambers, trade unions, juries, etc.) still the same, now fifty-sixty-year-old generation is in position. They receive most of the state support and are in the best position to represent their interests. On the other side there is a smaller, younger generation with new concepts, ideas, language trying to change the "regime" with the help of restricted resources.

Even though these managers of animations studios are optimistic. On one hand there have been several new festivals in Budapest, on the other the teaching staff of the Moholy-Nagy University of Art and Design Budapest is of especially high standard. Fresh graduates come up with very promising films and animations. For this young generation it is rather difficult to get inside the old structures, therefore they tend to orient towards international festivals. Once they get an award there, the Hungarian animation sector will acknowledge them and they will be more likely to receive grants. If they do not get awards, they are likely to leave and start working abroad which is not for the benefit of the domestic animation industry.

4.3.3 Typologies of networks

<u>Generations of the Motion picture branch and relations between them</u>

According to the press and communication officer of the Motion Picture Public Foundation of Hungary there are four main generations in the film branch in Hungary:

i) The oldest generation consists of film-makers who are in their seventies and eighties by now. Here we have names of classics like Miklós Jancsó, Péter Bacsó, Károly Makk, etc. They have very strong connections and support each-other.
ii) To the so-called medium-generation middle-aged film-makers belong, such as János Szász, Attila Janish, Péter Gothár, Péter Tímár, Tamás Sas, etc. They belong to the same age group but they do not create a community in the sense of supporting each-other. They have been building their careers through their own personal networks.
iii) The third generation consists of those who established the Madzag Film Association (Madzag Filmegylet) in order to represent their interests. They are young directors and cinematographers in their thirties (György Pálfi, Szabolcs Hajdú, Kornél Mundruczó, Ferenc Török, etc.) who studied in the director class led by Sándor Simó at the University of Drama, Film and Television. There is a strong cohesion between them; they know and support each-other's work, try to stand up for their interests and influence the motion picture sector.
iv) To the youngest generation lonely, "revolver heroes" belong who are in their twenties.

The above described four groups are not really in touch with the other groups. There is hardly any mobility between groups.

"Everyone tries to push their own films through these internal, informal connections. They all say that there is a need for cooperation, but no one actually does something for that. You can only get into these groups if you are a friend of someone. Social capital is the most important thing in the film sector." (M3)

"One has to be selfish and violent because it is a selfish and hostile sector." (M5)

<u>Differences of TV and film branches</u>

TV and film sector are different in many ways. Film-makers may be more defenceless and dependent on financial support, since the channel of grants is rather narrow. Those working for TV channels are more free to move, and have more opportunities to get money. The variety of TV channels and providers is still getting wider. High incomes from advertisements are more available within the TV sector. There are groups in the TV sector that used to work together in some long-term, well-known series. After these series ended, these groups left the Hungarian Television, stayed together and established enterprises.

"If once someone was part of this in the good old times, they take the connections with them. You cannot get inside this. Film-making groups are different, not as closed. The bonds are maybe less strong or fixed. Fluctuation is bigger in the staff of the movies." (M1)

<u>Networks and official forums of the sector</u>

"The main meeting point always has been the canteen of the film factory." (MNA1)

The only matter that all interviewees agreed on is that informal relations are by far the most important factor in the motion picture sector and the life of the motion picture, animation and TV sector is organized along the countrywide informal connections. On the one hand most of the managers established their company with friends from the same field, on the other hand actors in the motion picture and animation sector are dependent on each-other, cannot succeed on their own. Thus, *"everyone has the phone number of the others"* (MNA1).

Regarding the role of informal links Hungarian festivals and professional fairs provide an opportunity to meet the rest of the sector. Film-makers meet officially at the forums organized by the Hungarian Film-maker Association (Magyar Filmművész Szövetség). The other main, official meeting point is the annual Film Week (Filmszemle) is the main event at which participation may lead to getting new work, thus it is worth being present.

> *"You may meet someone who will introduce you to someone else. Especially when some of your work is shown at the Film Week, they might be interested in getting to know you. Sometimes I got work like this." (M1)*

Other, smaller competitions and festivals are not of great importance in getting work. When someone is known within the sector, it usually spreads by the word.

> *"You can hear that he or she is a good editor, good cinematographer or sound engineer. Then the director will go and find them." (M1)*

For the animation sector the Animation Festival in Kecskemét, the Anifest and the Kiskakas Animation Festivals are useful occasions to meet other actors of the sector and a chance for the young generations, especially students to build new connections. Directors and studios like to meet young, talented graduates who could be trained for certain productions.

> *"No matter how well-informed you are, you cannot know everything. These festivals and conferences are good for getting to know more. There is always a new generation growing up. Here you can meet new talents. And of course there is the University where through your connections you hear that someone has made an outstanding diploma work, so you invite them to work with you. /…/ In these festivals you realize that the world is a big, global village. If you see new concepts or ideas, in the end things connect to each-other." (M5)*

All companies and studios are in strong connection with the main higher education institutions of the field: the University of Drama, Film and Television and Moholy-Nagy University of Art and Design. Studios prefer to train and hire talented and hard-working students.

Concerning public bodies, all enterprises in the motion picture production sector are in connection with the Motion Picture Public Foundation of Hungary, since all associations or companies have to be registered when starting a motion picture production.

Manager of one of the studios have told an example to describe the role of informal connections. The local governments receive money from renting out public areas.

> *"In the film sector this is the hotbed of corruption. When someone with little experience and information wants to rent a public place first they are told a ridiculously high price at the local government of the district. Later it turns out that we have to make a deal with a certain security company that will secure the venue for the time of the shooting. This company is sub-contracted by the local government for almost free of charge. So you have to pay a higher amount to the security company that will give a little bit of it*

to the local government. This corruption-mechanism works out well for everyone: the venue is for cheap and the local government can be proud of supporting culture." (M3)

4.3.4 Localisation factors

Earlier the sector was geographically concentrated around certain areas within the capital, Budapest. Studios and production offices tended to choose location close to each-other which made communication and keeping touch easier. One main location is the area of the former film factory in district 14 which still functions as a concentration of film-makers. Mafilm, Hunnia, Objektív, Dialóg and several other famous Hungarian studios are still located there.

In a certain period advertisement agencies concentrated in the Hajógyári-sziget - an island on the Danube in the northern part of the city - because the main studio used to be there. Another location that was popular for a while is the suburb neighbourhoods around the Pasaréti Film Factory (Pasaréti Filmgyár) on the Buda side. Nowadays these geographical concentration points have lost their importance.

"The film sector today is individualist and selfish. They don't see any interest in staying geographically close to each-other. Everyone has nostalgia for the good old time in the lively film factory. But now there is no real interest that would keep film-makers in the same place." (MNA1)

Since there are several studios in Budapest, most of the professional staff can be found here or in the agglomeration. Besides professional reasons, personal bonds also tie managers and their studios to the capital.

"I was born in Budapest. I have never thought of establishing an enterprise in an other city or abroad. In the beginning of my career I used to work in Munich. Because of private reasons – my family, my friends – I would not move to abroad for a longer period of time." (M4)

All respondents agree that it is absolutely necessary to be in or near the capital to be able to take part in motion picture productions; while other cities are rather disadvantageous. Even if most of the staff is from the country, they usually have to move to Budapest for at least a year after the shooting. Only Budapest can provide wide infrastructure for film production: TV and film centres, studios, distribution offices with almost no exception are located here.

The main advantage of the agglomeration that huge areas can be built on which is a basic need of film factories. These factories (in Etyek and Fót) are suitable to meet the expectations of foreign large-scale productions. Staff of these international productions usually spends most of the time in the film factories, shooting and other stages of the production goes on there. If necessary they can always go and make some shots in the city. Short distance from the metropolis is advantageous in hosting and entertaining the staff.

In the field of animation besides Budapest, there are two important venues - Pécs and Kecskemét – where during the state socialism two large animations studios used to operate as sub-institutions of the state studio, Pannónia. These studios were shut down, however some professionals have remained in these cities and established smaller enterprises on the "ruins" of the studios. Animation industry of Hungary is still geographically restricted to these three cities. Pécs is considered rather isolated by studio managers of Budapest, since there is only one studio operating with very few staff. Kecskemét has a stronger professional basis which is the consequence of the strong management of the studio and high quality internal trainings. Almost all clients of the Motion Picture Public Foundation of Hungary are located in Budapest, or Pest County. Recently there is a growth in the city of Pécs, South Hungary. In the animation Kecskemét kept its significance. There are also local initiatives to establish regional film centres, like the studio of director Tamás Sas in Pécs. Also, festivals held in other cities try to break the monopoly of Budapest. Both for film and animation studios internal trainings are of major importance.

<u>Choosing location</u>

In the film and animation industry locations in rather expensive suburbs of Buda side and District 2 remain popular.

> *"If we work for a rich and trendy production of course it counts where our office or studio is. And because Pest is like Pest and Buda has always been more bourgeois, it was obvious that we had to move here. And of course Rózsadomb in District 2 is the most prestigious of all places." (M5)*

Location on the top of Rózsadomb (Rosehill)[5] is not very easily accessible, but representative value of the place is more important. An office in Pest would be more practical in the times of larger productions when many people have to come in regularly. In the process of creative work a nice and relaxing environment has a great impact – according to the manager of the animation studio located in District 2 (M4). The studio moved a few times, but always within the same neighbourhood.

Managers of these studios see a new trend in the sector: moving to the so-called loft-apartments downtown. The notion of location has changed recently in Hungary. Earlier studios needed large space and much more staff was present every day, but today most subcontractors do their work in their homes and send it via e-mail. This is more practical and of course more economic, but is considered to be more inspiring.

> *"In this field you need to absorb in what you do. One can work more efficiently and freely on their own than having twenty people running around you all day long. You will achieve better results, a better quality." (M4)*

The small-size production office (M3) rents a simple apartment for office use. The manager believes that the address and the location of the office do matter:

> *"It has to be easily accessible for our subcontractors. It also has to sound goods. This is important when you apply for grants and when you distribute a product." (M4)*

Their office is on the prestigious Gellért-hill. One more practical reason has come up: it is close to the studio of one of the main commercial channels that they were working for. The medium-size studio specialized in visual effects is located in district 6, in the heart of the city. The manager considers the main disadvantage of this location the difficulties when parking. On the contrary he likes the idea of creating a "Soho-like topography" where restaurants, clubs, pubs, nightlife and entertainment are all around the office. We cannot know which

[5] Rosehill (Distric 2) is traditionally one of the most prestigious quarters on the hilly Buda side of Budapest. The quiet and peaceful quarter with green areas, villas and residences is closely located to the city centre.

parts of the city foreign investors would prefer because most of the work is done on-line. Westerners may prefer the downtown because of the variety of hotels, restaurants and entertainment. In his vision the enterprise would have a representative office downtown for the reception of the clients, but the work itself would be done in a large studio in the agglomeration.

In the film sector only quality, fame and references do matter; type and representative value of the location is important only in the world of advertisements. The Hungarian advertisement industry has some preferred areas and places. Motion picture production is more adaptive in this sense because the location is strictly dependant on the budget.

Even though Budapest is the absolute centre of motion picture production, many view the city with criticism. Commonly mentioned advantage is that it is easier to make ends meet in Budapest than in other European cities (especially London). Some feel inspired by the vibrant urban environment which they consider a necessary source of inspiration for work. Still the most important factor that ties everyone in the sector to the capital is the maintenance of informal relations. Disadvantages of the metropolitan are devastation of the urban environment, pollution, decreasing green areas, overpopulation, and over motorized life. Some are especially concerned about the destruction of inner city areas and the fact the city itself cannot solve these problems.

Those who have remained in Pécs, or Kecskemét in animation are forced to take part in other kind of activities besides. Animation by itself does not provide enough income in these cities, so they finance their animation ideas with income from other activities. This activity may be advertisement, but finding opportunities in the field is much more difficult than in the capital. Studios of Pécs and Kecskemét are usually in connection with foreign advertisement agencies. In this case distance from Budapest does not matter.

4.3.5 Image of the city

The landscape of Budapest is suitable for several kinds of movies. Before the Law on Film, this was the main factor that attracted foreign productions. Permits for shooting on the streets are relatively cheap, and one can find perfect places for Italian, German, French and even Argentinean scenes (e.g. Evita, Munich etc.).

On the contrary life costs more in Budapest than in any other part of the country. Animation studio M4 rents its studio in a villa in District 2, the most expensive neighbourhood of the city. It is a very quite and green area. Other studios are usually located closer to the centre of the city, in less expensive locations. The manager of this studio always chose a location in this neighbourhood. They had to move a few times due to financial reasons, but never moved further than 200-300 meters away from the original location. She knows that this solution is not economic at all, but believes that quality of the environment they are working in is more important. Her colleagues are satisfied with the location, they have never considered moving to the city centre. They see the villa as a creative centre, not as an office.

Most managers working in the motion picture sector find cultural variety the strongest side of the city. Everyone can find entertainment of their taste, or be on their own in tranquillity when they want to. Lack of nice and quality restaurants and clubs on the Buda side were mentioned by those who are residents of that area. Everyone agreed that traffic and parking are the worst side of Budapest. Moving in the city is slow both by car and public transport, especially from the suburbs to the centre.

4.3.6 The sub-sector and the city, the position in the national and international scenario

Hungary and Budapest have a good reputation amongst Western European film-makers. First because of its relatively low prices; second because Budapest is a very representative city.

> *"This Central-European, Austro-Hungarian monarchy atmosphere that you can find South of Prague is very attractive for many people." (M5)*

The Law on Film coming into force has definitely made a good impact on the Hungarian motion picture and advertisement market. International productions with high budgets have started to appear in Budapest thus providing a further prosperity in the sector.

Infrastructure of Budapest and its surroundings (with two large studios in Etyek and Fót) provide a professional background for international productions. Several Hollywood movies shot in Budapest recently become international box office hits. Refund offered by the Law on Film is expected to attract foreign directors in the long run and give a constant support for the Hungarian motion picture sector.

4.3.7 Recruitment of labour force

During the socialist times staff of the film factory was employed permanently, regardless the amount of productions. They were paid in the same way when there was not much work to be done, and their salaries were relatively high. Specialized staff of the film factory was fired right after the transition because there was no further financial background to employ them in the breaks. This affected mainly editors, sound engineers, and director assistants. These people were "forced" to established their micro-enterprises (necessity entrepreneurs) and become self-employed. The beginning of the 90s proved to be prosperous times in the motion picture sector; however staff was subcontracted only on an occasional basis. Salaries in editing and other after-shooting activities did not adjust to the extent of the inflation.

> *"The amount I receive after a film does not last as long as to the amount we used to get 6-8, or even 10 years ago. Now we live day by day, film by film." (M1)*

In the motion picture and animation sector literally everyone works subcontracted as members of small or medium enterprises. Those having studied at the University of Drama, Film and Television or the Moholy-Nagy University of Art and Design, or having appeared at festivals, contests have the most change to get into the sector.

Recruitment everywhere goes on its usual way: in the case of a new project, studios get in touch with professionals they worked together with before. The studio would like to hire a specific person the project, but invites his or her enterprise. Kind of loyalty evolves between companies. This is not only a question of money, but also a question of creative opportunities. "Credit" (M6) of a studio means all the circumstances: prestige, environment, creative opportunity and level of incomes.

In case a studio cannot hire the professional/professional team it was intended to, the managers turn to their connections with higher educational institutions. Talented and hard-working students are always required to take part in internal trainings before starting the actual work. This gives an opportunity for the employer and the students to get closer in their concepts and ideas. Besides professional skills, personal qualities are of high importance as well. Cooperative skills are essential.

“Everyone likes to work with cool people; no-one likes the grumpy and moody ones.” (M5)

Manager of the medium-size, well-known animation studio finds it particularly important to work together with new people, especially young people. According to him this assures that the view and style of the studio will not stay the same, will not repeat itself. New concepts, new “eyes” stimulate the creativity of the staff.

“When you have a new idea, you gather people around you who do something else, who have the knowledge of something that you don’t. I have realized through the past few years that it works out better not to make films in my own style but to ask someone to make a design to my idea. This way I am more free and do not lock myself in.” (M5)

4.3.8 Role of local government and state support

State support plays an important role in the life of enterprises of the sector. Television channels and state grants are the highest of these. Motion Picture Public Foundation of Hungary provides the greatest amount: a total of 6 billion HUF (app. 25 million EUR) each year, of which only 600 million (2,5 million EUR) goes to movies.

“There is always a fight around this issue, whether to support a few films with a lot of money or support more films with less money. Everyone is complaining that the grants are too low. Finally more films get less money. Then people say that artistic freedom is restricted, but there is nothing we can do. We have this much of money to distribute.” (MNA1)

Current system of grants receives several criticisms. For instance, there are several “famous” directors who have received hardly any support in the past decade. Another problem is that assignments are unpredictable, usually grants arrive suddenly and shooting has to start immediately. Manager of the production office (M3) finds the motion picture sector very much based on connections which manifests itself in the grant system as well.

“This is very disadvantageous, especially in such a creative field. It leads to homogeneity and boredom after a while. There are lots of initiatives coming from outside the sector bringing new, alternative perspectives different than the mainstream. These would help to change the old structure. It would be important to support them in a greater extent. ” (M3)

A self-employed director and cinematographer (M2) find the under-financing and the over-regulation the biggest obstacles. Administrative requirements and financial warranties significantly slow down the work and the support system, lowering the efficiency of work. For those who are assigned to do only a certain stage of the work, like editor M1, state support is not their business. Editors usually do not even know where the grant comes from. Even though this, they would change the system:

“They should have grants at least twice a year, not only once. I know it depends on the state budget how much is there for culture and films. … But still it would make more

sense to distribute the amount twice, in the spring and in the autumn. The current system is disadvantageous because summer is the best time of the year for shooting. The director gets the money in the spring, starts shooting immediately in a hurry and in the end the editor has to correct everything that was mistaken because of this rush." (M1)

Local governments play a role in issuing shooting permits in public areas. Respondents highlighted that getting permits is usually problematic, because every district is responsible to give out permit of its areas. This may take a long time and districts have different regulations. Recently a central office was established by the Municipality of Budapest that arranges permits in advance for an extra charge.

4.4 Main drivers for settlement of creative knowledge sector in the BMR

4.4.1 General results on main drivers for settlement

No doubt it is the hard factors that play a decisive role in site selection of enterprises within the BMR. The most important choice is that of the office (company seat) i.e. either the rent to be paid in leasing or the price of the property in the case of its purchase. Besides these expenses the provision of infrastructure is also important (e.g. access to internet). The size of the office is not a miscellaneous factor either, notably it must be large enough to allow a future enlargement without a change of the seat, because the latter is an expensive operation. According to the managers interviewed the office market provides a fairly abundant choice in the BMR, but there are considerable differences between Budapest proper and the agglomeration. Consequently the rent or the price to be paid might be a relevant limiting factor for the smaller enterprises and those disposing of less working capital.

There is an interrelationship between the size and type of the office and its ownership. For sole proprietors and micro- and small enterprises the seat as a rule is the office accommodated in own flat or house. As the firm grows there a shift towards rented flats or offices, whereas medium-size and large enterprises have an office in their proprietorship.

For the economic sectors and branches the second main factor of settlement is traffic and public transport related accessibility and availability. In the course of site selection each of the enterprises takes into account these circumstances but the size of the firm has different meaning. With the growth of the venture there is a downward trend of the sensibility of the management as to the distance between the residence of the workers and place of work. It should be noted that business (sector) and economic activity exert a considerable impact both on the mobility of the managerial and employed strata.

In the course of site selection a surprisingly relevant factor is the place of residence of the management, leadership of the enterprise from the would-be seat (office), as manifested by in-depth interviews. This location factor has a predominant importance for small and medium-size enterprises and vanishes for the larger firms.

Informal links are crucial for the development of ventures in the BMR. Here the size, profile and activities are decisive. These relations have utmost importance for the smaller enterprises, but in general firms with good contacts draw clear-cut economic advantage. It should be mentioned however that these connections might involve the emergence of corruption which have had a somewhat upward trend over the past years as revealed by international inquiries. The issue of corruption was raised in interviews concerning Business and management consultancy, Motion picture, video, radio and TV activities sub-sectors.

References have a prominent importance at informal meetings and formal confers. They are especially relevant for smaller enterprises with a sore need of references just after they are launched. These firms make use of reference works prepared for large companies of regional or national significance.

The size and age of the firm have a fundamental effect on the search for manpower and clientele: smaller ventures and enterprises find them in the beginning through personal contacts, then with the progress and growth of the firm the clientele gained through business partners and workers recruited by head hunter ventures are coming to the fore.

Clustering is worthwhile mentioning shortly; it hardly has any traditions in the BMR but appears in incipient forms. The phenomenon differs by sectors and sub-sectors in the BMR. In ICT sector there are signs of clustering (e.g. Graphisoft, Infopark), though in the opinion of some experts it is an artificially generated process rather than a spontaneous trend of development. On the other hand, no sign of clustering could be experienced in Business and management consultancy sub-sector, whereas there has been a kind of „anti-clustering" in Motion picture, video and TV activities sub-sector i.e. a process of dissection takes place in the opinion of the managers.

4.4.2 Sub-sectoral disparities of main drivers for settlement

The problem of localisation of the seat of the enterprise (distance from the clientele) has been losing significance for the ICT sector and Software consultancy sub-sector. The localisation is affected by the size of the firm: the bigger is the enterprise the lesser is the role that its location plays.

The site selection of the office and seat in the above sector (and sub-sector) is influenced by the size and setting: the larger is the firm the stronger is the drive to be seated closer to Budapest downtown. As a whole it is typical of the firms located at the capital. The firms of different size in the agglomeration try to be established near to the administrative boundary, in a good transport position (along motorways and the main thoroughfares).

Similar trends characterise Business and management sub-sector: the managers emphasized the importance of being within the limits of the capital without any further specification.

Macroeconomic conditions are decisive for Business and management sub-sector as the consultancy related expenses of the enterprises (clients) largely depend on their success on the market and their revenues realised.

A common feature of Business and management consultancy, Motion picture, video, radio and TV activities branches is that workers are employed occasionally as subcontractors and not as full time employees. This is more economic for the ventures because in this way they are able to avoid the payment of high contributions.

Within the motion picture, video, radio and TV activities sub-sector – in contrast to Software consultancy and Business and management consultancy sub-sectors – location has higher importance, and there are differences within the sub-sector. Part of the work in Motion picture and video activities branch could be performed on-line, and the spatial location of the seat but the managers voice that the presence at Budapest or its immediate surroundings is indispensable (maintenance of contacts, distribution, obtaining financial support). For motion picture activities – due to the high space requirement of this industry – a seat outside of the capital, in its agglomeration or Pest County; at the same time the managers consider it necessary to maintain at least a representative office in the downtown for business reasons. Representativeness has a key importance in advertising and ads movie industry so site selection is frequently affected by prestige attitudes.

Financial support from the central and local governments and from the EU has different weight for the individual sectors: they play a subordinate or negligible part for Business and management consultancy and Software consultancy sub-sectors, but for Motion picture, video and TV activities sub-sector, and especially for the cinema industry they are of utmost importance and instrumental in their operation.

4.5 Budapest as a competitive knowledge-based and creative city

One of the gravest problems of Hungarian economy is the meagre domestic market with a number of consequences. A general trend present in all sectors and branches of economy is the concentration of enterprises at Budapest i.e. at the highest level of settlement hierarchy. By the number of business partners and size of the market the majority of enterprises in each of the three sectors studied are found in the BMR. It means however that the ventures here face the sharpest competition. The size, the capability and openness of its economy renders Hungary less competitive in the classic branches of economy, but it offers opportunities for creative and knowledge-intensive sectors making the country able to compete internationally (See Table 4.4 below).

Another negative factor for the competitiveness of sectors is striving of the actors of Hungarian economy and enterprises to be independent (a frequent lack of willingness to collaborate, drawbacks in the operation of professional networks). This circumstance, coupled with a high specialisation of small and medium-size enterprises makes them less capable for producing in high volumes (mass production). At the same time these firms are flexible, of quick reaction and they are able to be adapted to changes of market conditions. Would-be consortia might improve their market position considerably. A similar opinion has been voiced by managers in Motion picture, video, radio and TV activities sub-sector but the concrete steps has not been made yet. A general notion is a lack of traditions in cooperation in Eastern Europe as compared to the western part of the continent. The willingness to collaborate and the depth of cooperation however show striking differences by sectors and branches of economy within a given country.

There are considerable deviations in cooperation with universities, research institutes and public institutions by sectors and branches. It can be stated, on the whole, that the collaboration between the sub-sectors investigated and the institutions mentioned is at a low level. It is the lowest in Business and management consultancy, somewhat higher in IT and Software consultancy and the highest in Motion picture, video, radio and TV activities, especially with institutions of education. It is because young people involved in university tutorship are often employed in these branches as ancillary workers.

When stimulating economic growth the inadequate concentration of human and material concentration is frequently encountered. It is usual that not the best qualified specialists are employed in the sector because their labour is too expensive and their number is decreasing, and the central and local governmental subsidies to complete private capital are cut to little bits and they are not able to fulfil their role in encouragement of investment and accumulation of capital.

Recently a harsh criticism has aroused about the system of education and higher education in Hungary that it is focused on planting general knowledge and is not practice oriented enough (without a link between theory and practice). Comprehensive learning stimulates creativity, but the lack of concrete knowledge and skills on the labour market curbs economic growth. It is not accidental that the ventures recruiting labour are looking for experts with experience of 1–2 years.

In the BMR one of the hindrances is the absence of a concrete business strategy and perspective thinking of micro-, small and sometimes middle-size enterprises. The management of the firms as a rule has some concept and concrete plan of action in the short run but no vision of medium- and long-term strategy determining the advancement of the firm in perspective. A further drawback is a poor marketing activity of enterprises along with too much investment in product development and owing to mistaken sales operations the venture is not able to expand.

In creative and knowledge-intensive branches the business managers of the enterprises (especially those of the smaller ones) are often passive on the market. Perhaps the firms have the potential to further develop, but they do not plan the improvement of market position, and this behaviour is detrimental for the competitiveness of the venture.

In the opinion of the managers one of the main barriers to the progress within the BMR is the poor situation of traffic and public transportation. The administrative leaders of Budapest municipality and those of the districts have recently recognised the seriousness of the issue but a new strategy of transport and a comprehensive control of the situation are still missing. Related problems are the poor physical state of the road network; the latter has been neglected by the municipality over the past two decades i.e. since the change of regime. The scarcity of car parking lots poses an additional problem. The places in park houses and underground garages are not at par with the number of cars in traffic. A new idea emerged with the restrictions in Budapest downtown and introduction of fee for the use of the roads.

It should be mentioned that the managers claim the political climate and economic environment are not in favour of the entrepreneurial sphere, from which the small and medium-sized enterprises suffer particularly. By the managers an essential task would be the elaboration of a concept of a long-term calculable economic strategy. Nevertheless, seeking for consensus and the willingness for cooperation and collaboration are all missing from the economy. Administration is expensive, plus the contributions after employment are very high. Also the taxation system can be characterised as very difficult in comparison to West European standards. Tenders are not practice oriented but unprofessional. The two-tier structure of the Budapest municipality and 23 totally independent districts has created a political issue making the metropolis virtually uncontrolled and unable for decision making.

As far as the natural environment is concerned it should be stated that green spaces are scarce at Budapest in international comparison; their physical quality is not adequate in many places either. The quality of life offered is higher on the Buda side, e.g. residential areas are built in green areas (districts 2 and 12), whereas on the Pest side wide green spaces predominantly serve for leisure time activities (e.g. Városliget /Town Park, Népliget, Margaret Island).

A strong spot of the BMR is that it concentrates a “critical mass” in social and economic sense in the national capital and its surroundings, so Budapest as the only metropolis of the country has a chance to be involved in the international competition of big cities, at the European level. The BMR has a fundamental weight in the creative knowledge sector, so for the enterprises operating in this sector the presence in the region is a primary advantage.

Most of the economic enterprises are to be found here, the provision of infrastructure is much better than elsewhere (e.g. modern offices), so the local enterprises – due to a larger market, eager demand and a higher number of business partners and clients – are in a favourable business position in comparison to the countryside firms.

The economic weight of the BMR is enhanced by its geographical and transport geographical setting. The favourable position of Budapest (where mountain ranges and the plain meet with the big river in the middle) is stimulating for the economy (e.g. tourism). A circular–radial layout of the roads and rails is an advantage for the accommodation of enterprises (transportation, accessibility).

With regard to the labour force the BMR is in a good position either; its universities provide reserves for the skilled and educated. It serves as a magnet for the countryside manpower: a supply of the high number of workplaces and low unemployment offer good opportunities for those arriving in the BMR with the intensions of looking for jobs.

As in big cities usually, in Budapest there are services of higher standard and the supply of goods is more abundant than elsewhere in the country. All expectations of the consumer society are fulfilled here. Besides, the national capital plays a decisive part in the cultural life of Hungary and branches of cultural industries are overrepresented in the BMR area. Municipal and districts' governments spend considerable finances for the support of cultural events. Relatively good opportunities are granted for leisure time activities. These might be attractive for the foreign and domestic ventures taking into account soft factors in their site selection.

A strong spot of Budapest is its being colourful in respect of neighbourhoods. A support of the creative labour force might be the buoyant real estate market as the supply of flats and houses has recently shifted to a more favourable direction.

Table 4.4 SWOT analysis of the BMR based on current ACRE research activities

Strengths	**Weaknesses**
Weight and role of BMR in the national economy Favourable positions in the creative knowledge sector Geographical location of Budapest Higher standard cultural services Supply on the office market Good job opportunities on the labour market	Situation of traffic and public transportation Lack of willingness for cooperation between firms Low level of collaboration between firms and universities, research and public institutions Slow and inadequate clustering process Lack of business strategies and strategic thinking of managers Passive behaviour of managers on the market Political climate and culture, problems of administrative and economic rules Quantity and quality of green spaces
Opportunities	**Threats**
High concentration of companies and enterprises Concentration of universities and colleges at Budapest Spectacular development of certain branches within the creative knowledge sector Attractiveness of BMR for the countryside manpower Great variety of neighbourhoods	Size, capability and openness of national economy System of education and higher education Hard competition between enterprises because of its high number in the BMR High specialisation of SMEs Inadequate concentration of human resources Price level of experienced and well-skilled labour Unbalanced role of subsidies in the development of different branches Danger of corruption regarding informal links Inadequate development of public services Price level on the office market Emerging social problems, tensions and intolerance

5 Conclusions

5.1 General conclusions

The current research activities within ACRE project (Workpackage 6) are aimed at revealing the role played by hard and soft factors in site selection of the firms engaged in the chosen sub-sectors of creative knowledge sector – by means of in-depth interviews with the managers of the enterprises. Besides main drivers for labour recruitment, the opinion of decision makers about the position of the studied sectors and branches within Hungary's economy were explored. We wanted to find out: How do professional networks operate, and what kind of role does belong to informal contacts? Relating to international literature answers were sought for the following questions: Is it true, that 'companies follow talent' as Florida (2002) states or should we agree with Scott (2006) when he stresses the importance of the regional production system? Can we recognise tendencies towards clustering of sub-sectors or groups of branches in interrelation with knowledge centres and branch-related institutions as Porter (1998) has identified?

Florida suggests to explore why highly qualified and creative people settle in a certain city or region, instead of looking at the location factors for creative firms. According to his theory creative knowledge workers are drawn to places providing a range of lifestyle amenities, and satisfy specific demands in relation to accommodation, the residential environment, and leisure activities. Such factors like social diversity, openness to minorities, a high level of ethnic-cultural diversity, and the prevalence of a bohemian culture also contribute to the settlement process of creative people. Thus, cities should not only try to attract firms from the creative knowledge sector, but the people that work for these companies or that might start such companies themselves. From this point of view the BMR has favourable positions within Hungary as a whole. Budapest as the only metropolis of the country concentrates considerable economic and human potential so it is entitled for the active participation in international division of labour and competition. One of the greatest advantages of the Budapest Metropolitan Region is this potential and the presence of a "critical mass" of clientele and actors of economy. The BMR is an excellent argument for Scott's concept, according to which a successful regional development of creative knowledge regions is not so much related to the local atmosphere and the attraction of talent, but it is rather the result of a concentration of companies. The spatial concentration of firms, of institutions (research centres, chambers and associations etc.) is an important reason why certain cities have a higher level of knowledge-intensive and creativity-oriented sectors than others (Porter 1998, Scott 2000).

Economic development has been accompanied by clustering of the different sectors and branches. In other words according to Scott (2000): one of the key characteristics of knowledge-intensive and design-intensive production and service activities is that firms and labour tend to cluster together. Clusters are geographic concentrations of interconnected companies and institutions in a particular field that encompass an array of linked industries and other entities important to competition (Porter, M. 1998). They make access to non-codified knowledge easier, with this transfer of new, non-codified knowledge being seen as a socially embedded process (Barthelt & Glückler, 2002; Storper, 1997). The process of clustering, its realisation and acceptance by the management strata could not be disclosed in the BMR unambiguously. The sub-sectors investigated behaved rather differently: whereas in Software consultancy a kind of clustering could be traced in the BMR (some experts claim that it is a process rather artificially generated than a natural one); it is completely missing in Business and management consultancy; and in the case of Motion, picture, video, film radio and TV activities there appeared processes just opposite to clustering.

If we consider the role of socio-economic factors, we can distinguish at least three main current theories on the conditions determining long-term economic success in this on-going debate. Neo-classical economists continue to stress 'classic' or 'hard' location factors (e.g. quality of infrastructure, availability of capital and labour, tax regimes etc.). Another group of economists and economic geographers claim that 'soft' location factors (e.g. tolerance, diversity, openness of city-regions and their populations) are increasingly more important than 'hard' location factors. The third group stresses the path-dependent clustering of economic activities, producing unique comparative advantages for city-regions (Musterd et al, 2007).

Our research results testify to a vanishing role and significance of location in site selection mainly due to internet coming to the fore in the working process. Besides it has been proven unambiguously that location plays different role in the individual sectors and branches. In the opinion of specialists there has lately been a decrease of the role of location in branches that belong to ICT sector (Software consultancy, game production and web design) and the same trend is valid for Management consultancy activities sub-sector within Law and business. At the same time within Motion picture, video, radio and TV activities sub-sector (especially in film making and advertising) location keeps on playing an outstanding role.

Site selection by firms in the BMR as a rule is controlled strictly by hard factors and soft factors are taken into account only rarely (for the time being); the managers have only mentioned them few times. These hard factors include *price and infrastructure of office* and *traffic and public transport*, while of soft factors *calm and quiet environment* was mentioned by the managers in the first place. The significance of soft factors is upgraded in site selection if places of work and residence coincide (offices of small enterprises are accommodated in newly built cottages). Thus our survey was not able to support the idea of upgrading soft factors with the advancement of economy. Presently site selection and location of enterprises of the East European countries in transition seem to give reason for the earlier neoclassical theories.

Research achievements pointing to the *decisive role of the place of residence of the management* reach back to the 1990s (e.g. Grossetti 1991). Our results predominantly match the results of these international researches that new firms are created where the founders are living. Location of the place of residence is vital for the small and medium-size enterprises and plays a subordinate role for the big firms. Florida is right in making a statement that entrepreneurs often select a company location which is near to their residential location and the recruitment of employees is easier, if the company is situated in an attractive urban environment.

Attention also should be drawn to a circumstance that the size and age of enterprises studied have a major impact on the results of the investigations as these parameters are determinant in site selection and the way of labour recruitment, emphasize the significance of the informal contacts in their operation, the role they play in professional networks and are instrumental in shaping the market position and opportunities of the individual firms in general.

5.2 Implications for competitiveness of city

In the previous phase of research of ACRE project (Workpackage 5) the following problem was tackled: what are the most relevant "hard" and "soft" components in a metropolitan environment for the highly qualified specialists and workers with university degree active in the creative knowledge sector? The previous WP5 report (Kovacs et al. 2008) presented the most important results of the quantitative questionnaire survey. In this report hard and soft factors and possible limiting components are collected that influence the choice of places of residence and work by graduates and workers and their everyday life within the BMR. The chapter below is aimed to focus shortly on problems, factors and limiting components which seem to coincide with those voiced by the representatives of the managerial strata interviewed in the present phase of the research, i.e. those having a major impact on the competitiveness of Budapest in the opinion of both the graduates/workers and managers. The methods of investigations and the questions too differed in the case of employees and employers, it is not difficult to identify the clusters of problems discernible in the opinion of both groups though in various forms.

The first and foremost problem is a higher *price level in the metropolitan region*, meaning higher costs of living for graduates and workers (level of wages and salaries, higher service prices, housing market prices), and a higher price level of office market for the enterprises (leasing premises for an office, purchase of real property). In the BMR there is a moderate price level in international comparison. Budapest cannot be considered an expensive metropolis in Europe and even in East Central Europe; during the last years in big cities of the surrounding countries (Slovakia, Romania) the price level had reached and exceeded the of the Hungarian capital. In domestic comparison however the price level basically surpasses that of the urban settlements in the countryside, the prices relatively high. It means that the above hard factors have a major impact on the settlement of employees and employers and site selection of enterprises in the BMR.

Transport, accessibility and mobility are the other array of problems affecting competitiveness of the metropolis. The problem of urban traffic and public transport deserves an increasing attention in the case of Budapest and the BMR. Owing to regular traffic jams and increasing travel time and due to declining accessibility over the last years urban transport has lately been subjected to a harsh criticism by public opinion. Both workers and managers expressed their pronounced negative opinion of today's transport situation in the BMR. Transport is a serious risk factor in Budapest; consequently the development of transport network, harmonisation of the internal and suburban services, relief and rationalisation of traffic are considered an urgent task.

The state of the *urban (natural and built) environment* is closely related to the previous array of problems. Our surveys have shown that air and noise pollution attributed to urban traffic as their major source belong to the most serious limiting soft factors in the opinion of both of the workers and managers. Thus not only the workers look for a place of residence in a clean, quiet and calm place to enjoy a higher quality of life but the managers seek for similar environment in their site selection efforts as well. While foreign tourists and visitors of Hungary consider Budapest an attractive city and highly appreciate it in general, the residents of the Hungarian capital voice their criticism about the state of the natural and built environment (the external image is much better than the internal one). Consequently, natural and built environment in the case of Budapest can be evaluated as risk factors of medium weight from the perspective of the future development of the city. In order to increase the competitiveness of Budapest the extension of green spaces with the improvement of their quality and the revitalisation of the built environment seem to be indispensable

Concerning economic environment the issue of labour market conditions and handicaps relating to the local political culture and administrative regulations should be mentioned. The availability of labour also plays an important role for the competitiveness of cities. Thus, a specialised labour market makes it easier both for the companies to look for workers, and for workers to look for new employers. Because of the organisation of labour in many creative sectors, the existence of a large pool of specialised labour is an important point in their choice of location (Grabher, 2002b). In this sense Budapest and its agglomeration provide good job opportunities, so the BMR has a good position on the labour market and it is very attractive for white collar workers and highly skilled manpower. For these reasons Budapest serves as a magnet primarily for the young generations and the BMR has a high “retaining capacity”. The employees as a rule are satisfied with job opportunities (an easier finding of employment, large number and diverse jobs, higher payment in all-national comparison) and labour conditions and employers can recruit labour force from a rich choice of manpower. The only problem is voiced by the managers that the professional labour is increasingly expensive and becoming less in Hungary and BMR. In the opinion of specialists it is partly due to the present system of education because higher education is much more theory- and not practice-oriented.

Concerning the *political and administrative environment* both workers and managers expressed sharp criticism towards politicians and emphasized the issues stemming from a poor political culture and bureaucratisation of administration which are hindering the economic take-off of the country in general and of Budapest in particular. The interviewed persons mentioned the rise of political corruption as the foremost problem in the first place, then the unwillingness of the politicians to cooperate, so they are not able to take decisions. This is why in Hungary the taxation system is extremely complex, the tax and labour contribution burdens are very high, and according to the entrepreneurs there are anomalies in the tenders announced by the Hungarian state and the EU.

According to the viewpoint of the European Union, in order to improve competitiveness of urban centres, innovation and entrepreneurship should be supported and strengthened and actions in the field of entrepreneurship to support micro, small and medium-sized enterprises should enjoy priority. For the time being the Hungarian micro- small- and medium sized firms are facing serious difficulties because they do not receive sufficient political and financial support and cannot develop further. In general: economic measures should be taken in support of SMEs not only in the creative and knowledge-based sectors but in the whole economy.

Culture and its diversity is a core area of city competitiveness. Perhaps this is the field where Budapest has considerable advantages and favourable positions compared to the other cities in the wider region. Both workers and managers expressed their high satisfaction with the quantity and standards of cultural services. It can be mentioned as a problem that the availability of other services is lagging behind the cultural ones: sport and leisure time activities are far from being appreciated so highly. Their supply should be developed in the

BMR in the future. Florida (2002) proposes that economically successful regions are not only characterised by the availability of a skilled labour force (talent) and by the ability to offer innovative products and services (technology), but also by a tolerant and welcoming atmosphere which is open to persons deriving from different backgrounds and life styles. If regions can offer such an attractive people's climate, talent will be attracted and companies will take the change to make use of the talent. With regards *social climate*, there is a growing amount of social problems and tensions in Budapest, and the gap between different social strata has been widening over the past years.

The problem of tolerance judged by Florida as an important criterion in the choice of the place of residence should also be shortly addressed. Previous investigations showed that Budapest and the BMR are not as tolerant as they are conceived by many people in Hungary and abroad. These results were revisited once again as reflected by the answers of workers in the creative knowledge sector who labelled Budapest as a less tolerant city or claimed aggressive attitude and antisocial behaviour as a serious issue. This is an especially alarming perspective keeping in mind that – according to the opinion of the majority of respondents – the policies and politicians in general do not promote the social and economic development of Budapest and its region enough thus they diminish its competitiveness.

Our results can be resumed in the followings: no rules of general validity can be established concerning site selection of the enterprises within the area of the BMR, because there are significant differences between the sub-sectors and branches, depending on the size and age of the studied firms. As a general conclusion it can be stated that the settlement and site selection of the firms is affected by hard factors predominantly and soft factors currently do not play a crucial role in attracting enterprises and managers towards Budapest.

Appendix

Annex I Classification of creative knowledge sector by the consortium of ACRE project

	NACE	Name
Creative industries	17	Manufacture of textiles
	171	Preparation and spinning of textile fibres
	172	Textile weaving
	173	Finishing of textiles
	174	Manufacture of made-up textile articles, except apparel
	175	Manufacture of other textiles
	176	Manufacture of knitted and crocheted fabrics
	177	Manufacture of knitted and crocheted articles
	18	Manufacture of wearing apparel; dressing and dyeing of fur
	181	Manufacture of leather clothes
	182	Manufacture of other wearing apparel and accessories
	183	Dressing and dyeing of fur; manufacture of articles of fur
	19	Tanning and dressing of leather; manufacture of luggage, handbags etc.
	191	Tanning and dressing of leather
	192	Manufacture of luggage, handbags, saddlery and harness
	193	Manufacture of footwear
	221	Publishing
	223	Reproduction of recorded media
	524	Other retail sale of new goods in specialized stores
	525	Retail sales of second-hand goods in store
	722	**Software consultancy and supply**
	742	Architectural and engineering activities and related technical consultancy
	744	Advertising
	748	Miscellaneous business activities
	921	**Motion pictures and video activities**
	922	**Radio and television activities**
	923	Other entertainment activities
	924	News agency activities
	927	Other recreational activities

Knowledge intensive industries	ICT	300	Manufacture of office machinery and computers
		313	Manufacture of insulated wire and cable
		321	Manufacture of electronic valves and tubes and other electronic components
		322	Manufacture of television and radio, telephony and line telegraphy
		323	Manufacture of television and radio receivers, sound, video recording or reproducing
		332	Manufacture of instruments and appliances for measuring, checking, testing etc.
		333	Manufacture of industrial process equipment
		642	Telecommunications
		72	Computer related activities (minus 722 Software)
		721	Hardware consultancy;
		723	Data processing;
		724	Database activities;
		725	Maintenance and repair of office, accounting and computing machinery;
		726	Other computer related activities;
	Finances	65	Financial intermediation, except insurance and pension funding
		66	Insurance and pension funding except compulsory social security
		67	Activities auxiliary to financial intermediation
	Law, business	**741**	**Legal, accounting, book-keeping and auditing activities; market research etc.**
		743	Technical testing and analysis
		745	Labour recruitment and provision of personel
		746	Investigation and security activities
	R&D	73	Research and development
		731	Research and experimental development on natural sciences and engineering
		732	Research and experimental development on social sciences and humanities
		803	Higher education

Annex II Rank of creative and knowledge intensive branches in the BMR by different indicators*

	Highest value 1999	Highest value 2004	Dynamics 1999-2004	Weight of BMR 1999	Weight of BMR 2004	Weight of BMR 1999-2004 (increase)
	Number of enterprises					
1.	**Law, business**	**Law, business**	924	**921**	**921**	66
2.	**741**	**741**	803	221	221	525
3.	524	748	333	223	223	921
4.	748	524	**722**	73	**722**	65
5.	742	742	R&D	R&D	73	924
6.	**ICT**	**ICT**	323	300	66	**741**
7.	72	**722**	67	**722**	300	**Creative industries**
8.	**722**	72	Finances	745	322	744
9.	Finances	Finances	745	322	924	742
10.	923	67	72	332	72	18

	Number of employees					
1.	**Law, business**	**Law, business**	745	642	66	300
2.	Finances	**ICT**	323	**922**	642	745
3.	**ICT**	Finances	300	**921**	921	17
4.	**741**	**741**	924	65	65	18
5.	524	524	67	73	922	**Creative industries**
6.	R&D	748	743	Finances	73	743
7.	65	65	**722**	221	**722**	**921**
8.	48	R&D	72	322	221	321
9.	742	803	748	**722**	744	524
10.	642	742	**Law, business**	924	72	744

	Revenues					
1.	**ICT**	**ICT**	300	322	66	300
2.	Finances	Finances	745	**921**	921	321
3.	**Law, business**	642	321	642	642	745
4.	642	**Law, business**	323	744	744	642
5.	**741**	65	333	922	922	746
6.	524	524	65	Finances	Finances	**Creative industries**
7.	65	**741**	**921**	65	65	923
8.	742	66	746	**722**	**722**	742
9.	**722**	742	924	**741**	72	**921**
10.	744	744	Finances	221	73	66

* Based on the statistical data and NACE codes of CSO Hungary and the definition of creative knowledge sector by ACRE.

Annex III Structure of the in-depth interview

Short introduction of the interviewer and ACRE

Warm-up question to start the interview

- Position / description of daily work and tasks in the firm / current responsibility
- Short career history of interviewee

Origin of the firm and activities

- History of firm development
- Type of firm – start-up, buy out etc.
- Account of core and other activities (What does your company produce? / What services does your company provide?)
- Can you explain this to me?

Business models and markets

- How many/what type of clients/customers? (Who are your customers/clients?)
- Where are your customers located? (rough estimate of the relative share of origin of customers: inner city, region, state/country, abroad)
- Orientation to the local / national / international market (scale of activity)

Labour process and recruitment

- How is the labour process organised in your company?
- What types of people with what skills/knowledge do you employ?
- Role of freelancers / people with permanent contracts / subcontracting of work?
- How do you recruit your employees?
- Where do you recruit them? (Regional /national / international scale, Universities / Fairs, Main problems)

Networks

- How important are informal links to your firm? (In terms of competitiveness, innovation?) What informal networks are in place in the city or region? What types of knowledge / information are exchanged in informal meetings?
- Who do you collaborate with? (Firms same sector other sector, universities / research institutions, member of business organisations, administration / organisations of public authorities etc.)

Location factors (hard and soft factors)

- Why was the company founded in the city of …?
- Alternatively: why did the company move to this city?
- Why not in another city in … (your country)?
- Can you describe the role of (your city) for your sector? Is the city or region an important location for your sector in the national / international context?
- What advantages or disadvantages did the city offer in comparison with others for the firm’s location?

- Role of factors like infrastructure (transport, IT infrastructure) /Labour market /city administration / Costs (rent/living/personnel) / Policies / support by the city/region government /Tax climate; Social ties / family / quality of life / leisure activities /region/ sub cultural scene / tolerance – acceptance of diversity.
- Why did the company settle in this neighbourhood/quarter/part of the city? (Depending on where the company is located: why in the inner city / urban fringe / suburbia? Why not in inner city / urban fringe / suburbia?)
- Overall satisfaction with the location? Advantages / Disadvantages
- View on the city: sites / property, transport, image…(e.g. Did the image of the city influence location decisions?)

Public support

- Is public support relevant for your company?
- Types of support received?
- What could be done better by the public authorities (municipality, region, etc.)? Wishes? What conditions can be improved? (e.g. fiscal policies, subsidies for education, incentives for investment…)

Prospects

- prospects of the company at the location
- Does your company plan to move away? Why / why not?

Comments

- Did important points concerning your firm and the sector of your firm at the location of (your city/region) not come up? Do you want to add something?
- Any other comments about what the most important local conditions are that led to the attachment of your firm to this place?

Questionnaire (to be filled in after the interview)

Name and position in the firm	
Name of the firm	
Sector of the firm	
Number of employees	
Detailed location of the firm	
Turnover	

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