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Report on the Competitiveness and Responsible Corporate Governance Section Workshops of the Hungarian Economic Association's 2017 Itinerant Conference*

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The Hungarian Economic Association (MKT) hosted its 55th Itinerant Conference, the largest annual conference of Hungarian economists with deep-rooted traditions, between 7 and 9 September 2017 in Eger. The Conference included 17 workshops in addition to the opening and plenary meetings. The conference's keynote speaker was New York University professor *Thomas J. Sargent*, winner of the Nobel Prize for Economics. In this paper, we summarise the workshops of the *Competitiveness* section and *Responsible corporate governance* section.

The MKT's competitiveness section held its workshop at the Itinerant Conference for the second time this year, with the priority objective of drawing attention to structural policy. The competitiveness section examined the topic from both theoretical and practical perspectives, providing a meaningful contribution to the development of economic thinking on sustained convergence in Hungary.

At this year's workshop, the competitiveness section hosted three foreign and three Hungarian speakers who spoke about the definition of competitiveness and the associated methodological questions, and also investigated the competitiveness of the CEE region and Asia from various aspects. The presentations on the different dimensions and the diverse findings confirm that competitiveness cannot be given a single definition and that there is no single recipe for successful economic and social convergence, even if certain international experiences can often be adapted. However, there was consensus among the speakers on the fact that knowledge and innovation-based development is the best way to increase competitiveness in a sustained manner. Hungary's macroeconomic figures provide an adequate basis for achieving a competitiveness turnaround and thus achieving sustained convergence.

Tan Khee Giap, Co-Director of the Asia Competitiveness Institute and professor based in Singapore, spoke about the central role of the state in avoiding the middle

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income trap, primarily through its economic stimulating, social balancing and political stabilising functions. An efficient state is also essential according to the IMD's chief economist, *Christos Cabolis.* He also drew attention to factors such as infrastructure, economic openness, the availability of skilled labour and an ideal labour market environment. Polish professor *Arkadiusz M. Kowalski* identified the development of independent technologies, in addition to stable economic fundamentals, as the key to maintaining and improving competitiveness. This, however, calls for a technological turning-point in Hungary according to professor *László Monostori.* The National Competitiveness Council established this year may contribute greatly to a competitiveness turnaround in Hungary according to Deputy State Secretary of the Ministry for National Economy, *László Turóczy.* MNB experts *Gergely Baksay* and *Gábor Horváth* gave a presentation on the relationship between the banking system and competitiveness, presenting the central bank's newly developed international banking system competitiveness index. University professor *Zoltán Sipos* identified the quality and measurement of education and close cooperation between universities with a new generation of students and the corporate sector as the cornerstone for improving Hungary's competitiveness.

Tan Khee Giap, Co-Director of the Asia Competitiveness Institute spoke about the successful economic model of Asia and Singapore, the competitiveness of far Eastern countries and the research organisation's methodology for measuring competitiveness. Giap, who holds a PhD from the United Kingdom, is a professor at the National University of Singapore and also Chairman of the Singapore National Committee for Pacific Economic Cooperation. He has also served as a consultant to international agencies such as the ASEAN and the United Nations, is the lead author of 20 books and is a member of the editorial advisory committee of the British Competitiveness Review. His research interests include the Cost of Living Index and the Global Liveable Cities Index and competitiveness analysis on China, India and ASEAN (Association of Southeast Asian Nations) economies.

According to Giap, East Asia's economic development model is based on overcoming (1) production, (2) infrastructure and (3) financial challenges which helps overcome the middle income trap and may be the right path for Eastern European countries. He deems that successfully achieving these three criteria and thereby achieving economic convergence calls for a strong and responsible role for the state. According to his presentation, the role of the state must focus primarily on its economic stimulating, social balancing and political stabilising functions. The professor emphasised the importance of SMEs in improving competitiveness, mainly through their capacity to create jobs, flexibility, cost-effectiveness and innovative capacity. Tan Khee Giap presented the Asia Competitiveness Institute's current efforts to develop a productivity and efficiency assessment index for SMEs that will be capable of measuring their competitiveness. He specifically emphasised that

SMEs must be given state support in making digital progress, as failure to do so will give an advantage to multinational corporations. On this note, he mentioned Hungary's Funding for Growth Scheme as an exemplary initiative, emphasising the significance of the MNB's measures to support SMEs. In the context of an economic history overview, he noted that Singapore's economic structural transformation was mainly built on its people, progressing upwards within the production chain and the reinforcement of high-tech industries. Education and innovation have become the foundations of competitiveness.

The main advantage of the competitiveness index created by the Asia Competitiveness Institute is that it uses a regionally interpretable objective weighting method that enables the comparison of countries in space and time. The ranking, which includes 100 basic indicators, classifies the dimensions of competitiveness into four categories and 12 pillars in which the four areas have identical weights.

Christos Cabolis, chief economist at the IMD World Competitiveness Center, gave a presentation on the methodology for measuring competitiveness and Hungary's competitiveness. Cabolis has held numerous academic positions at various universities, including Yale, and has published on the topic of competitiveness in numerous publications. His current research areas include the evaluation of credit rating agencies, the interaction between competition and specialisation of venture capital companies, and optimal bank size.

Cabolis stressed that the state plays an important role in creating an environment in which companies are able to produce high value added products. He added that participating in the high value added phases of the value chain and efficiency are one of the cornerstones of corporate profitability that contribute to both job creation and sustained convergence. He gave a particularly positive assessment of Hungary's experiences in terms of job creation. Successful corporate governance also plays a pivotal role in company growth, but regular renewal and innovation along with identifying talent are also important factors.

According to Cabolis, economic openness plays a major role in national competitiveness and correlates with competitiveness. The more open an economy, the better it places in competitiveness rankings. A 2017 analysis by the IMD World Competitiveness Center identified Hong Kong, Switzerland and Singapore as the three most competitive states in the world. According to the IMD survey, the factors that contribute the most to Hungary's competitiveness are skilled labour, the labour environment and commercial relations. On the other hand, opportunities for development were identified in areas such as governmental and business efficiency. The IMD digital competitiveness ranking was also showcased at the end of the presentation, with its main pillars consisting of knowledge, technology and future readiness. Improving flexibility and the capacity to adapt and further developing education may play a pivotal role in addressing digital challenges.

Arkadiusz M. Kowalski, professor of the World Economy Research Institute at the Warsaw School of Economics, investigated the competitiveness of the Visegrad Group using a multiple dimension econometric model. Kowalski has previously worked at Poland's Ministry of Economy in the domain of innovation policy and business clusters, has written numerous papers on competitiveness and international economics and also contributed to compiling the Polish competitiveness report. His presentation focused on the past economic performance of the Visegrad Group over the past nearly 30 years, identifying GDP per capita as the main indicator of this performance. In post-communist countries, Poland has achieved the greatest convergence since 1989, seeing its per capita GDP (based on PPP) go from 38% to 65% of the EU15 average. Kowalski identifies the components of economic convergence as (1) economic growth, (2) price stability, (3) full employment and (4) fiscal and (5) external balance, which he sums up as the "Pentagon of economic performance". The economist made a distinction between macro-level and micro-level competitiveness: the former is based on national attributes and is defined by economic policy, while the latter can be interpreted through the quality of the business environment and the competitiveness of firms.

According to the speaker, the influx of foreign direct investment contributed to the economic convergence of the V4 economies, the dynamic multiplier effects of which also had a positive impact on economic and social dimensions. Although FDI-based investments contributed to the region's technological convergence, the development of own technologies is necessary to maintain competitiveness and a knowledge and innovation-driven economic model needs to be created. Defining research and development directions (by identifying beneficiary sectors) is the state's central (top-down) function, but is also based on bottom-up initiatives. Regional clusters are the practical embodiment of innovative (R&D based) sectoral collaboration, and their spread will form the foundations of a competitive economy in the future. Kowalski argues that Hungary is in a particularly good position in terms of innovation within the Visegrad Group.

László Monostori, president of the Industry 4.0 National Technology Platform and Director of the Hungarian Academy of Sciences´ Institute for Computer Science and Control (SZTAKI), held a presentation on the significant technological turning-point necessary to achieve a turnaround in competitiveness. Monostori is a full member of the Hungarian Academy of Sciences and university professor of the Faculty of Mechanical Engineering of the Budapest University of Technology and Economics. Winner of the Széchenyi Award and recipient of the Knight of Cross from the Order of Merit of the Hungarian Republic, László Monostori´s research areas include intelligent production processes and systems, real time cooperative corporations and change and disruption management within the manufacturing structure.

Industry 4.0, or the fourth industrial revolution includes the creation and spread of cyberphysical systems. As part of this process, the integration of reality and virtual reality, unattainable in the past, will be used to implement a new level of organisation and regulation of the entire value chain within product lifecycles. The cycle is based on the real-time availability of information. New business models emerge as a result, which strive to serve increasingly individualised customer needs. Monostori argued that Hungary has much to do in order to take advantage of the opportunities offered by Industry 4.0, mainly in the realm of education to develop digital competencies, renewing companies' equipment and providing direct and indirect support to SMEs.

To foster the national adaptation of the fourth industrial revolution, every industrially developed country is devising strategies. These include Germany's Industrie 4.0 strategy, China's Made in China 2025 programme and Japan's Industry 4.0, Society 5.0, as well as the Robot Revolution Initiatives. In Hungary, the Industry 4.0 National Technology Platform is aimed at fostering the spread of the fourth industrial revolution mainly by providing a framework for the 2016 Irinyi Plan and the objectives defined in the Industry 4.0 strategy. Monostori said that in the context of the discussed process, poles of excellence in production information technology and production management will be created with the task of accelerating the innovation process, creating digital industrial solutions, training a new generation of qualified experts and fostering the emergence of a sustainable and competitive production ecosystem.

Representing the Hungarian government, László Turóczy, Deputy State Secretary for economic planning and competitiveness of the Ministry for National Economy (NGM), gave a presentation on the Hungarian aspects of competitiveness and the activities of the National Competitiveness Council which was established this year. In his introduction, Deputy State Secretary Turóczy stressed that competitiveness can be identified over the long run based on the level of productivity, which defines the economy's growth rate. While the traditional economic policy tools for stimulating growth seem to have run out, the emphasis is increasingly shifting to competitiveness-based economic policy. The NGM´s Deputy State Secretary stressed that low wages in Hungary no longer give it a competitive edge and sustained convergence calls for the creation and spread of higher value added activities.

In order to achieve convergence objectives, the Hungarian government established the National Competitiveness Council in March 2017 to deepen professional dialogue and professionally prepare political decision-making in the affected area. Deputy State Secretary Turóczy stressed that the National Competitiveness

Council is a consultative body based on the professional apparatus of the NGM (and of its members) and the professional authority of its members that formulates non-binding recommendations for improving competitiveness in Hungary. The body has so far assessed and crafted recommendations on the business regulatory environment, the supply of competitive labour and economic and social digitalisation. Going forward, after fine-tuning the economy, the National Competitiveness Council will also address structural matters (such as education and productivity) in the course of which it will involve external experts in the professional forum.

Gergely Baksay and Gábor Horváth gave a presentation on the measurability of banking system competitiveness and reported on the new banking system competitiveness index created by the central bank. In the first half of the presentation, Gergely Baksay, the MNB´s director in charge of competitiveness explained how the banking system affects competitiveness and the perspectives for investigating this. Banks can contribute to the sustained convergence of the national economy through the efficient and sustainable allocation of funds in the long term. For this, customer needs must be met on the one hand, while remaining attractive to investors (banking system shareholders) on the other hand. Banking system competitiveness can thus be interpreted in two distinct segments: the user side and the investor side. In some cases however, there may be a conflict of interest between these two sides. The customer wants low interest rate spreads, numerous branch offices and as much competition as possible, while profit-oriented shareholders want less competition, higher interest rate spreads and cheaper operation (for instance, fewer branch offices). The MNB's experts deemed that this conflict is resolved over time and the two approaches can become mutually reinforcing in the long term, and a competitive banking system serves the interests of both groups. For instance, the user base may grow in response to a banking system that is more focused on customer interests, which increases return and enables more investments. Although the role of financial intermediation is covered by international competitiveness surveys, it is only assessed partially based on specific criteria. However, a broader international comparison is important for the MNB, and so it developed a banking system competitiveness index for the entire European Union based on objective fundamentals and factoring in both user and investor aspects using the available statistical data and surveys.

Chief economic expert Gábor Horváth explained that the index factors in availability, quality and pricing from the user side, and the aims to measure the banking system´s capacity to attract capital from the investor side through profitability, growth opportunities, the operating environment, stability and the availability of new technologies. If we look at Hungary's position compared to other banking systems within the EU, the main shortcomings on the financing side can be identified in the realm of household loan prices, digitalisation and product penetration. In terms of its capacity to attract capital, improvements are mainly necessary in the banking system´s technological and cost efficiency ratios. Improvements in efficiency and a change in mentality would be the strongest drivers of competitiveness gains in the Hungarian banking system. In addition, unexpected innovation can disrupt the status quo at any time, so every sector must shape its services flexibly, looking ahead and factoring in the needs of younger generations.

In the final presentation including the competitiveness section workshop, Zoltán Sipos, professor and head of department at Zsigmond Király University, presented the results of a study investigating the competitiveness of private higher educational institutions that he co-authored with the rector of Zsigmond Király University, Péter Szatmári. Sipos´ main research areas are international marketing strategies, postmodern marketing in tourism and the development of international business methods. His key publications address the international business relationship network.

In his presentation, he criticised the current measurement practices of higher education competitiveness in Hungary, which have a flawed approach to the group of higher education institutions in Hungary and fail to sufficiently factor in outcome indicators. He also added that in his opinion, the Hungarian methodology does not allow for international comparison and because only the leading Hungarian universities appear in international rankings, we have no realistic picture of the other Hungarian institutions. Hungarian practice primarily looks at input indicators (such as the number of applicants and admission score thresholds) while only factoring in research results (such as publications and impact factor) among output criteria, while ignoring graduates' knowledge, competencies and employment opportunities.

The author formulated recommendations for improving the standard of Hungarian higher education based on his experiences drawn from private higher education. In his opinion, institutions must react flexibly and quickly to challenges, particularly those associated with generation Z, remain open to new opportunities and innovation and maintain continuous operative ties with market players, which can be achieved through dual training. These require a stable higher education development strategy ensuring, through a reform of the accreditation system and through performance measurement based on learning outcomes, that graduates have competencies tailored to the needs of the market.

The Responsible corporate governance section held an independent workshop for the first time this year. The workshop's topic was presenting the challenges to corporate growth through the example of generational changes in family businesses and corporate governance practices associated with presence on the stock exchange. *Bianka Parragh*, member of the Magyar Nemzeti Bank's Monetary Council, chaired the workshop and explained the importance of the values represented by the renewed section in her keynote address: the spread of corporate governance practices contributes significantly to improving the country's competitiveness, as transparent corporate governance conducted according to high standard principles improves efficiency and boosts company value.

During the first part of the workshop, the speakers addressed the issues associated with the generational change in family businesses which are not traded on the stock market. *Tamás Madlena*, deputy CEO of the Budapest Stock Exchange (BSE) in charge of business development, presented the BSE's market development efforts in the SME segment. While a large number of family-owned businesses are present on the stock market in Western Europe, this ratio is negligible in Hungary. The BSE has hosted almost 100 bilateral company meetings based on which it has focused on education (the ELITE programme in partnership with the London Stock Exchange) and preparations for the stock market in the medium term. The capital market ecosystem can be established in the long run and with a systematic approach, in which the MNB, as the owner, is a supporting partner.

After Tamás Madlena´s presentation, *Dávid Boross*, co-president of the Family Business Network Hungary (FBN-H) and also the second generation owner and manager of the horticultural company Oázis Kertészet, spoke about the importance of generational changes for family businesses. The topic is particularly important because many of the founders of family-owned businesses accounting for approximately half of Hungarian GDP will reach the age of 60-70 during this decade. Only a third of businesses will survive the first generational change. FBN-H provides assistance for conscious planning and a successful generational change.

Kálmán Nagy, partner at Concorde MB, gave a presentation about the weight of medium and large corporations within the Hungarian economy (approximately 2,000 companies with EBITDA of over HUF 250 million) and the significance of the wealth to be legated (approx. HUF 2 trillion), which may be properly managed by the trustee. This market is currently underdeveloped and inactive in Hungary. If confidence, predictability and experience are improved adequately, trusts may spread in Hungary.

During the panel discussion that followed the presentations, *Márton Michaletzky*, Head of Issuers Acquisitions Division of the BSE, and *András Szabó*, founding owner of iData, joined the speakers to discuss the elements of successful generational change with the audience's active participation. Dávid Boross stressed the importance of the family Constitution in which family and business rules are separated and the conditions of operation are defined.

During the second part of the conference, the financial director of MasterPlast, *Róbert Nádasi* presented the company's history to highlight the conscious development that has always been aimed at bringing the company to the stock market. He particularly emphasised the significance of an external professional board of directors separate from the owners and the role of publicity associated with being present on the stock exchange in helping the company's owners shape its long-term strategy and future prospects and understanding of their company with the help of regular disclosures and investor questions and feedback.

Levente Zsembery, chairman of the Hungarian Private Equity and Venture Capital Association (HVCA), spoke about the objectives and expectations of venture capitalists. Venture capitalists are looking for a credible story (adequate market, product, management, motivational structure) for which they provide smart money: capital, a relationship network, support, feedback and financial literacy training. The presentation's concluding thought was to highlight the corporate governance shortfalls of Hungarian companies.

During the panel discussion that followed the presentations, the Marketing Director of the BSE, *Balázs Bozsik* and OTP Bank's Head of Legal Services, *Zsolt Wieland*, joined the speakers. The participants analysed the development opportunities for the Hungarian capital market which urgently calls for government support, the establishment of trust and the selection of the right companies, along with the right owner mentality.

The Itinerant Conference addressed relevant topics, hosted interesting and credible professional speakers and actively involved the audience. The topic that elicited the greatest response from the audience was generational change for family businesses. The section introduced itself successfully and plans to present new programmes in the near future, in the wake of which the section's members and activities are expected to increase.

The concepts addressed at the workshop can be summarised in the following points and recommendations:

- Fostering the spread of the best Hungarian corporate governance practices which can improve competitiveness within the national economy: this can be achieved by formulating recommendations, defining rating systems or spreading international best practices to serve as examples.
- A successful change in generations by Hungarian small and medium-sized enterprises is a national economic interest that can be a defining factor of competitiveness even in the short and medium run. The matter's economic impact should be better evaluated and an action plan created (drawing attention to the importance of the matter, creating government programmes, communication).

- It is essential to handle certain sectors simultaneously involved in capital and knowledge-intensive activities on a priority basis. Support in the form of monitoring and targeted programmes in relation to the need for R&D&I and the involvement of the available resources would be called for. This group of corporations is most closely affected by technological progress and easing the conservative capital structure would open the door for faster growth and incentivise innovation.
- The importance of developing the capital market. Venture capital financing and the creation of the necessary ecosystem requires development and contributes to dynamic economic growth, achieving a more balanced capital structure and successful generational change for SMEs, which requires the targeted transfer of capital market knowledge to a targeted group of companies.
- The BSE plays an essential role in education and creating the ecosystem.
- The BSE's role as advisor and partner and more conscious communication on this subject.