THE IMPACT OF REGIONAL DIFFERENCES IN HUNGARY FOR COMPANIES WITH THE HIGHEST NET SALES INCOME

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Abstract: *Today, the increasing competition has made it increasingly difficult for businesses to survive, operate efficiently and grow. Regional differences also have an impact on the functioning of businesses. The study provides a comparative analysis of companies between a developed and a less developed region of Hungary. The sample under consideration consists of the TOP 1000 companies on the basis of the net sales income, which operating in the two regions. The study will answer questions about the impact of the development gap between regions on the operation of companies with the highest net sales income? Does the development of the area affect the profitability or efficient operation of companies? How big and in what direction of the differences in financial indicators? The investigation is based on a database analysis. The conclusions in the study help to show the impact of regional differences from the perspective of successful businesses.*

Keywords: *Financial diagnostics, Regional difference, Comparison.*

1. INTRODUCTION

The primary objective of businesses is to achieve successful, profitable operations and to maintain and improve their market positions. There are a number of factors that influence the operation of businesses. These factors include the extent of competition in the market, the number of competitors, various macroeconomic factors and regional conditions These effects are common, as they also affect larger and leading companies. If companies successfully assess and identify factors influencing their operations, these negative effects may be reduced or eliminated if appropriate measures are taken. That's why it's worthwhile first to take a closer look at what factors affect the operation and growth of companies.

2. FACTORS INFLUENCING THE OPERATION OF COMPANIES

The factors influencing companies are covered by a number of literatures. According to Roos and Heidrich (2013), organisms are also influenced by internal and environmental factors. Internal factors include, for example, employees and owners. These factors directly affect the operation of the company. External factors include, for example, the political-legal environment (political stability and predictability), the technological environment (quality of research, technical, technological development) or the economic environment (globalisation).

Szerb (2007) looked at growth opportunities and described that corporate growth is also influenced by a number of factors, which are difficult to examine at company level. Demographic factors and certain behavioural factors, such as the growth strategy or the possibility of using special financial resources, are also having a significant impact on corporate growth (p. 21).

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Papanek (2010) describes the importance of external factors affecting growth in his study on Hungarian small and medium-sized enterprises. Such external factors include the quality of the physical infrastructure of the economy, business conditions, measures to support innovation.

Reszegi and Juhász (2017) distinguish factors which are affecting short-term growth. These factors include the exploitation of fashion waves, the mistakes of competitors. By leveraging them, companies can increase their performance and thus grow in the short term.

Kádárné (2006) divides the factors affecting corporate growth into three groups:
- Factors within the company: knowledge, resources, entrepreneur's abilities;
- Microenvironmental factors: industry situation, market situation, customers and competitors;
- Macroenvironmental factors: political environment, economic environment, infrastructure.

In their study, Janeska-Iliev and Debarliev (2015) identified five different factors that impact business growth:
- Resources and processes that include human resources, efficiency and sources of funding;
- Skills and knowledge, including the qualifications and knowledge of the owner and employees;
- A strategic approach that includes different phases of strategic planning, such as vision and strategic objectives;
- Design, which includes different design techniques related to achieving goals;
- External environment, includes environmental changes.

Factors influencing the growth rate of businesses include environmental/activity specific factors, company structural conditions, manager competence and business strategy (Visintin, Pittino, 2016, p. 5)

Hossain and his co-authors (Hossain et al. 2016) isolated several variables that affect the growth of a business. Examples of such variables are the evolution of net sales, employee, product diversity.

Borschowa (2014) distinguishes eight factors for business growth:
- Operational efficiency,
- Marketing and networking,
- Sales,
- Niche development,
- Value pricing,
- Technology,
- Value added services,
- Practice management.

The literature review shows that both in-company and external factors influence the business operation. For companies it is important to examine these factors. In the study, we examine the impact of external factors, including the impact of the development of the region on the most successful companies.

3. METHODOLOGY

The study provides a comparative analysis of companies between a developed and a less developed region of Hungary. The sample under consideration consists of the TOP 1000 companies on the basis of the net sales income, which operating in the two regions. One region is Győr-Moson-Sopron county (western area, more developed), and the other is Szabolcs-Szatmár-Bereg county (eastern area, less developed). We choose these two counties because they are far apart geographically and in terms of development. In 2018, Győr-Moson-Sopron county had a gross domestic product of 121.8 % per capita as a percentage of the national average, which is the 2nd largest in the country. In contrast to this, in Szabolcs-Szatmár-Bereg county it was only 56.5 %, which is the 2nd smallest in the country (KSH, 2018). The TOP 1000 companies are the most successful companies in the two regions on the basis of net sales income achieved. The methodology of the study follows the following logical order: First, the profitability is examined, since profitable operation is the basis for successful operation. It is then examined for financial stability, because a stable financial background is essential for profitable operation. Finally, the examination of the efficiency of the business, since it is not possible to create financial stability without efficient business. Calculations are made in Excel. The financial metrics are calculated for both regions, and then the values obtained are compared.

4. RESULTS

Profitability was the first what examined in the study and the first table contains all the calculated results.

Table 1. Profitability calculations 2014-2018

	Győr-Moson-Sopron county				
	2014	**2015**	**2016**	**2017**	**2018**
Operating profit rate	7,19%	6,35%	5,94%	6,07%	7,19%
Net profit rate	6,39%	5,51%	5,26%	5,59%	6,80%
Dividend payment rate	27,82%	33,38%	20,01%	25,95%	19,22%
Profit retention rate	72,18%	66,62%	79,99%	74,05%	80,78%
ROA	7,04%	6,26%	5,67%	6,80%	8,71%
ROE	12,15%	11,86%	10,16%	11,42%	14,14%
ROI	12,48%	11,32%	10,21%	12,75%	16,38%
	Szabolcs-Szatmár-Bereg county				
	2014	**2015**	**2016**	**2017**	**2018**
Operating profit rate	2,98%	6,47%	4,36%	3,36%	6,92%
Net profit rate	2,45%	5,79%	3,78%	2,98%	6,53%
Dividend payment rate	74,33%	45,56%	25,95%	65,49%	20,38%
Profit retention rate	25,67%	54,44%	74,05%	34,51%	79,62%
ROA	2,66%	5,83%	3,83%	3,33%	7,34%
ROE	4,87%	10,28%	6,55%	5,65%	13,43%
ROI	6,05%	13,06%	8,79%	8,10%	16,84%

Source: Own calculations based on the tabulated data set of the Central Statistical Office (www.ksh.hu) in Győr-Moson-Sopron county TOP 1000 and Szabolcs-Szatmár-Bereg county TOP 1000 on individual request

The operating and net profit ratios are one of the most important indicators of the profitability assessment of the companies, since profits are measured against net sales revenue. The data show that companies in Győr-Moson-Sopron county were able to achieve better values every year except 2015, so the TOP 1000 companies in Győr-Moson-Sopron county have better operating profit and pre-tax profit in relation to net sales revenue. Despite the more efficient operation, it can be seen that the TOP 1000 companies in Győr-Moson-Sopron county pay less dividends compared to the other county. Because of the higher profit retention, they can make greater use of internal growth and they can finance it. Internal growth can improve the profitability of the business and make companies more successful. Return on Assets (ROA), show the ratio of taxed earnings to assets. Return on Equity (ROE) show the ratio of taxed earnings to equity. Return on Investment (ROI) show the ratio of taxed earnings to invested assets. These profitability categories are also more favourable for the TOP 1000 companies in the western area. Overall, the impact of the development of the region is clearly demonstrated in terms of profitability, but by the end of 2018 there had been a significant improvement in the indicators of the less developed region.

As financial stability is essential for profitability, we continue the examination with this. The second table contains all the calculated results.

Table 2. Financial investigation 2014-2018

	Győr-Moson-Sopron county				
	2014	**2015**	**2016**	**2017**	**2018**
Liquidity I.	0,25	0,25	0,33	0,30	0,31
Liquidity II.	0,96	0,82	1,06	1,02	0,95
Liquidity III.	1,44	1,29	1,62	1,60	1,57
Ownership ratio	0,58	0,53	0,57	0,58	0,60
Debt ratio	5,96	5,56	4,23	5,01	6,56
Loan ratio	39,26%	43,20%	40,09%	40,23%	38,30%
	Szabolcs-Szatmár-Bereg county				
	2014	**2015**	**2016**	**2017**	**2018**
Liquidity I.	0,32	0,37	0,34	0,42	0,34
Liquidity II.	1,14	1,19	1,21	1,24	1,22
Liquidity III.	1,74	1,84	1,87	2,04	2,01
Ownership ratio	0,55	0,57	0,59	0,61	0,56
Debt ratio	6,06	5,73	7,05	9,28	4,74
Loan ratio	40,67%	39,63%	38,11%	34,96%	39,33%

Source: Own calculations based on the tabulated data set of the Central Statistical Office (www.ksh.hu) in Győr-Moson-Sopron county TOP 1000 and Szabolcs-Szatmár-Bereg county TOP 1000 on individual request

Liquidity I. compare liquid assets to short-term liabilities. Liquidity II. compare liquid assets and demands to short-term liabilities. Liquidity III. compare current assets to short-term liabilities. Interestingly, the liquidity ratios of companies in the less developed region are higher than those in the more developed region. This is not necessarily considered positive. Higher liquidity makes it easier for firms to respond to sudden costs, but if such costs are not incurred, the company's funds are unnecessarily free. By investing funds, the company can generate additional revenue, so that lower liquidity can also be favourable. Excessively low and too high liquidity are the problem, but none of them are specific to the TOP 1000 companies in the two areas under consideration. The ownership ratio compare equity to total capital. It is important that it should not be too much low, especially below 50%, because it represents a very small proportion of equity relative to total capital. Debt ratio compare equity to long-term liabilities. The higher the value, the better. The loan ratio compares liabilities to assets. The lower value is favourable. In terms of ownership, debt ratio and loan ratio, the companies in the two regions operate similarly: The equity ratio is above 50 %, the value of long-term liabilities is several times higher than the size of the equity and the ratio of liabilities is around 40 % in relation to all assets. On this basis, it can be concluded that the TOP 1000 companies in the examined sample are capital-strength and not indebted. Basically, the financial indicators do not show the effect of the region's development.

Finally, we are looking at the efficiency of the business, which is important because it is the basis for financial stability. The third table contains all the calculated results.

Table 3. Business efficiency 2014-2018

Győr-Moson-Sopron county

	2014	2015	2016	2017	2018
Stock time (days)	47	50	51	49	51
Time to settle supplier debts (days)	28	25	26	24	25
Customer receivables recovery time (days)	38	37	36	37	28
IGR	5,35%	4,35%	4,75%	5,30%	7,57%
SGR	9,61%	8,58%	8,85%	9,24%	12,89%

Szabolcs-Szatmár-Bereg county

	2014	2015	2016	2017	2018
Stock time (days)	64	70	71	75	72
Time to settle supplier debts (days)	35	41	36	38	33
Customer receivables recovery time (days)	45	44	38	35	39
IGR	0,69%	3,28%	2,92%	1,16%	6,21%
SGR	1,27%	5,93%	5,10%	1,99%	11,97%

Source: Own calculations based on the tabulated data set of the Central Statistical Office (www.ksh.hu) in Győr-Moson-Sopron county TOP 1000 and Szabolcs-Szatmár-Bereg county TOP 1000 on individual request

Stock time measures the size of inventories for net sales per day. The stock time indicates how many days from purchase to sale. In a less developed region, this value is higher, so the money of businesses stays in stocks for a longer time. Time to settle supplier debts shows the number of days that company can postpone the payments to the suppliers. Customer receivables recovery time shows the number of days between the sale and the actual payments. The time of settle of supplier's debts and the recovery period for customer receivables shall be examined together. Ideally, the buyer finances the supplier and the company does not have to look for extra resources. This correlation is not in any of the regions in the sample under examination and, therefore, other resources are required for efficient business. It is important to note that for the less developed region, almost all indicators have more days. Growth opportunities are part of an efficient business. The internal growth rate (IGR) shows how much the company can grow by using only internal resources. In the case of a sustainable growth rate (SGR), the company may use external resources to grow, but the proportion of own resources and foreign resources should not change. Internal growth rates and sustainable growth rates are lower in less developed areas. The lower internal growth rate is also due to higher dividend payment rates, so dividend policy plays an important role in achieving internal growth. Overall, the efficiency of the business is less favourable in the TOP 1000 businesses of the less developed region.

5. CONCLUSION

On the basis of the calculations examined, we have reached the following important conclusions:

- The profitability of the TOP 100 companies in the more developed region is better, with higher revenues and profits. In addition to improved profitability, a better dividend policy is being pursued, allowing for the financing of internal growth;
- From a financial point of view, the liquidity ratios of the less developed area are a little larger, but all of them can be considered favourable. Businesses are capital-strength and are not indebted in either region. From a financial point of view, the impact of the development of the region cannot be demonstrated;
- Business efficiency is less favourable in the case of less developed areas, but businesses in each area should improve their financing time.

Overall, the impact of regional differences can also be demonstrated in the profitability and efficiency of the companies, despite the fact that the most successful companies with the highest net sales income were included in the sample under consideration. It is therefore essential to develop areas, as it can help businesses catch up and improve their effectiveness.

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