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The themes of the PhD thesis

**COMPETITIVENESS ANALYSES
IN THE HUNGARIAN FURNITURE INDUSTRY
FROM THE POLITICAL SYSTEM CHANGE TILL 2007**

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1. Reasons for the topic selection, the aims of the thesis

The author chose the Latin proverb NIL DESPERANDUM as the slogan of the thesis, which means: **do not despair!** This was deliberate since *the situation of the Hungarian furniture industry can be considered very unfavourable nowadays*. A situation full of serious political and economic problems and great tensions has developed in Hungary after the political and economic changes. Earlier economic achievements have been reduced significantly. According to our experiences, our EU membership has not changed much about this situation.

The wood industry, and its component, the furniture industry, have never had an outstanding role in the national economy due to our natural endowments and traditions, they have contributed to Hungary's GDP in very small extent (approximately 1,8%). In spite of this, the author felt that it would be an interesting and innovative task to research and reveal the transformation, development and difficulties of our national furniture industry – one of the most important scientific fields taught in the Wood Industry Faculty of our university – after the political changes and to find the possibilities to solve the problems.

While studying international researches and national secondary researches about competitiveness the author did not find the answer for the question about the meaning of competitiveness from the aspect of a national economy, a sector, in our case the furniture industry sector, and the manufacturers. That is why the author wanted to know the future prospects and the determining factors of competitiveness of the Hungarian furniture industry in this new economic situation, globalisation.

National competitiveness analyses showed (Czakó, 1999) that the major sectors of the former socialist economies proved to be competitive if they kept their earlier roles in exports. The author of this thesis tried to find out if this is valid for the furniture industry as well.

The transformation of the furniture industry sector was analysed in this thesis on a micro level trying to find the answer to the following:

- Are competitiveness studies relevant for the traditional economic frameworks? Has the approach towards competitiveness changed?

- Talking of the Hungarian EU membership, questions about the EU's competitiveness approach have come up. What kind of approach does the EU have and how does it occur in its institutional system and policies?
- How did Hungarian companies adapt to the furniture industry sector during the development of the market economy and the spread of globalisation effects?
- What kind of macro- and micro environmental changes were there in the second half of the 1990s that forced the companies in the Hungarian furniture industry to adapt?
- How has the role of the Hungarian furniture industry been altered in this globalised competition?
- How can we evaluate the competitiveness of the Hungarian furniture industry according to its function in the Hungarian economy?

The author of the thesis tries to direct the loss of hope and apathy of the Hungarian furniture industry into a more favourable direction by answering the above mentioned questions, analysing the present situation of the Hungarian furniture industry, revealing the deficiencies and by introducing the possibilities of development. There are a great deal of problems and tasks to be solved. However, in some areas we can see the hopes for recovery. That is why the slogan is: „do not despair!”

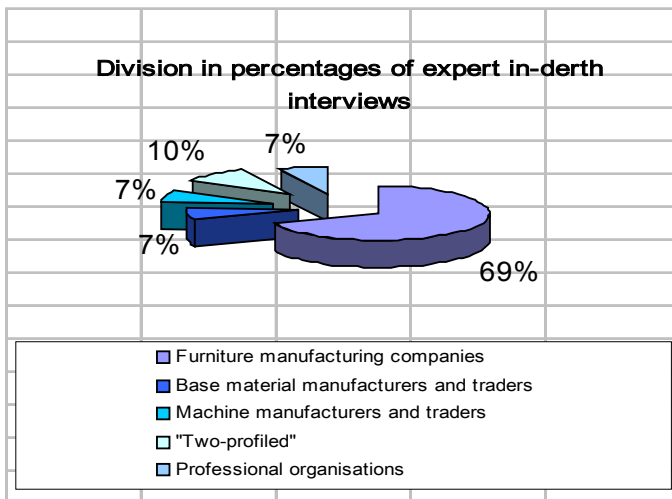
2. Research method

What does *competitiveness* mean? Chikán Attila's definition from 2004:

„Company competitiveness is the company's ability to provide such products and services – while keeping social responsibility norms - for the consumers on the long scale that they are more willing to purchase than that of the competitors.”

Thus competitiveness usually means a potential, possibility or ability, i.e. competitiveness does not involve “winning” the competition.

The author carried out a primary research in the spring of 2007 to establish the competitiveness of the Hungarian furniture industry. Her method was preparing expert in-depth interviews. She visited 20 furniture manufacturing companies, 2 base material manufacturers and traders and 2 machine manufacturers and traders. Among the companies there was 1 manufacturer and trader, 1 manufacturer and designer, 1 designer and trader, these 3 companies she called “two-profiled”. She also talked to two colleagues who were not representing their companies but professional organisations and so they know the furniture industry from inside and outside. Thus she met 29 company leaders or owners and carried out interviews with them. The chart shows their classification in percentages.



A draft was prepared for the interviews for which she applied the diamond model of Porter in connection with competitiveness since it provided on the one hand direction principles, on the other hand it could be used to highlight the connections between the factors that determine and influence competitiveness .

The model contains the five competition factors that fundamentally determine each industrial sector, and the structure and profitability of the sectors depend on their resultant forces. These are: the competitors and their competition, the potential newcomers on the market, the danger of substituting products, the negation power of suppliers at the beginning of the manufacturing process and that of the consumers at the end. In spite of the fact that outer factors do not mean direct competition, they still influence the profitability of the sector considerably on the long run.

The expert in-depth interviews about competitiveness were carried out with authorised leaders in every segment of the furniture industry, i.e. 14 sectors. The researcher asked for the opinion of the directors of this profession in 31 topic areas according to the diamond model of Porter.

The research method was - in the case of empiric research – primarily qualitative, based on expert interviews. Using this method – and as a result of the topic selection – the author does not intend to analyse models and the possible connection of variables inside models.

The elements of the **expert interview draft** constructed according to Porter's theory are the following:

After recording the characteristics of the business enterprises (form of business, number of employees, percentage of foreign ownership, annual net income) the analysis of **furniture industry** features followed in **general**. These features were: macro- and micro environmental factors, market liberalisation, the effects of our EU membership, the forging ahead of China-Poland, the spread of Internet usage and the changes in customer behaviour.

The next section contains the analysis of the **factors influencing the competitiveness of the furniture industry sector** in four subchapters. According to Porter's model these were:

- *Production factors-features (input)*
- *Demand factors*
- *Company structure, strategy*
- *The role of connected and supporting sectors*
-

After that the sector's **SWOT-analysis** followed.

3. Results, theses of the research

After our EU membership, important administration simplifications and the acceleration of trade activities have been realised in the Hungarian furniture industry. Our furniture industry has not gained any significant advantages after our membership.

Nowadays the most effective way to give a business enterprise reputation, to introduce their products and to enhance their marketability is the use of Internet, i.e. a high standard, easily manageable homepage. The macro- and micro economic factors and the market liberalisation resulted in changes of customer behaviour and in the rearrangement of market positions. Only a small minority of customers can afford to buy high standard but more expensive furniture so the demand for Hungarian furniture declined. This unfavourable situation exasperated the already pessimistic Hungarian manufacturers. Moreover, wages in this sector are far behind the industrial average. (Firms with foreign ownerships are the only exemptions.)

We can state that the R+D activity of this sector is weak, although creativity is one of the strengths in the SWOT analysis. In spite of that Hungarian companies usually copy foreign furniture and this is due to the lack of funds. *This general lack of resources is partly the result of the deficiencies of the tendering system.* The Széchenyi-programme, launched in 2000, changed a lot about this unfavourable situation, but this support system has gone towards adverse directions since 2003.

The professional culture and qualification in the furniture industry are on a low level even in European comparison. However, the *modern technological background of this sector is given*; its introduction is merely based on financial and willingness factors. Furthermore, companies have very good investment possibilities in the furniture industry.

Hungarian customers do not pay any attention to health-awareness or ergonomics while purchasing products, they do not care for environmental issues as well. Buying e.g. Chinese products could mean transferring substances and bacteria carrying still unknown diseases into our homes.

Only well-off customers need unique, trendy and aesthetic design in Hungarian furniture. If we reach these clients and if we can expand this middle layer, we could find the clientele that are not interested in Polish or Chinese dumping goods. A strong determination to build up export markets related to the production of quality products is

characteristic for each area of the furniture industry. Those manufacturers that are able to export to Western-European markets, i.e. to produce quality and to find solvent demand, do not depend on the state of the Hungarian market and furniture demand so much. Companies with foreign ownership have safe market connections in their home countries; the Hungarian market does not influence their successes considerably.

The role of management, professional control is usually weak, except for companies with foreign ownership. *There are vivid efforts to build up Hungarian trademarks in the case of firms with better conditions*, but I have met proper, far reaching strategies only very rarely. Design activities are usually on a low level, they have to be improved in the case of most firms. The main hindrances in this field are jealousy and envy. There are few good Hungarian furniture designers in companies. *Furniture industry enterprises have very weak marketing activities*. This is maybe due to the fact that professional education has reached the minimum level in each territory.

We can state that professional associations do not work efficiently enough. However, the creation and work of clusters provide development possibilities despite of the fact that Hungarians do not like joining associations because they are traditionally mistrustful. Technical magazines and books are more valued, which is advantageous in this sector, many people use them (even customers) and more and more people realise the importance of design in the Hungarian furniture industry and try to involve more inner architects and designers in their work.

We have to try to solve many, but fundamentally small, tasks so as to increase the further development and prestige of the Hungarian furniture industry. Cooperation based on specialisation and the use of competitive advantages may result in the increase of productivity and competitiveness. It is very true that whole unit is more than the addition of its parts.

We have to direct pessimistic ways of thinking towards optimism, we have to increase people's willingness to join their forces and trust in each other. *We have to increase fastidiousness in the profession (some companies have realised this) and the standard of education. The state should provide more benefits to small ventures and middle-sized business enterprises, lobbying plays a great role in this. Hungarian people have showed that they do not have weak abilities but sometimes outstanding ones all over the world. Why would this be different in the furniture industry?* We could be, we are able to produce furniture of Italian or Scandinavian quality. Members of the

furniture industry could quite easily reach their level of reputation with more persistence, better cooperation, without jealousy and envy.

The 5 most important strategic features of competitive furniture manufacturing firms - determined by a SWOT analysis as the result of my research work - are the following:

- A company can strengthen its position in the competition by a product strategy meeting market needs and by proper price policies because of the liberalisation and diversification of the furniture industry. This means using better processed raw materials in the end product, the development of coating techniques, significantly improving quality, launching new products in the market and raising production and saving costs. A change in product strategy usually means changing the whole range of products.
- Some manufacturers provide the necessary profit needed for development by producing unique and sometimes exclusive furniture and by involving higher profit percentages. Others try to use the brightening demand of renovating public institutions, hotels and health care institutions.
- It is an important step in the strategy to employ a proper number of employees according to market needs and capacity and thus to raise production and cost efficiency considerably. There is great emphasis on the suitable education of company staff.
- It is also highly important to create an innovative organisational structure according to ownership structure and at the same time develop the organisational culture constantly.
- Another significant element of the strategy is the conscious creation of Corporate Identity.

The 24 major characteristics of the model of an “ideal” competitive furniture industry business enterprise based on the result of the research:

- strategic and competition-oriented thinking;
- constant innovation;

- meeting unique needs through personal and direct contacts with customers, through high standard, complex services;
- export-orientation;
- individual or small-series production;
- introducing new products on markets constantly;
- using high quality raw materials;
- high level production;
- universally-equipped, modern small establishment technologies;
- creativity;
- frequent market research;
- relevance of the national market;
- quality meeting customers' needs and complementary services;
- loyal, enthusiastic and supporting employees;
- flexible and adaptive organisation structure sensible to changes in the environment;
- well-motivated employees – open, dynamic managerial style;
- company size: 40-50 people;
- using Benchmarking techniques;
- awareness of success factors, excellent communication (outside, inside);
- supporting controlling activities;
- financial stability and constant solvency;
- proper logistics;
- integrated informational system;
- quick settling of customer complaints.

New scientific results:

1. The author has prepared a summarising study about the theoretical principles of competitiveness analysis. Using this study she has worked out a science-based, modern research method to reveal the appropriate condition and position of the furniture industry sector.
2. The author was the first person to carry out an exact survey about the position and competitiveness of the Hungarian furniture manufacturing industry that have developed since the political changes in 1989 till 2007. Using the results she has outlined the possible directions for improvement.
3. The author was the first person to prepare a summarising study about the possible methods of competitiveness analysis using national and international technical literature.
4. Using generally applicable methods she has worked out an analysing technique to study the competitiveness of the Hungarian furniture industry.
5. After processing the data resulting from her analysing method, she has created a characteristic image about furniture manufacturing companies of different sizes, she has identified the strategic features of competitive furniture producing firms. Moreover, she has created the model of the “ideal” competitive furniture industry enterprise.
6. The author gives directing suggestions – based on the results of the study - how companies could escape from the present unfavourable situation, how they could reach further growth and how they could change the development trends for a better one.
7. As a result of her research the author has stated that if small ventures and middle-sized business enterprises clustered or cooperated, they would be able to make use of new possibilities, e.g. getting bigger projects that they never could get or carry out alone for the reason of their small size and so the possibilities of recovering from the present situation would grow since they could work in EU projects.

The author sincerely hopes that she can persuade the leaders and workers of the trade to adapt the conclusions and directions of this PhD thesis by evaluating the results of the years long research work, by publishing the opinions and experiences gathered from every field of the furniture industry. She also hopes that they will accept the slogan “Do not despair” and they will fight – with all their strength, without losing hope and in a much better and more optimistic mood – to develop the position of our furniture industry in a more positive direction. *Thus eventually we could be proud of **Hungarian furniture** in Europe, or even all over the world!*

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10. Competitiveness of the Hungarian furniture industry – experiences of the sector research
6th Wood Industry Marketing Conference 2007, lecture