Governing Urban Diversity:
Creating Social Cohesion, Social Mobility and Economic Performance in Today’s Hyper-diversified Cities

Report 2d
Fieldwork entrepreneurs, Budapest (Hungary)

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1. Introduction

High levels of economic growth and increasing well-being of citizens (Bodaar and Rath, 2005; Fainstein, 2005), which are the main objectives of urban policies, are closely connected to entrepreneurship and the ability of local people to create new enterprises. In the global era, cities compete for enterprises with high economic performance and talented entrepreneurs, besides creating conditions necessary for new start-ups. The literature emphasises that cities open to diversity are able to attract a wider range of entrepreneurs than those that are relatively closed (Eraydin et al., 2010; Fainstein, 2005; Florida, 2002; Taşan-Kok and Vranken, 2008). Empirical research results on how economic competitiveness is connected to urban diversity, however, are rather limited and they provide evidence usually only on the macro level. One of the aims of this project is to close this gap with empirical evidence collected at neighbourhood level from 14 diverse cities of Europe and Canada.

In this report, we focus on the economic performance of enterprises in deprived, but dynamically changing and diverse neighbourhoods in selected cities and the conditions that support and sustain their competitiveness and longer term development. We aim to demonstrate the relationships between urban diversity and the success of entrepreneurs. More specifically, we want to explain and document the reasons why some neighbourhoods can provide conditions for individuals or groups to strengthen their creative forces and enhance their economic performance.

First, the report examines the entrepreneurs, who start their businesses in a diversified neighbourhood of Budapest (Józsefváros) and the factors that define their economic performance. It might be expected that factors like ethnic background of the entrepreneur, his/her age, family background, gender, education and previous experiences are important variables in determining the success of their enterprises. These factors mediate the influence of diversity on the neighbourhood and city level. Second, the report explores the main motivations of entrepreneurs and assess whether neighbourhood diversity is important factor for starting their businesses, where they are located now. Third, we evaluate the market conditions that are important for the economic performance of entrepreneurs. Fourth, the report evaluates the role of policies and measures at different levels and the institutionalisation of such policies.

The evidence on these issues can be reached with concrete research questions listed below, which will constitute the focus of the chapters in this report:

1. What are the main characteristics of entrepreneurs and their business? What are the evolutionary paths and the fields of activity? What are the physical conditions and the ownership pattern of their offices/production sites/shops? (Chapter 2)
2. What were the main motivations of entrepreneurs for establishing a business? What is the importance of neighbourhood diversity for starting their business where they are located now? Why did he/she select this line of business and from whom the entrepreneur has received support in different forms in starting this enterprise? (Chapter 3)
3. What are the success and failure factors for the economic performance of enterprises? What is the current level of performance and how did it change? To what extent does the diversity of the neighbourhood play a role in economic performance? What are the long-term plans of entrepreneurs? Do they have any
plans to change size, market and business strategies in order to reach higher levels of competitiveness? (Chapter 4)

4. Which policies, measures and organisations contribute to the performance of enterprises? What are the contributions of membership to various initiatives on the performance of enterprises? What do the entrepreneurs want from policy makers at different levels? (Chapter 5)

This report is based on in-depth interviews conducted in the 8th district of Budapest, called Józsefváros. This is one of the most diversified areas of Budapest with a relatively high level of immigrant population. The housing stock is diverse as well due to the multi-layered building activities affecting the district since the middle of the 19th century, and recently launched large-scale regeneration programmes. The development accelerated after the 1870s, when the inner part of the district was built up with 3-4 storey tenement buildings. A mix of lower and upper class residents inhabited the area. Prior to World War I the local economy was characterised by craftsmen, but the local cafés and restaurants were also widely known throughout Budapest. Lower status Jewish and Roma musician population was also present in Józsefváros at this time.

In the interwar period a massive slum formation took place in the district as the strata gradually moved to other more elegant parts of Budapest, e.g. Buda Hills (Czirfusz et al., 2015; Ladányi, 2008). After World War II, the emerging housing shortage (caused by the inflow of industrial workforce) was tackled by splitting larger apartments into smaller ones. In this period, Józsefváros suffered from disinvestment, resulting in deteriorating housing stock and bad image. Subsequently, Józsefváros became one of the most stigmatised areas of Budapest, especially when the inflow of poorer Roma population accelerated in the early 1970s (Ladányi, 1989; 2008).

After the change of regime (1990) the main aim of local government was to improve the quality of the housing stock and transform the social structure of Józsefváros by attracting young professionals, tourists, students and well-off foreigners (Czirfusz et al., 2015). The students and other young people who move to the District can benefit from the huge variety of rental dwellings and the affordable rents. As the Józsefváros Integrated Development Strategy emphasises, the District is a higher educational centre with national-level significance since 10 per cent of the total student population studying in Hungary are registered at Józsefváros-bound institutions. The concentration of higher-education institutions is also outstanding here: 11 universities and colleges with 18 faculties are located in the area (Pest-Budapest Konzorcium, 2015). This is an important driving force of a studentification process which goes hand in hand with other more classical forms of gentrification. Józsefváros with a diversified housing stock and hospitality and leisure facilities offers a good compromise for students between the ‘boring’ outskirts and the tourist-flooded city centre. In addition, in 1993, the largest Chinese market (‘Four Tigers Market’) in Budapest has been established and it remained open until 2013. This was not just the centre of Asian commerce and a focal point of Chinese economic activity, but also an infamous place because of the illegal trade activities.

The post-1990 socio-economic processes – i.e. urban regeneration and concomitant gentrification, the strengthening of studentification, the arrival of African and Asian immigrants – have made the local society exceptionally mixed by Hungarian comparison. With its 76,250 inhabitants (2011) Józsefváros is only eleventh among the 23 districts in the city, but the ratio of ethnic (non-Hungarian) people is far the highest with 12 percent.
Among the ethnic minorities the Roma/Gypsy has the largest community in Józsefváros with a 4 percent share of the total population (for the entire city this figure is 1.17%). The other major non-Hungarian ethnic groups in the area are the German (1.31%), the Romanian (0.82%) and the Chinese (0.72%) (Hungarian Central Statistical Office, 2011; Pest-Budapest Konzorcium, 2015).

Among the ethnic entrepreneurs, Chinese and Vietnamese traders are important for both the middle and lower class. The major income of Chinese entrepreneurs stems from wholesale activities which create the opportunity of resale of cloths, consumer goods, furniture and electronics in the shopping malls. Arabs originally came to Budapest to do business as money brokers, or in delicacy shops, and restaurants. Turkish and Kurdish people are living here as tradesmen, businesspeople or owners of gyros-fast food bistros (Kohlbacher & Protasiewcz, 2012).

This development path formed a diverse local economy with the mix of traditional economic activities and newly settled or emerged businesses which aim to attract different types of consumers. Furthermore, the relatively high rate of foreign born population lead to a more visible presence of ethnic entrepreneurship. Due to constant immigration, the social status of the area is slowly increasing, but this is a spatially differentiated process: the most intense changes take place in the core areas of large-scale urban rehabilitation programs (most prominent being the Corvin Promenade project).

This report is based on in-depth interviews conducted with 40 entrepreneurs and key actors of local entrepreneurship in Józsefváros, between September 2015 and January 2016. During the fieldwork it was imperative that the group of interviewees reflect the diversity in entrepreneurship within the case study area. For this purpose, we tried to contact as many types of entrepreneurs as possible (e.g. firms from various sectors, private entrepreneurs, SMEs and large companies, ventures with non-Hungarian ethnic background, etc.). In addition, we conducted interviews with four key actors (e.g. representative of the local economic chamber) who all had deeper knowledge on the business climate of Józsefváros.

Interview partners were recruited through different channels. Firstly, one of the local residents – also interviewee in a previous research (the Work Package 6 of this project; see Fabula et al., 2015) – acted as key person and mediated between us and the entrepreneurs; we got approximately one third of the interviewees’ addresses through this channel (mostly private, micro- and small-sized enterprises). Secondly, RÉV8 Plc. helped us reach more powerful economic actors, since it has developed a broad professional network in Józsefváros. Thirdly, a small part of the respondents (2 persons) were approached by the ‘snowball’ method, and some of them – especially ethnic entrepreneurs – were asked for interview without mediator, just popping in from the street.

Although we intended to compose a group of interviewees which appropriately represent a balanced picture of diversity in Józsefváros (Appendix 1), the sample has certain shortcomings. Firstly, female entrepreneurs are underrepresented, as only six out of 40 respondents are women. Secondly, in Józsefváros and the neighbouring districts there are

1 RÉV8 is a company founded by the local government of Józsefváros. Its primary aim is to manage local urban renewal programmes.
significant communities of African immigrants but no one from this group wanted to participate in the research, probably because of lack of time or maybe mistrust. Thirdly, the majority of the interview partners belong to older age groups: none of them is under 30, and only three people are younger than 35. Last but not least, Józsefváros is well-known in Budapest as a traditional node of informal and illegal economic activities. We could not find a way to this sphere; however, according to the interviewees it still exists in the area.

2. The entrepreneurs and their businesses

A growing diversity can be observed in the typologies of entrepreneurs in the literature. The typologies of entrepreneurs traditionally can be based on business orientation, sector, size of business, educational background, demography etc. (Tang et al., 2007). Recent studies highlighted emerging forms of entrepreneurship, e.g. part-time, parallel, serial entrepreneurs (Jakobsen, 2011) emphasising the importance of various lifestyles, time management and goals of businesspersons. The changing business structure and the growing role of knowledge and creativity also induced the development of new typologies and categories such as creative enterprises, technopreneurs, knowledge entrepreneurs etc. (Andersson et al., 2010; Fainstein, 2005; Florida, 2002). Furthermore, the ageing population in developed countries highlighted the role of the so called ‘grey entrepreneurs’: those who are over 50 and often started their businesses after retirement (Kautonen, 2008; Weber and Schaper, 2004). In broader sense grey (or elder, senior, second career) entrepreneurs are those who are over 50. In a narrower sense, only those can be considered as grey entrepreneur, who started their business over 50 years of age. Last, but not least, the immigration and the growing diversity of cities led to the growing importance of ethnic and immigrant businesspersons as a separate typ of entrepreneurs (Eraydin et al., 2010).

A considerable proportion of the literature on diversity and economic performance focuses on ethnic aspects, but because of the socio-ethnic milieu of Józsefváros, we have to pay more attention to other aspects of diversity (such as age, social status, education etc.). In fact, minority (whether they are ethnic or other types of minorities) businesses can be significant agents of employment and economic growth in diverse urban areas (Ram and Jones, 2008). However, some recent studies point to the negative impacts of diversity on growth and cohesion (e.g. Alesina and La Ferrara, 2005; Easterly and Levine, 1997). Moreover, self-employment (which is often characteristic to ethnic businesses, but in Hungary it can also be a strategy for those who are marginalised on the labour market) often shows a negative correlation with economic development (Torrini, 2005).

In this chapter we provide an overview about the main characteristics of local entrepreneurs and their enterprises who were involved in our fieldwork in Józsefváros/Budapest. First, we will highlight the general characteristics of entrepreneurs and their previous professional experiences. Are the emerging types (grey, creative, knowledge, ethnic and immigrant) of entrepreneurs present in the study area? In the second part we aim to define the main characteristics of the businesses and the evolution of the enterprises. Finally, we turn our attention towards the physical conditions and the ownership pattern of enterprises in our case study area. The main focus is on the relationships between urban spaces and entrepreneurial activities in the light of the local features of ‘diversity’.
2.1. Characteristics of the entrepreneurs

The section focuses on the main characteristics of entrepreneurs and their previous experiences. In order to gain an accurate picture of the characteristics and experiences of the entrepreneurs we collected a broad range of demographic information about the interviewed people including their age, gender, country of birth, ethnic background, nationality, education, previous employment experiences and residency.

The age profile of the 38 entrepreneurs we spoke to represented a fairly even spread with 8 aged between 30 and 39, 9 aged between 40 and 49, 6 aged between 50 and 59, 13 aged between 60 and 69 years old and 2 aged between 70 and 79 years old. Therefore, 21 interviewed entrepreneurs can be considered as a grey entrepreneur (using the term in a broader sense, and not limit it to those who started their venture after 50 years of age). The relatively large share of senior entrepreneurs is partly the result of the economic transformation of the regime change: the fall of communist economy and the introduction of market conditions provided opportunities that were not available before 1990. Furthermore, some of the elderly interviewees are necessity entrepreneurs because they lost their jobs and had a disadvantaged situation in the labour market because of their age or educational background. We conducted interviews with 31 male and 7 female entrepreneurs, so there is an imbalance towards males which is in accordance with the general trend in Hungary. Males tend to be more involved in entrepreneurial activities and they are also overweighted among managers of bigger firms. In 35 cases we managed to involve the owner or the director of the enterprise in the interview. Two interviews were conducted with store managers both of them with Turkish background (food store and Islamic butcher). In one case a senior member of staff was interviewed representing a property and urban development holding.

The majority of the entrepreneurs we spoke to were born in Budapest (25). The rest of the interviewees were born in a variety of different places and countries. Two interviewees were born in the suburbs of Budapest; five of them were born in the countryside of Hungary. The migrant entrepreneurs can be ethnic Hungarians from the neighbouring countries and immigrants from other ethnic background. Among the immigrant entrepreneurs one interviewee is from Romania, but with Hungarian ethnic origin. Two respondents were born in Turkey while 1 was born in Iran, China and Vietnam respectively.

Immigrant and ethnic entrepreneurship are two interrelated, but not necessarily synonymous categories because of the presence of Roma and immigrant ethnic Hungarian entrepreneurs. Considering the ethnic background of our entrepreneurs 25 defined themselves as Hungarian, one as Roma, further 1-2 entrepreneur as Kurdish and Turkish as well as Persian, Chinese and Vietnamese. Therefore, various types of ethnic entrepreneurship were represented in our research.

In terms of qualifications, a large share of the entrepreneurs (15) we spoke to had university or college diploma. The rest of the entrepreneurs had achieved a secondary school education. However, the majority of highly skilled entrepreneurs cannot be labelled as creative or knowledge entrepreneurs. Creative and knowledge based economy is strengthening in Józsefváros, but right now its role is moderate – because the area is in

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2 It is important to note that WP7 report of Budapest is based on 40 completed interviews included 38 interviews with entrepreneurs and 2 interviews with key actors who have not got a business.
the early stage of its (physical, social and economic) transformation. The emergence of knowledge based enterprises is related to urban rehabilitation and gentrification processes in Palotanegyed and at the Corvin Promenade.

The employment histories and experiences of the entrepreneurs were, as expected, extremely varied in nature, particularly in terms of prior experience running a business. On one hand, only 8 of the 38 entrepreneurs had no experience of being employed at another working place than at current one (i.e. their business). On the other hand, only a few entrepreneurs had experience of owning and running a business prior to their current enterprise – this is their first one.

Finally, with regards to where entrepreneurs lived in relation to where their businesses were located, we found that a slight majority of entrepreneurs (26) lived outside of Józsefváros. Among them, 3-3 entrepreneurs had their residency in 7th, 13th, 14th, 17th and in 20th districts of Budapest. Further 1-1 respondents lived in 2nd, 10th, 11th, 15th and in 18th districts of Budapest. Five entrepreneurs resided in the suburbs of Budapest at the time of the interview (Érd (2), Göd, Pilisvörösvár, Solymár). It shows that Józsefváros provides business opportunities for entrepreneurs outside of the District, and has a ‘springboarding function’ in entrepreneurship.

2.2. Characteristics of the businesses, their evolutionary path and core fields of activity

The interviewed entrepreneurs and managers came from a range of different sectors from dog beauty salon to tanner, watchmaker to violin-maker and environmental planning office to property and urban development holding. The enterprises can be categorised into five types based on the main activities of businesses.

The first group of enterprises can be specified as ‘handicrafts’. This type of businesses included 10 interviewed entrepreneurs as follows: carpenter, upholster, tanner, watchmaker, hatmaker, violinmaker, glazier, goldsmith, printing house and stone mason businesses.

The second group of businesses are ‘retailers’. This group of enterprises included again 10 businesses such as Persian Food Store, Turkish Supermarket, Turkish butcher and food shop, Vietnamese convenience store, florists, stationer’s, china shop, bio food shop, greengrocers and book store. The above two groups of enterprises covered more than half of the interviewed businesses.

The third group of businesses that were interviewed can be identified as ‘tourism and hospitality’ trades. This group included 9 enterprises: superior three-star hotel, luxury apartment hotel, stylish Jewish restaurant, low cost Chinese fast food restaurant, 2 confectioneries – one of them for people with special needs (sugar and lactose-free cakes), 2 multicultural pubs and cafes as well as ruin bar³ with community centre.

The fourth group of enterprises can be characterised as ‘consulting and engineering services’. This sector is represented by 5 enterprises, namely the environmental planning

³ Ruin bars (or ruin pubs; from the Hungarian phrase ‘rom kocsma’, literally: ‘pub in a ruin’) are mostly located in old, dilapidated buildings and they are hotspots of Budapest night-life that have become famous attractions in global tourism recently (Lugosi et al., 2010).
office, the property and urban development holding, the two construction companies and the engineering consultation.

Finally, the fifth group of enterprises can be labelled as ‘residential services’. This sector was represented by 4 businesses including a car mechanic, a dog beauty salon, a translation agency and a medico booking start-up.

We can say that four types of enterprises could be identified according to the legal status of the enterprises which are as follows: sole proprietors, limited partnerships, limited liability companies and joint stock companies.

Eleven businesses had legal status as individual, self-employed entrepreneurs focusing on traditional profiles providing residential services (e.g. confectioner, florist, greengrocer, dog beauty salon) or handicrafts (e.g. watchmaker, upholster, carpenter). There is a high concentration of individual entrepreneurs along Baross Street (on the border of Corvin negyed, Csarnok negyed and Losonci negyed quarters; see Figure 1) where nine premises of interviewed enterprises are located.

Five enterprises were limited partnerships with 2 or 3 members per businesses. The limited partnerships were established between 1991 and 2001. Regarding the owners of this type of enterprises we can highlight that the directors are involved in a familiar relationship (in 3 cases it is the wife) with 1 or 2 members of partnership in four cases. The gender of all interviewed directors was men. The largest group of businesses in our sample were limited liability companies covering twenty businesses. Regarding the ownership structure of the interviewed enterprises it can be noted that six businesses were owned solely by one director and also six businesses were owned jointly in equal 50/50 shares by two owners.

The strong family relationship between owners is an important feature in the case of four enterprises which had 3 owners. Three of them were owned by the father and his two sons. Four of the 20 limited liability companies were owned by more than three people. One of them was owned by a group of friends (5 people). Two other enterprises operated on a co-operative basis which resulted in a wide range of owners involving 8 and 10 people. The smallest group of businesses we spoke to were joint stock companies. The two such ventures had a wide ownership background including family members and businessmen in the boards of directors.

According to the founding year of enterprises we could set up four categories among the interviewed businesses. Six entrepreneurs were able to start his/her ventures in Józsefváros solely in traditional sectors like handicrafts and retail before the political transitions, i.e. 1990. The vast majority (12) of businesses had been running for 15 and 25 years. They were established between 1990 and 1999. The second largest group of enterprises included 10 businesses which were set up between 2000 and 2009. Finally, the share of newly established enterprises was relatively high in our sample because nine entrepreneurs started his/her business after 2010 in Józsefváros.

Two factors explain the dynamic presence of new businesses in our sample, on the one hand, many of them are based in the Corvin neighbourhood where massive urban transformation has taken place due to urban regeneration providing an attractive space for new enterprises. On the other hand, the H13 student and enterprise centre operates
as incubator spaces for start-ups and provides comprehensive services and subsidies for clients to become entrepreneur in Józsefváros.

We cannot define a typical development path for local businesses; expanding, shrinking, and stable (unchanging) business profiles and customer bases were all mentioned during the interviewees. The sector, ethnic background and the size and performance of businesses are strongly related to these categories. According to our key informants, ethnic businesses usually focus on certain sectors; immigrants from Middle East and North Africa tend to focus on services (money exchange, internet café, restaurant etc.), Turkish entrepreneurs usually sell clothes, while Chinese focus on electronic equipment lately – before that they sold clothes and other textile products. The changing focus of Chinese enterprises was motivated by the growing labour costs in China and the changes in the Chinese economy – this highlights the importance of the connection with the source economies in the case of immigrant businesses. The changes of profile or customer base were often mentioned by our interviewees. As a motivation, they highlighted the role of economic crises, the declining purchasing power, the changing customer needs, sharp competition and in some cases the innovative attitude of the entrepreneur. Interestingly, the reason behind the changes both can be the bad and good performance of the business. In case of good performance, entrepreneurs try to broaden their spectrum, offering new products or services – this can be fostered by emerging business opportunities (e.g. shop available for rent or purchase). In other cases, businesses evolved synchronously with the changing market needs, and step-by-step they modified their profile accordingly (e.g. a small workshop specialized on metal working). In case of bad performance induced changes, entrepreneurs try to find new markets, developing new profile, and even abandoning the previous one. These businesses are small, often family owned ones, with no employees outside the family members. They operate mostly in the retail sector or catering industry. In one case the reason of change of product range was independent from the performance of the business; because of the change of regulation, a gift and flower shop could not offer alcohol anymore. The stable profile or customer base was often mentioned by small enterprises (owned by elderly) with niche markets (e.g. hat or instrument making).

There were also some parallel entrepreneurs among our interviewees; they operate more than one business at the same time. These businesses can be related, like in the case of a hotel and a restaurant, or can be more or less independent from each other, like the upholstery and a hardware store. In the first case the parallel enterprise is a result of a logical expansion, while in the second it is a diversification strategy. There were not any part-time entrepreneurs except for those, who are retired.

In terms of employment, half of the interviewed businesses (19) had no employees besides the owner/director. In addition, 10 businesses had between 1 to 9 employees and only 8 had 10 or more. Based on the interviews, however, we can say that in most cases the total number of employees or contractors who are involved in the activities of these businesses is much higher. Due to the unpredictable nature of these businesses as well as the extreme high cost of wage most of the enterprises involve subcontractors or employ casual and freelance self-employed people.

Based on the net income of enterprises the businesses could be categorised in four groups. Three enterprises had less than 10,000 EUR per year as net income. Seven businesses had an annual net income between 10,000 and 100,000 EUR. Twelve of the interviewed firms had a net income between 100,000 and 1,000,000 EUR annually.
Finally, the group with the largest net income included two businesses with more than 10,000,000 EUR annual income.

2.3. The location and site/s of the enterprise

According to the responses of the entrepreneurs we can say that half of the businesses are renting their business premises from the Municipality of Józsefváros (6), the State (1), and private owners (11). The rented properties are business premises except for one case (the building of the ‘ruin bar’) but the owned units are very different such as building complex (4), housing units (4) and business premises (12). Nine enterprises had more than one business premise. Half of the additional business premises are located in Józsefváros. Ten enterprises are located in revitalised or redeveloped areas.

Figure 1 shows the location of interviewed businesses in Józsefváros. We can conclude that except for one neighbourhood (Százados úti negyed) businesses located in 10 quarters of the case study area were involved in our survey. We interviewed 8 entrepreneurs based in Palotanegyed, 7-7 based in Csarnok negyed and Corvin negyed, 4 were based in Népszínház negyed, 3-3 were based in Magdolna negyed and Losonczi negyed respectively, 2 were based in Kerepesi negyed, and finally both Tisztviselőtelep and Ganz negyed had one business. The Grand Boulevard, Corvin Promenade and Baross Street are the hubs, regarding traffic and customer frequency – these can be considered as the core areas of services and retail. (These hubs are located in Palotanegyed, Corvin negyed and Csarnok negyed.) All of them are easily accessed by public transport; the vicinity of metro and tram stations make them favourable business locations.

2.4. Conclusions

Our sample is highly representative of the economy of Józsefváros. We covered a wide spectrum of businesses operating in many economic sectors, with different size and age. The geographical location of interviewed businesses is also even within the case-study area. The entrepreneurs we talked to possess a wide range of professional background, formal and tacit knowledge, skills and competencies and they were also very mixed in terms of their age and ethnic background. Hence, we can conclude that our sample was broad enough to give insights into both the relationships between urban spaces and entrepreneurial activities, and the changing business milieu of Józsefváros in the light of ‘diversity’. The changing economic and social profile of Józsefváros is often manifested in shifting business profiles and customer base.
3. Motivations to start a business and the role of urban diversity

3.1. Introduction

To become an entrepreneur requires certain abilities (skills, social and financial capital etc.) and willingness to start a business – in this factor, motivation has a key role (Verheul et al., 2010). According to the literature on entrepreneurial motivations, we can distinguish ‘push’ and ‘pull’ types of entrepreneurs. Members of the first category are forced to leave the former work and start a business because of external (e.g. economic or political circumstances such as risk of unemployment), or internal motivations (e.g. feeling of discomfort or alienation from current position). Continuing family business, thus, maintaining or establishing a tradition can also be an important push factor (e.g. when an individual inherits a business). The influence of push factors can be particularly strong in less developed economies due to scarce employment opportunities. Pull type entrepreneurs are attracted by business opportunities, the possibility of being independent or socially mobile (Amit and Muller, 1995; Gilad and Levine, 1986; Shapero and Sokol, 1982). In the case of female entrepreneurs, the flexibility of entrepreneurship can be an important pull factor because it makes family life and career to fit with each other easier (Gere, 1996).

In the case of immigrants, starting a new business is often a strategy to cope with marginalisation and unemployment (Baycan-Levent et al., 2003). Immigrants tend to start firms with small-scale, labour intensive production which aim at ethnic demand (e.g. food, clothes and services) or require low level of qualification and small investment – which means that the costs of market entry are relatively low. At the same time, the
competition can be fierce since several entrepreneurs enter the market with quite similar characteristics and products (Kloosterman and Rath, 2001; Kloosterman et al., 1999).

In Hungary, a large number of entrepreneurs started their business because of pull factors after the change of regime: they started their business because they lost their job after the collapse of the centrally planned economy and their chances to find a new job were very limited. In Hungary they are usually referred to as ‘constrained entrepreneurs’. Due to the lack of entrepreneurial skills and the economic situation many of them went bankrupt in a few years but there were also some who survived their first years or even started to flourish. In contrast, the businesses started after the mid-1990s were mainly motivated by pull factors; the possibility of earning higher income, gaining more independence, utilising professional networks and knowledge (Csite and Major, 2010; Lengyel, 2012).

According to Florida’s thesis on creative class (2004), tolerant, open-minded, culturally and ethnically diverse urban societies attract creative people – who foster local economic development. In this respect, urban diversity can be considered as a pull factor for entrepreneurship. Furthermore, diversity can reduce information costs and provides better access to ideas and new markets, thus, offering business opportunities for people with different ethnic and cultural background. Last, but not least, diverse urban populations generate markets for greater variety of services and goods, thus, inspiring individuals to start business as a response to market needs (Nathan, 2006; Rodríguez-Pose and Storper, 2006; Saxenian, 1999).

It is important to emphasise that entrepreneurs are embedded in social networks rather than being rational, completely independent decision makers. Thus, networks are crucial in the motivations as well. Those, who are in connection with other entrepreneurs, usually show more willingness to start their own businesses (Klyver et al., 2007). In addition, according to the theory of ‘mixed embeddedness’, the so-called opportunity structure of entrepreneurship is influenced by both social networks and politico-institutional environment (Kloosterman and Rath, 2001).

This chapter aims to answer the following questions: What were the motivations of our interviewees to start an enterprise? What was the role of the diversity of the neighbourhood in starting a business? We expect a difference regarding the role of diversity in the motivations of push and pull type entrepreneurs.

3.2. **Motivations for establishing a business**

In this section we focus on the motivations of entrepreneurs to start a business. Why did they establish their companies? What were the roles of various push and pull factors? Did the diversity of neighbourhood influence the decision to start a business, and if so, how? What was the role of social capital, social networks in starting a new business?

The most important motivations of entrepreneurs to start their business were: family-related reasons, labour market position and social status (push factors), taking advantages of business opportunities, the pursuit for independence or self-realisation, higher income, and investment purposes (pull factors). Obviously, some of the entrepreneurs had multiple motivations, thus, both push and pull factors could be identified in their cases. Nevertheless, we structure this section along the logic of push and pull factors, trying to focus on the most important motivations of our interviewees.
Continuation of previous activities or family businesses was characteristic mainly among micro-enterprises. In some cases, entrepreneurs continued their business after retiring because they are strongly engaged in the activity; it is part of their identity or they cannot imagine their life without it or they needed the supplementary income provided by it. Mainly older people mentioned this motivation. In other cases, interviewees continued the family business in which they were born into and inherited, thus, maintaining the family tradition. In their case the longer presence in the District was characteristic as the following example shows:

“This confectionery was owned by my parents for decades. My father was always a confectioner and I also learned this profession and continued the business when my father retired” (E25; confectioner; Hungarian/Hungarian).

Several owners of small businesses became entrepreneurs by constrains, e.g. they lost their jobs and could not find a new one. Thus, to maintain their social status and labour market position was the main motivation when establishing a new firm. Their only solution to have income was to start their own business:

“There are a lot of necessity entrepreneurs in the District. They lost their previous jobs and had no other opportunities [than to start a new business]” (E5; real-estate agent; Hungarian/Hungarian).

These small firms were usually established in the early 1990s, after the change of the regime, they are family owned and operate with no or only a small number of employees (usually members of the family). In these cases, previous experiences in the market often encouraged the owners to start their own business.

A slightly different type of constrained entrepreneurship is connected to the change of regime in the early 1990s when a state owned company was about to be closed and its employees participated in the privatisation process of the firm in order to save their jobs. Basically, there were two options in these cases: closing down the company completely and the employees would lose their job or let employees to take over the firm, thus saving their jobs and continuing the business. The costs of takeovers were usually moderate; therefore, employees could become entrepreneurs without a significant investment. Small and medium-sized firms or specific sections (e.g. maintenance, marketable services etc.) of larger ones were involved in this process. These types of businesses were motivated by both a push factor (risk of losing their jobs) and a pull factor (the opportunity to be independent or temptation to run the company better than before).

“They said that the employees had to lease the workshop otherwise it would be closed. So it was started this way. Then we had the opportunity to become fully independent later” (E34; maintenance and repair of motor vehicles; Hungarian/Hungarian).

The owners of small enterprises also often mentioned the importance of emerging opportunities e.g. someone offered them to buy their business or to become partners, or a promising location became available to lease or to buy. Ethnic and immigrant networks often played a role in these opportunities as ownership changes took place within these networks: the previous owner sold their business to their former employees.
The role of opportunity was especially important when the entrepreneur saw a market gap and took advantage of it. The diversity of the neighbourhood enhanced the opportunities for these businesses since the demand on the market is diverse as well. These entrepreneurs discovered unsettled market needs – which could be related to ethnic products as the example of a Persian shopkeeper shows:

“We started this shop 14 years ago with my Hungarian partner. We saw that there are only a few shops in town which offer food and other goods from the Middle East, and we thought that there is a demand for them on the market” (E35; food store; Persian/Iranian).

The importance of independence was emphasised mainly in two contexts. The first one was related to macro-conditions (i.e. democratisation and privatisation after the change of the regime), while the second one was related to micro-conditions (i.e. family status or turning point in life). The change of regime offered a chance for those who appreciate independence more than others since it became easier to start a new business than in the communist era:

“The motivation was to take advantage of the opportunity when someone with the appropriate knowledge had the chance to control their own life. They did not want to be controlled from above by a state or an internationally owned company, instead they wanted to control their own firm” (E15; technical testing and analyser company; Hungarian/Hungarian).

The pursuit of independence was also a motivation for young females with children, who wanted a more flexible work schedule. When they became mothers, the working schedule of larger, multinational companies made it hard to find the balance between family life and work. For them, starting an own business – using their previous working experiences and connections – was a solution.

The pursuit of higher income was not as strong factor as we originally expected. However, some of the interviewees mentioned that they started their business, because they wanted to earn more money. Mainly immigrant entrepreneurs were motivated by investment purposes. They came to Budapest with necessary knowledge and capital to start a new business. Local networks of immigrants and those who stayed in their native country help them. As one of the interviewed key actors said:

“They [Chinese entrepreneurs] have exact knowledge on market opportunities, the funds needed to start a business, the bureaucratic procedures. The information flows smoothly in their networks” (E39; teacher and researcher; Hungarian/Hungarian).

The reason behind this is that Budapest is a hub for Chinese entrepreneurs in Central and Eastern Europe, and the resulting accumulated knowledge and the positive experiences foster the immigration of entrepreneurs. The influx of Chinese entrepreneurs started after 1988, when visa requirements were abolished between the Hungary and China. For those interviewees, who came from conflict-ridden regions the tranquillity of Hungary and lower living and investment costs (in comparison with Western European countries) were also motivating factors of starting a business in Budapest. Because of the low entry costs, Józsefváros offered them the best opportunity to start an enterprise.

To conclude, it seems that the diversity of the neighbourhood had limited role in starting a new business. Instead of diversity as a motivation, we found the diversity of
motivations – which is related to the springboard function of the district. Only in certain cases had diversity some kind of influence through the opportunities related to diversity. Immigrant networks could provide opportunities for ethnic entrepreneurs to start or take over businesses.

3.3. The importance of location and place diversity

Choosing location for a business is one of the most important decisions for entrepreneurs. The owners have to take into consideration several characteristics of the target area. They need to analyse local competition, society, accessibility, infrastructure, labour market, public safety etc. The priority among the above mentioned aspects depends on the types of enterprises (e.g. size, profile). According to the interviews, several factors could play a role in the locational decisions of entrepreneurs.

In this respect, the first group of respondents is comprised by traditional craftsmen as well as tradesmen (e.g. carpenters, upholsterers, greengrocers). In this case the location of business was inherited from family members. The same business property is occupied by the interviewee what was used by previous generations of the family. The locations of this type of entrepreneurs are overrepresented in the historical parts of Józsefváros (e.g. Baross Street, Rákóczi square, Teleki square).

“My grandfather started to work as an upholsterer in this place in 1953. After finishing the secondary school, I started as a trainee in this shop. It was a really good profession for a long time that is why I decided to continue the activities until now” (E18; retail sale of hardware, paints and glass; Hungarian/Hungarian).

Another group of entrepreneurs was formed by people who were employed by a running private enterprise in Józsefváros. After a few years being an employee they have bought the ownership of the business because they wanted to move upward in their carrier.

The decision on choosing the place for business is influenced by the location of entrepreneurs’ place of residence as well. In some cases, there was a close relationship between the site of business and the residency of entrepreneur. Several owners decided to set up their businesses in Józsefváros because they already lived in the case study area and in some cases even the home of enterprise was relocated if the residency of entrepreneur was also changed. However, it should be noted here again that the majority of the interviewees (26 out of 38) live outside of the case study area.

“I have established my enterprise not in Józsefváros. When my business was founded I lived in the 5th district of Budapest. After that I have moved to Újpest [a district in the northern sector of Budapest], the home of my enterprise was also relocated to the 4th district. Finally, when I have settled in the Palotanegyed of Józsefváros, the enterprise moved to its present home” (E5; real-estate agent; Hungarian/Hungarian).

According to a few respondents, the location can be seen as a post-socialist heritage. In the period of privatisation some of the former employees managed to get private ownership from publicly owned firms after the disintegration of the state-led economy. Employees with lower status had access first of all to the low-prestige properties in Budapest (e.g. Józsefváros).

“The location of our business was not chosen by us. The enterprise was born in this place. The property belonged to the so called AUTÓSZÓV Cooperative Company before 1990. There was
an opportunity for the members of the publicly owned firm to get private ownership after the political transition. The leaders got the best properties on the Buda-side. My father and one of his colleagues as former employees established the present firm and managed to get this place relatively cheap in the worst part of Budapest. I took over the operation of this enterprise from my father” (E34; maintenance and repair of motor vehicles; Hungarian/Hungarian).

Many respondents emphasised that the proximity of customers and suppliers, as well as the costs of premises (including the price of purchase or rent, taxes) are among the key factors when entrepreneurs choose a location for their business in Józsefváros. According to them, Józsefváros with its near to city-centre location crossed by busy traffic roads has a very good geographical position.

“The good accessibility of properties was may be the most important aspect to choose this place. We can operate a huge bookstore in the city centre which is unusual in our sector. At the beginning we did not want to attract the publishers to have a common place here but we decided to settle them also in this place. Finally, the headquarter of our company was established in this property because the place is more accessible for employees [e.g. by public transport] from various parts of Budapest than a location in the outskirts of the city. Perhaps, it would have never happened if we chose another place for our business e.g. in the suburbs” (E9, retail sale of books; Hungarian/Hungarian).

Furthermore, in most of the cases the main reason for choosing Józsefváros was the low costs to rent premises or to buy properties. The affordable price of the area was highlighted by the manager of a Turkish supermarket:

“We have chosen the Népszínház Street as a location of our business, because it is a busy street with good accessibility (by car, tram and underground). We are almost located in the downtown of Budapest but there is a low-level of rent compared to the neighbouring districts. The size of the supermarket is large. I am sure, that we could not pay the rental cost if the premises would be located in another district” (E36; supermarket; Kurdish/Turkish).

The dynamic transformation of the built environment as well as local society is a new factor in locational decisions. This aspect is more important for entrepreneurs operating in the creative sectors, hospitality and tourism.

“I lived here for 7-8 years. My residency was at the beginning of this street. I have experienced the dynamic improvement of this neighbourhood (Palotanegyed). I have seen that the Krúdy street have become very popular part of the city during the last period of time. Local hotels attracted many tourists which has resulted in higher purchasing power in the area. The price of residential properties here goes higher and higher while the proportion of well-to-do people is increasing” (E3; vegan bistro and gift shop; Hungarian/Hungarian).

The vicinity of universities was an important location factor especially for a start-up venture. According to its owner the proximity of universities makes it easier to attract young talented people for their company;

“Why this location? It is centrally located and there are universities nearby. Our apprentices are usually from there, and some of them became member of the permanent staff as well” (E38; web portal services company; Hungarian/Hungarian).
The special characteristics of local society and economy can also influence the decision of entrepreneurs to start a business in Józsefváros. The rich tradition of Gypsy musicians as well as the high number of cultural institutes attracts craftsmen (e.g. the violin makers) to this area.

According to our research, the importance of diversity is relatively weak in the decision of entrepreneurs to start their business in Józsefváros. The relatively high concentration of ethnic businesses (compared to other parts of Budapest) is mainly the result of the low prestige of the area and the affordable prices. The close location of very diverse (including ethnic) enterprises as a positive factor was mentioned only by a Turkish store manager. The owner of a Jewish restaurant (E21; Jewish-Hungarian/Hungarian), however, noted that when he opened his restaurant near the Eastern Railway Station, several friends warned him “establishing a Jewish restaurant in one of the worst parts of Józsefváros, moreover, next to an Arabic exchange office, is more than stupid...”. Despite the seemingly unfavourable environment, the restaurant proved to be a success because due the quality food it could attract customers from outside of the District.

3.4. Selecting the line of business

When talking about the selection of their fields, entrepreneurs mentioned both internal and external factors. Within the first group the most important factors are educational attainment and professional skills. Many of the interviewees started their business in those sectors which match their qualifications, and as it became clear that was an ‘obvious’ choice for them. Nevertheless, we met a female entrepreneur for whom this was – at least partly – a forced decision: after losing her job as a teacher she learnt new skills (at her own expense) and opened a flower shop. The internal factor is important among both Hungarian and non-Hungarian, and older as well as younger entrepreneurs as well.

Here it is also worth noting two space-specific factors which were especially relevant in the case of older entrepreneurs. The first one is the post-socialist heritage. One of the basic principles of the communist-type state-led economy was industrialisation and within this model industrial professions and skills (e.g. engineering) had and still have a relatively high prestige. In addition, finding a job in this sector as an engineer or qualifying as a ‘master’ of a profession was the entrance to a relatively high and stable living standard. Later, after the liberalisation of the centrally planned economy (1968) or within the privatisation wave of the 1990s many of these skilled people could start their own ventures.

The other characteristic is more local (Józsefváros, Budapest) and it includes economic traditions. There were interviewees with straight career histories who worked only in one profession during their active ages, and as a result they were very enthusiastic about their profession and their business. Many of them represent the old-fashioned craftsmen’s group of Józsefváros. However, it became also clear during the interviews that structural factors (e.g. previous educational and economic policies) have also influenced the line of business. For example, when the leader of a cooperative – founded in 1952 and operating now as a limited liability company – was asked why he chose this type of activity, he answered:

4 Although there were some retraining programmes implemented in the last 25 years, our interviewees have not participated in them.
“Well, this is a good question. After high school I came here to work as a trainee and I had a friend who was a stonemason, and perhaps the idea came from there, and I liked this workplace and stayed here eventually. I took the ‘apprenticeship exam’, then the ‘craftsmen’s master examination’. Later I worked for 7 years as a stonemason worker making stonework for buildings, and after that I was promoted to the leader of the tombstone division, then I became foreman and since 1990 I am the leader of the company. I lived here all my life” (E8; cutting, shaping and finishing stone; Hungarian/Hungarian).

Financial motivations were also important for many interviewees who felt that they could reach higher socio-economic status as entrepreneurs than employees. In most cases this rationale is combined with other factors (e.g. the above mentioned educational background), but for some interviewees the primacy of financial considerations meant that the activity type was almost irrelevant to select the line of their business.

“…the point is that if someone works with a normal mentality, he can survive and make a reasonable living. We can start any kind of business if we have the right mentality” (E19; painting and glazing; Hungarian/Hungarian).

Not all of the interviewees' selection of business type can be justified by rational causes. For some entrepreneurs the main motive was their personal interest in and enthusiasm about certain subjects. Non-Hungarian entrepreneurs did not emphasise this factor, but among Hungarians we could find both older and younger entrepreneurs, and traditional craftsmen as well as entrepreneurs running more ‘trendy’ business types. For instance, the owner of a vegan bistro (E3; Hungarian/Hungarian) gave the following explanation to her selection: “well, perhaps I started it for love. I loved this, these products. Actually, I had no rational cause behind this”.

Among the external factors we should emphasise the importance of market opportunities and the probable profit. Some interviewees said that they had spotted gaps in the local markets and selected the line of business accordingly. The entrepreneurs within this group offer special types of everyday consumer goods, especially those with non-Hungarian ethnic backgrounds: for example, an Iranian shop-owner vending ‘Middle-Eastern/Asian’ food, or a Vietnamese entrepreneur running a food store. Others not only find a (real or supposed) market gap but made also rational calculations before establishing their venture. For instance, there was a property developer and investor among the interviewees who followed this strategy with his partners.

For a significant part of the interviewees the main motivation to start a certain type of business was related to their personal relations. Some of them mentioned that they collaborated with friends, former colleagues or other acquaintances from their professional life, while others wanted to perpetuate family traditions. Latter respondents started to work in a certain sector because their families had a business or one of their family members was employed in that sector. The leader of a family-run bookstore, for example, voiced the following about her motives:

“Well, this is quite a long story. I say it is mainly family ties. My father started this company and I came here almost right after my graduation and some slight detour, and since then I have learnt more and more necessary skills for this business” (E9, retail sale of books; Hungarian/Hungarian).
There is a group within the sample for whom the cultural diversity of Budapest in general and Józsefváros in particular was an important factor in selecting the type of activity. The quotation below from the owner of a bar demonstrates that the interviewee’s lifestyle and his membership in a cultural group had a significant role in the selection of the line of business.

“Well, the starting point was that we knew a lot of people from the civil sphere, a lot of activist, and we saw that there was no place where these people could gather and make connections, where common programmes, common stories could develop. And we saw that everyone visited pubs, spending out at those places and that we should invest that money in making a community space in which such encounters could happen. On the other hand, we could spend enough time with it and make money” (E7; food and beverage service activities; Hungarian/Hungarian).

It is also worth noting that the majority of non-Hungarian entrepreneurs are involved in food retailing. There are Chinese, Iranian, Turkish and Vietnamese food stores in our sample. Their motives, however, are not so homogenous: the skills-factor (see above) is dominant but we can also find example for the market gap strategy (e.g. Iranian food store and bistro).

### 3.5. The availability of advice, start-up support, and finance

Among the various forms of support most of the interviewees emphasised the role of informal relationships in the foundation or management of their enterprises. A special case within this category when the entrepreneur does not request help from others but invest his/her own capital (‘money put aside over the years’) to start the business. Some respondents did that alone but there are joint ventures where the members collected the money together.

“We had a minimal amount of capital to finance the foundation of the enterprise and from the little money that left we started running it in a way that I ordered only one or two glass plates first. So we started with having maybe only 10 plates of glass. We had money only for this quantity, but we started with that and we bought new ones and always re-invested” (E19; painting and glazing; Hungarian/Hungarian).

According to the interviews, family ties had an utmost significance within informal relationships. For example, an Iranian entrepreneur (owner of a food store and bistro) said that the members of his family live in Budapest – his parents live in Józsefváros, in addition – and he underlined the importance of the fact that they had a close relationship. They very often help each other financially as well as ‘emotionally’ while he has never requested assistance from the local municipality. Another example is a Chinese fast food restaurant. The owner of that enterprise revealed that to start the business the initial capital had been collected by her family members. However, this high level of reliance on family support does not seem to be a phenomenon specific to immigrant entrepreneurs in Józsefváros. Also, many Hungarian-owned companies are based on the (mutual) support of relatives and family networks. The main reasons behind this are the lacking or non-appropriate (e.g. inadequate focus groups, hardly accessible funds because of bureaucratic burdens or funding schemes expecting unrealistic business results such as continuous raise in profits even in crisis times etc.) public supporting measures, the lack of knowledge on possible financial support and in some cases mistrust towards financial institutions. Furthermore, the micro-enterprises were not eligible for credit (or were considered as risky clients by the banks); therefore they cannot acquire funds from loans. Moreover, in several cases family assistance is the only form of help these enterprises
receive. For example, the owner of a bar-restaurant – who runs the place together with his partners – told:

“We invested bigger money in the business only once. It was not mine, I did not have too much to do with that. We put in that money but it was borrowed from our families” (E4; restaurant and mobile food service activities; Hungarian/Hungarian).

Social networks are without doubt very useful for these enterprises and not only because financial capital. Friendships and earlier professional collegial relationships are important sources of social capital. One of the interviewees who worked in the construction industry (sold his company last year) told, for example, that they had been involved in several projects just because of their good connections:

“When talking about ‘help’ I talk about help received from colleagues with whom we worked formerly together. And they knew some other people and staff who could give us work, so these professional relationships developed in this manner. From such relationships jobs can be obtained. Jobs for which you are paid for sure” (E2; site preparation – construction industry; Roma/Hungarian).

The role of official organisations is very limited in the life of these enterprises. It should be taken into account that many entrepreneurs do not even have information about business specific types of support, and many of them do not want to make contact with local authorities. It seems common to smaller enterprises that they are mistrustful and resigned, because they do not know alternative sources of financial help besides their family. This is also true for information: their knowledge on market relations is based mainly on their own experiences and they very rarely ask organisations or public institutions for help.

In conclusion, it seems that the relationships which are important to start or manage these businesses are rarely place-bound and the role of diversity (e.g. ethnic origin) is very limited in this respect. For example, we did not find evidence of cooperation between local retailers or Chinese/Turkish/etc. entrepreneurs. It can be stated that informal forms of support, especially family assistance, has far the greatest influence on the enterprises in question.

3.6. Conclusions

Diversity in the local business milieu can be detected basically in three main forms: i.) the growing diversity of enterprises due to the influx of new (partly ethnic) businesses; ii.) the diversity of motivations of entrepreneurs to start a business in the area, and iii.) the growing diversity of entrepreneurs according to age, skills, ethnicity.

Our research showed that the role of urban diversity among the motivations to start a new business in Józsefváros is relatively subordinated. The neighbourhood provides a lot of opportunities for entrepreneurs with its close to city-centre location, relatively low property prices, and diversified demand due to is mixed population, however, in most of the cases other factors (e.g. availability of business premises, family or business traditions, skills, labour supply) outweigh the role of diversity. As it was pointed out in previous research (Fabula et al., 2015) Józsefváros plays a ‘springboard function’ for many of its residents. It is relatively easy to settle down here and start a career in the metropolis which is especially important for less-educated, poorer people with less social and economic resources. The same goes for businesses, especially for small-scale, family or
ethnic based firms. Through the wide social and professional networks the district provides good opportunities for young entrepreneurs and start-ups.

In the locational decision of enterprises is also not so much influenced by diversity but it is mainly the result of the low prestige of the area and the affordable prices due to low prestige. Only among the growing number of ethnic entrepreneurs (originating from the Middle and Far-East) we could grasp diversity as a direct factor in the decision to start the business in Józsefváros. The positive experiences and accumulated knowledge of earlier immigrants work as pull factors of immigrant entrepreneurs – as the example of Chinese entrepreneurs show. The relatively high concentration of ethnic businesses (compared to other parts of Budapest) positively contributes to the changing profile of Józsefváros. They contribute to a vibrant urban life, making the area more attractive for younger and better-off people and those with alternative lifestyles. Regarding the geographical location of businesses we figured out certain spatial separation between old-fashioned firms (mostly with family roots) and newly settled businesses. Firms belonging to the first group are evenly spread in the older, run-down areas of Józsefváros. Businesses that belong to the second group are either located in the regeneration area (creative industries, high-quality services, tourism etc.) or in the ethnic enclave under formation along Népszínház utca and Teleki tér. Latter group consists of mainly ethnic businesses.

4. Economic performance and role of urban diversity

4.1. Introduction

Before evaluating the economic performance of the entrepreneurs who were interviewed, some theoretical considerations should be made. Firstly, there is a close connection between the notions of economic performance and success. According to recent studies, the most common definitions of success are focusing on survival and growth (of profit, turnover, number of employees, number of business transaction), but both categories can be problematic in diverse neighbourhoods. On the one hand, the competition can be fierce between entrepreneurs with ethnic, minority or sub-cultural background, since usually they enter the market with quite similar characteristics and products. Thus, their profitability is often low and the survival of the business is difficult (Kloosterman and Rath, 2001; Kloosterman et al., 1999). On the other hand, minority entrepreneurs have a comparative advantage in the production of ethnic goods and related services which can help their success (Mazzolari and Neumark, 2012).

Secondly, it is also important to emphasise, that success is a subjective term, therefore it cannot be measured only through objective indicators; the purposes, expectations and satisfaction of entrepreneur are also important elements of business success (Cooper and Arzt, 1995). For example, some entrepreneurs do not aim growth; instead they prefer family life, tranquillity or independence over profit maximising. Last, but not least: business success is also related to the growth phase of the firm; other desired achievements are important for a new business than for an established one (Garnsey, 1998).

Thirdly, global and local processes and economic climate are important. In Hungary, the 2008 crisis hit hard small and medium-sized enterprises (SMEs); their added value, turnover and employment all dropped (Balás et al., 2010). In the last few years, the
overall level of added value showed a slight increase, but the employment of SMEs still decreasing (EC, 2015). According to the data from Hungarian Central Statistical Office and several other entrepreneurial databases, the number of enterprises grew after the crisis, but this trend has changed, and in 2014 and 2015 the number of ceased enterprises hit record heights. This change was due to both new regulations (e.g. nowadays more capital is needed to start an enterprise with limited liability than before) and market mechanism (e.g. only firms with strict risk assessment and financial planning have good chances to survive). The construction sector was particularly hit hard by this process. Budapest performed better in this respect, since the decrease was the smallest compared to other parts of Hungary.

This chapter aims to analyse the performance of businesses in our case study area. How entrepreneurs see success and failure? Which are the most important factors of their success? Is there any connection between diversity and business success? What are the characteristics of their market relations?

4.2. Economic performance of the enterprises

In this section we analyse the economic performance of entrepreneurs; how they define success, and how their financial performance has changed recently? According to our interviews, the size, sector and age of business are all related to performance and the definition and indicators of success. In some cases, location also had an effect on business performance. Most of the interviewees were reluctant to go into exact numbers when speaking about business performance. Instead, they compared themselves to other entrepreneurs or used adjectives (“it is worse than it was before”, “it is fluctuating” or “nothing has changed” etc.) to describe their situation.

For most of the small and necessity entrepreneurs the survival of business is the most important indicator of success. Therefore, their financial indicators and employee numbers are stagnating or decreasing. The same applies for traditional businesses which can be victims of the changing population, market trends, customer needs and the intensifying competition with the appearance of financially stronger firms; they can lose their customer base.

“These large shopping malls and discount stores the can do what I am not allowed to: they can sell flowers next to the food. And they can buy flowers much cheaper than me. It is a horrible thing; let’s see for example, the Lidl stores. They buy flowers from the Netherlands directly from wholesaler, while my flowers go thru a chain of dealers” (E28; flower shop; Hungarian/Hungarian).

There are particularly crisis-hit sectors in which the firms suffered significant drop in employment and turnover. Similarly to national trends, construction was one of these sectors. This could increase vulnerability of workers as we can conclude from the experiences of an interviewee from the construction sector;

“Our turnover was about 100 million Forints in 2007 which dropped to 20 million for 2009. Right now it is 40 million Forints. [...] Before 2008 we had 20-22 employees. Right now we hire subcontractors and it is only me and my son in the company. The workers are employed temporarily, for projects. [...] Many of these subcontractors were an employee of my company for years” (E12; site preparation – construction industry; Hungarian/Hungarian).
Similar processes were mentioned by craftsmen, car mechanics or shopkeepers as well. As a hat maker said:

“This crisis hit everyone; my income is less than the half than it was before. 90% of our partners from other part of Hungary went bankrupt!” (E24; Hungarian/Hungarian).

It also became clear from such narratives that several entrepreneurs in Józsefváros live in a ‘permanent crisis’ (most of them are traditional ventures in the area, e.g. old craftsmen and small-scale residential service providers). According to these people, most of the difficulties in their businesses date back to the mid-2000s or at least their situation worsened significantly since then. Behind the effect of crisis and growing competition, in some cases corruption, shadow and informal economy also compromises the performance of firms.

On the other hand, the newer and larger businesses usually perform better in terms of employment and profitability. The large-scale urban development project at the Corvin Promenade created favourable environment for growth, as the owner of a restaurant and apartment hotel emphasised:

“As the Promenade and the whole neighbourhood are developing, we can grow as well. [...] There is a new building at the promenade in every second year and we follow this by trying to buy new units in the new buildings” (E13; hotels and similar accommodation services; Hungarian/Hungarian).

The importance of location is also manifested in other gentrifying areas, or spaces affected by studentification; since new needs and new customer groups appear in the area, as the example of a vegan shop shows:

“Our customers are usually women around their thirties with high income. But there are the tourists as well – they come mainly in the high season. [...] We serve a broad spectrum of customers” (E3; vegan bistro and gift shop; Hungarian/Hungarian).

According to most our interviewees, diversity has no direct relation to their business success. However, in some cases diversity and ethnic character was mentioned to be beneficial for a business’s performance. The manager of a Turkish grocery shop said that the multicultural character of their store helps their business performance, since immigrants feel themselves more comfortable with a non-Hungarian shopkeeper;

“At first we had Turkish customers. Then, since we are open at the evening, Chinese, Mongol, Arab customers started to come here. [...] Foreigners always have an inferiority complex, but here they can be relaxed; they see that I am also a foreigner and we start to talk. Where are you from? What are you working? There are customers who cannot speak Hungarian, and they start to gesticulate. In a Hungarian shop... I don’t know... maybe they would be hostile towards them” (E36; supermarket; Kurdish/Turkish).

The interviewees gave several different definitions of success. For smaller firms the survival of the business was considered as the most important factor of success. It was particularly emphasised in neighbourhoods with high fluctuation of businesses.
“The success is when you can cover your everyday needs from your work. I do not think about some unreal growth or something. I consider success that we managed to live on this business for years” (E15; technical testing and analyser company; Hungarian/Hungarian).

Several entrepreneurs mentioned trust as a sign and indicator of success – it was particularly highlighted by the owners of small firms. For them, trust is an important resource for survival and growth, since they are in face-to-face connection with their customers and suppliers. Returning customers, praise for the services or products sold was often mentioned as highly appreciated positive feedback for their work. Formal and informal professional acknowledgement as a result of trust and credibility was also considered as success by our interviewees.

“Recognition is much more important than money. Therefore, the musicians should be happy and then they say that they had a great success in Carnegie Hall, thank you for setting up my instrument. Or when I taught my profession in school, it was also a success for me. When 20–25 people is listening to you, you believe that you can give something important” (E11; violin-maker; Hungarian/Hungarian).

Building a well-functioning team integration people with different ethnic background was mentioned as a success:

“We had Hungarian employees mostly and the rest were Roma people who learned to work nicely. Then those who were always late for work, not working well, or had a drinking problem were filtered out. They had their chances but eventually they had to leave. At the end, the team amalgamated nicely” (E2; site preparation – construction industry; Roma/Hungarian).

Growth as the indicator of success was characteristic for larger and newer firms. This is partly related to the life cycle of businesses; for new firms the growth of turnover is often crucial to pay back their loans which were invested to start the firm. For start-ups the success is defined both as rapid growth in turnover and survival:

“Seven or eight out of ten start-up companies go bankrupt rapidly. To survive, we have to double our turnover in every year” (E38; web portal services company; Hungarian/Hungarian).

It can be concluded that success is often measured in relation to reference groups: other businesses in the same neighbourhood or in the same sector influence the judgment of performance. The role of diversity was most visible in the case of ethnic shops and services which profit from gentrification and studentification. The smaller businesses often struggle to survive and had been hit by the economic crisis.

4.3. Markets, customers and suppliers

When analyse customer and supplier relations of the entrepreneurs, it should be taken into account that in the beginning of our interview research we intended to create a sample as diverse as possible. Eventually the firms in the sample are quite heterogeneous by economic sector, size, ownership type and ethnic background. Consequently, their markets and supplier connections are significantly different from each other.

In general, it can be stated that none of the enterprises within the sample serves only local customers (i.e. Józsefváros inhabitants), but they have more or less connections from outside the district. Even so, some types of business can be distinguished from each other. First of all, the share of local customers is the highest at those enterprises
which are involved in small-scale retail and services (especially catering). This is not surprising since these companies offer everyday customer goods and services, therefore they have a bigger potential market within their own neighbourhood. In addition, these are relatively small ventures, focusing on survival instead of expansion, and social and personal ties and face-to-face interaction are more important for such kind of businesses (Trettin & Welter, 2007). As a consequence, the enterprises within this group are usually more embedded in local social networks.

Small-scale enterprises, however, do not comprise a homogenous group. According to our experiences, the type of business activity or the characteristics of their products is an important factor. Those shops which offer ordinary everyday goods have a higher proportion of local customers, while those providing specialities (e.g. Asian food, vegan or paleo diet food products) are visited more often by extra-district consumers. In general, the non-Hungarian ethnic entrepreneurs belong to this group as most of them are involved in retail and food services. As they informed us they could not distinguish a certain group or social cohort as their typical customers. The majority of their guest are local residents but also many of them come from other parts of the city. Moreover, the group of their customers is very diverse according to age, income and social status. Either ethnic origin is not an important factor in this respect: non-Hungarian entrepreneurs are very popular within their own ethnic group but these shops serve a lot of ethnic Hungarian customers as well.

It can be observed within the sample that those companies with bigger size and higher specialisation (in terms of products) organise their sales and marketing activity at larger scales. Large-scale enterprises and those offering less ubiquitous services are less embedded locally and have more connections from outside their neighbourhood. They have customers from other districts of Budapest, from the agglomeration and in some cases from other regions of Hungary or from abroad. As the owner of a printing company said:

„We work in both districts, in the 7th and in the 8th as well. Actually we do almost any kind of little, hip-hop job. We work for the municipality of 5th district; we print them the freeman diplomas and various certification papers. Some people come to us from outside Budapest. For the community centre of Törökbálint [a town in the agglomeration area] we produce invitation cards. So [the group of customers is] a real mix” (E17; pre-press services; Hungarian/Romanian).

Regarding the diversity of customers, several interview partners said that their clients’ group is very heterogeneous: younger and older people, local inhabitants, residents from other districts and tourists, people with various ethnic backgrounds can be found among them. A private entrepreneur described his venture’s ‘typical’ customers as follows:

“Look, dog owners, cat owners, other pet keepers, and consequently from young to old, from poor to rich, everyone. Therefore I don’t think, it can be confined” (E23; dog cosmetics; Hungarian/Hungarian).

Talking about poor and rich customers is especially relevant in Józsefváros since a significant proportion of the local population still live at lower standards. Poorer neighbourhoods and social groups are characterised by lower spending power and local entrepreneurs have to adapt to such circumstances. Also some of the interviewees mentioned that in the context of local diversity they mainly perceived poverty through
their customer relations. For example, the manager of a company (which repairs suitcases, shoes, lockers among others) explained:

"Q: How do you see; is the diversity in the district a relevant factor in the performance of your business? 
A: No. The location of our shop doesn't really matter. The only thing that can be perceived is that this is not a well-off neighbourhood. I mean turnover figures illustrate it very well. If we ran this business somewhere in the Széll Kálmán Square, at Rózsadomb or at Rózskert Shopping Mall [these are high prestige places in the Buda – Western – side of the city], probably we could generate more income. I mean prices here are extremely low and a lot of people – let's say the 10-15 per cent of our clients – do not order even a spare key because they do not have enough money to pay for it" (E31; repair of footwear and leather goods; Hungarian/Hungarian).

Nevertheless, the district and its population is dynamically changing which is another important factor. Due to urban rehabilitation programmes taking place in the district and concomitant processes (e.g. gentrification, studentification, tourism), new social groups and new functions are arriving in the area. This phenomenon has a significant effect on local enterprises. For instance, the appearance of new consumer groups generates demand for new services. There are shops in our sample that strongly build on rising neighbourhood status and the interest of better-off newcomers. As the owner of a small gift shop and vegan bistro said:

"So we try to attract a stratum of consumers on which we can always count on, I mean a core who can afford to purchase here. And if you look at it you can see that we do not offer ordinary products but rather the premium category. But this is not that premium category that cannot be paid by the middle class, if such class is existing" (E3; vegan bistro and gift shop; Hungarian/Hungarian).

Some of the entrepreneur interviews mentioned that they directly took advantage of social and cultural diversity since they had a special focus on certain consumer groups. For example, a hat-maker emphasised that among his consumers Jewish and Roma/Gypsy people have dominant position because these groups have long traditions of hat-wearing:

"…fortunately within some ethnic groups hat-wearing is compulsory and these groups are satisfied with our products so they send us more customers. Israeli youngsters come to us for hat because information about our shop travels by word of mouth… As for Gypsies it is simple because they like one type of hat and the traditional models” (E24; Hungarian/Hungarian).

Some of these firms – like the above quoted entrepreneur – belong to the traditional craft industry of Józsefváros and build on decade-year-old customer networks. Others are recently founded enterprises and in their case new social, cultural and consumer groups play a much more important role (e.g. underground bar, vegan bistro).

Regarding the interviewed entrepreneurs’ relations with their suppliers, none of the companies in the sample has only intra-district connections. On the contrary, they purchase from a broad range of partners who are located in other districts of Budapest, in the agglomeration or other regions of the country, or some of them abroad. When the owner of a D.I.Y. shop was asked about his suppliers he answered:
“No, no one from the district. Well, okay, one or two is from here. But most of our partners are from [other parts of] Budapest, from the countryside, therefore it is quite a complex issue” (E18; retail sale of hardware, paints and glass; Hungarian/Hungarian).

International relationships are especially prevalent among entrepreneurs with non-Hungarian ethnic background. Most of these people are engaged in food services, providing products from other food cultures. Therefore, they get most of their ‘special’ ingredients and comestibles via international networks (e.g. the owner of an Iranian bistro and food store said that their suppliers were big companies located abroad, in other EU countries like Germany or the Netherlands).

We can conclude that diversity has some positive effects on the consumer and supplier relations of local entrepreneurs. On the one hand, Józsefváros markets are quite diverse because of the concentration of non-Hungarian (Roma and immigrants) residents, the dynamically changing character of the district (because of urban rehabilitation), and the significant transit traffic through the area. On the other hand, partly because of the above factors, but partly as an outcome of low rent and property prices and the local municipality’s economic policy (e.g. supporting start-ups), the supply side is also very diverse. Therefore, Józsefváros seems an area where diverse demand and diverse supply meet each other.

4.4. Relations amongst entrepreneurs: Evidence of competition or co-operation?

According to our findings, the interview partners pay relatively little attention to cooperation with other local firms. Collaboration between entrepreneurs within the neighbourhood are quite rare and the existing ones are not strong in general. For example, as the owner of a restaurant and bar put it:

“…there is no such thing here as cooperation within the catering and food service sector; there hasn’t been and there isn’t now. I think, there won’t be at all. The neighbourhood is doing well, there are more and more pubs and other services started, but there aren’t many connections between them” (E4; restaurant and mobile food service activities; Hungarian/Hungarian).

This low level of cooperation has several possible causes. Firstly, post-socialist legacy, namely the weak political and civic participation within Hungarian society, very likely plays a significant role in this respect. For example, there is a general mistrust towards official business organisations and several entrepreneurs think that such initiatives have no tangible effects on their companies (see Chapter 5). In addition, many of the enterprises in our sample struggle for their survival and they can find it difficult to organise cooperation after 12-14 work hours per day. It is also important that key interviewees talked about a ‘petty bourgeois’ mentality among local entrepreneurs (Hungarian and non-Hungarian): everyone looks at his/her own business and does not take care about others’, does not cooperate. One of the representatives of this notion is an entrepreneur as well as a prominent member of the local economic chamber:

“…first of all, among micro-scale enterprises we know only a few because we do not have contact with too much of them. We have especially weak relationship with private entrepreneurs because everyone lives his own world” (E5; real-estate agent; Hungarian/Hungarian).
There are additional factors which influence the character of inter-firm relationships in Józsefváros. For example, the location of a shop or production site can facilitate or hinder day-to-day encounters between entrepreneurs (i.e. are there other shops in the vicinity or not). The type of business is also important. For example, in retail services or craft industry, where often the owner itself is on site during the day and there is a high number of shops within relatively short distance (e.g. in a street), there is a possibility of face-to-face encounters and the development of ties between them. On the contrary, we found few local contacts at those companies which were located in ‘outlying’ neighbourhood of Józsefváros (e.g. Tisztviselőtelep Quarter) and/or did not focus on the local market.

Although according to the interviews the overall level of cooperation between local entrepreneurs is relatively low, some types of relationship can be identified in this respect. Some interview partners have only minimal contact with other entrepreneurs within their neighbourhood. For example, the owner of a porcelain shop was asked about their relationships with other shops:

“Nothing. We work [all day], therefore we don’t have time to associate. If someone come in we have to serve that customer. If he orders something we have to get that item to the shop. So we have to be here constantly and go for our stock and take care for orders. In many cases I even deliver to the customers. I mean they order it, then we pack and deliver it to his address. These all take time” (E20; china shop; Hungarian/Hungarian).

Another type consists of those enterprises of which owners more or less know the others in their neighbourhood (it very often means the same street), have a good relationship with them but do not participate in common initiatives. These entrepreneurs often help each other in minor issues and on an ad hoc basis. For instance, the company of the following interviewee makes windows and shutters, while one of the neighbouring shops repairs household machines:

“Well, if my coffee maker stops working I bring it to them, and if they need glass they just let me know” (E19; painting and glazing; Hungarian/Hungarian).

Nevertheless, we found examples of more complex forms of assistance. Some interviewees mentioned sector-specific collaboration from which their business can profit, but these cannot be confined to Józsefváros. The quotation below describes knowledge transfer within construction industry:

“I spend a lot of time with structural engineers and planners. I have very good relationships with them and they can be called friends of mine, because for example at building reconstructions or renewals some of them always say to case the joint together. Or to consult each other on the construction site. […] Or if we receive an offer on prices from planners, and I evaluate it, then planners come to me [to discuss]” (E12; site preparation – construction industry; Hungarian/Hungarian).

According to the interviews, competition between local enterprises also exists in Józsefváros. Maybe for companies operating at regional or international markets it is not so relevant, but in other economic sectors competition between firms can be a fierce competition. A typical example is the case of retail and catering and entertainment services. One possible indicator of the competition in our case study area is the notable fluctuation in the composition of local enterprises. Some respondents reported that the
average survival time of shops is quite short in the area. A couple of them suggested that in some neighbourhoods (especially in Inner- and Middle-Józsefváros) the density of restaurants and food service enterprises generated too much competition. Others complained about non-Hungarian entrepreneurs (especially the Chinese). They thought that many of the non-Hungarian companies used illegal instruments (e.g. tricking on taxes and rents) in their businesses and put an unbearable pressure on local consumer prices. Also a D.I.Y. shop’s owner was asked about his competitors:

„Well, for example the Chinese stuff. You can go to the market and check. I have recently gone there just out of curiosity. What I purchase from large-scale tradesmen, can be picked up 60 per cent cheaper there, I dare say. And those who are smart enough go and purchase there, instead of coming to my shop” (E18; retail sale of hardware, paints and glass; Hungarian/Hungarian).

To sum up, it seems that local enterprises’ extra-firm relations are mostly weak and ad hoc, and develop according to the well-known pattern. Namely, small enterprises which focus on local markets utilise mainly weak ties at the neighbourhood level while medium- and large-scale companies more build on trust-based connections from outside of the district. Diversity has a contradictory role in this context. On the one hand, the remarkable heterogeneity of local enterprises offers good opportunities for cooperation. On the other hand, in some sectors this heterogeneity increases competition which can have a negative impact on the survival time of ventures (for this idea see also Stuart and Sorenson, 2003). According to the interviewees, in Józsefváros this is the case in sectors like retail or low-cost food services.

4.5. Long-term plans and expectations of the entrepreneurs

The aim of this section to present the long-term plans of interviewed entrepreneurs: are they planning to expand the scope of their business or reach for new markets? As we have showed in the previous sections, the location and the scope of the business have an effect on the performance of enterprises – thus it is influencing the future plans as well.

Many interviewees complained about the uncertainty which makes planning hard or impossible. Most of the respondents were neutral or pessimistic about the future of their business – the owners of small enterprises particularly often represented these attitudes. There were entrepreneurs, who plan to end or relocate their business – they experienced the worst business situation. As the owner of a closing pub formulated;

“Q: Are you planning to restart somewhere else?
A: No, because I have not got the resources. This place has a huge debt. I do not know what amount do we have to pay back but I am sure it will be much more than a standard wage can pay. And honestly, I also had enough of it. [...] A lot of people work in the neighbourhood who have no money” (E14; restaurant and mobile food services; Hungarian/Hungarian).

The poverty of some areas forces some entrepreneurs to relocate their business somewhere else, to find more stable and profitable markets. A confectioner plans to relocate to another part of Budapest their business because of the low turnover;

“...my customers are not from the District. That’s it. Right now I am looking for a new location, I want to move from here. [...] Move to a district with wealthier residents. To Buda for example” (E16; confectionery; Hungarian/Hungarian).
Several entrepreneurs said that they have no long-term plans: they are aiming at survival only. Usually family businesses and small enterprises represented this attitude. As a car mechanic said: “We have not got concrete plans. The survival itself is enough task.” (E34; maintenance and repair of motor vehicles; Hungarian/Hungarian).

Some of traditional, usually retired craftsmen, who operate their enterprises for decades, do it for the joy of the activity itself. They have not got any particular plans; they just want to continue their habitual work. For them, entrepreneurship provides occupation and additional income to their pension.

“Yes, I am retired. But I will continue. I can have additional income and I also like to do it. It is the most important factor: we are in a homely environment.” (E24; hat-maker; Hungarian/Hungarian).

Among ethnic entrepreneurs the line and size of the business seems to be influence future plans: smaller shops and restaurants do not plan any particular development, while the owner of a Turkish food store thinking about expanding the size of the shop.

There are larger, established companies who do not plan particular expansion, but they want to sustain their business performance, because they think that they reached the limits of their possibilities. The manager of a book supplier said;

“Honestly, we do not want to open new bookstores – and to close existing ones neither. We have reached a level on which the healthy operation of business is possible. If an excellent opportunity pops up, we will take it. But right now expansion is only possible on someone others expense.” (E9, retail sale of books; Hungarian/Hungarian).

Those ones, whose firm is more prosperous and dynamic, usually plan a step-by step development. These entrepreneurs are in the most favourable situation among the interview partners, and they are the most optimistic as well. However, because of external (e.g. general economic and political processes) factors they can be quite cautious, too.

“Unfortunately, we are exposed to too much external factors. If the opinion on Hungary would not change, or would not be worse than now, we want to be leaders in this market. And we are capable to do that” (E6; property development; Hungarian/Hungarian).

The importance of location is manifested in the positive expectations as well. The continuing large-scale urban rehabilitation project at Crovin Promenade creates favourable environment for pubs and restaurants, as one of the managers said;

“There is a chance that we will grow out this place. [...] I am definitely optimistic. I think that this office building which is being constructed next to us and the sidewalks, roads... this whole thing.. This will bring a huge step in quality and attract a lot of people. If we stay here, they will flood us, so it was a very fortunate thing to move here” (E7; food and beverage service activities; Hungarian/Hungarian).

To sum up, newer firms, benefitting from gentrification and studentification were more optimistic, while traditional and small businesses have less concrete plans and they were often pessimists and aimed at the survival of their enterprise. Generally, entrepreneurs in
4.6. Conclusions

The transformation of Józsefváros is reflected in the performance and market relations of local enterprises; there is a difference between older, traditional, small firms and newer ones which aim to answer new market needs, new customers. According to our results, many enterprises were hit hard by the economic crisis and they can aim at survival only. These businesses usually have not got any particular long term plan. Location, sector and size seem to be most important factors which determine business success and market relations. Traditional, small-scale enterprises usually aim at the local market, while with the growth in size the companies tend to aim at city-wide, national or international markets. The globally more embedded firms are usually located in gentrifying areas and are beneficiaries of gentrification and studentification. The local networks between entrepreneurs are weak – but there is a difference between old and new firms in this respect, too. The older enterprises have deeper local embeddedness, while new ones have more connections outside of the District.

The interviews showed that success definitions of entrepreneurs reach beyond growth of turnover and employment; earning trust or building community at the workplace is often considered important achievements as well. Although the interviewees rarely labelled diversity as an important factor of their business, it has some relevance. The role of diversity in business performance can be detected in the cases of enterprises which are benefitting from the transformation of Józsefváros: the diversity of markets creates favourable business environment to them. At the same time, traditional enterprises are also present – therefore there is a mix of firms serving new and old markets. Other diversity-related aspect is the diversity of businesses in the area: because of the cheap rents and real estate prices, various types of enterprises have the opportunity to start here.

5. Institutional support and government policies

5.1. Introduction

The impacts of diversity on economic performance can significantly vary by context, for example as far as the networks of local businesses and institutions are concerned. It is a widely accepted idea that in the successful implementation of entrepreneurial programmes, trust and smooth information flow between entrepreneurs and decision-makers are key factors, but at the same time companies can have different needs depending on their size, sector and embeddedness. According to the theory of mixed embeddedness (Kloosterman et al., 1999), the performance of businesses is shaped simultaneously by their own social network and the wider business environment. Regarding networks, business success is closely related to social capital, since the social connections between different actors facilitate their economic activity. This effect has a particular relevance for ethnic and immigrant entrepreneurs; however there is risk of social closure to restrict access to resources (Portes and Senberger, 1993; Schutjens and Wölker, 2010; Waldinger, 1997). At the same time, inappropriate policies can have negative effects on the growth of the economy in diverse areas (Syrett and Sepulveda, 2010). As a result, the development of businesses can vary among various countries and
regions depending on the local and national business climate and the institutional setting (Collins, 2003; Syrett and Sepulveda, 2010).

As previous research (Balás et al., 2010; Sik, 2012; Stark, 1996) demonstrated, the general level of trust of Hungarian entrepreneurs towards governmental institutions is quite low because of the experienced uncertainty and unpredictability (because of constantly changing regulations, for example). This attitude seems to be characteristic to all types of businesses from micro-enterprises to international corporations. Thus, personal relations, positive experiences, common values and the reputation of an entrepreneur all have stronger impact on the performance of a business than governmental or other formal institutions. The results of the Global Competitiveness Report (World Economic Forum, 2015) support these statements; according to the report ineffective bureaucracy, policy instability and the overly complex tax regulations hinder the economic performance of companies in Hungary.

According to policy documents, the Hungarian Government, the Budapest City Hall and Józsefváros Municipality pay significant attention to entrepreneurs. In accordance with the EU 2020 thematic goals, the Hungarian Partnership Agreement for the 2014-2020 period considers the fostering of economic actors’ competitiveness as a priority. At the Budapest level the Integrated Urban Development Strategy aims at creating an ‘entrepreneur- and investment-friendly’ milieu. In addition, the Local Economic Development Strategy of Budapest for the 2015-2021 period addresses several specific medium-term goals in order to promote entrepreneurship: for example, the reduction of administrative burdens on businesses, active SME policy.

The Integrated Urban Development Strategy of Józsefváros emphasises the importance of entrepreneurs in local economic development, and their traditional role in the history of the area. Among its policy goals the document mentions the ‘support of entrepreneurship development programmes’ and the ‘fostering of entrepreneurs’ competitiveness’. Besides policy measures, there are several organisations and initiatives that can help local entrepreneurs. For example, the Budapest Enterprise Agency – run by the city government – provides assistance for local ventures for 20 years. Regarding Józsefváros, the district municipality has various similar programmes; for instance it initiated the Interest Subsidy Programme for Micro Enterprises and decreased the rents of its own properties for local businesses.

This chapter aims to explore the relationship between local entrepreneurs of Józsefváros (Budapest) and various forms of institutions, the local and national government and non-governmental organisations. According to our hypotheses, the political and civic activity of entrepreneurs is relatively low – similarly to that of the local residents (Fabula et al., 2015). We also assume that entrepreneurs have not got sufficient information on European, national and local and national initiatives. Last, but not least, we expect that the interviewees would emphasise more or less similar policy problems which were highlighted in the previous studies and the Global Competitiveness Report.

5.2. Views on the effectiveness of business support provided by local and central governments

Most of the interviewees emphasised that in general the business environment does not really support to establish or to run an enterprise in Hungary. According to them the biggest obstacle in this respect are the continuously changing regulations (e.g. taxation,
banking, subsidies) which results in unpredictable market conditions on the one hand, and the inconsistent arrangements of the central government which cause additional expenditures for entrepreneurs (e.g. online cash register, obligatory contribution fee for Chambers, controls) on the other:

“There was an obligation to buy a new online cash register with connection to the system of the national tax authority. I had to buy it three times at my own expense but it makes no sense. Who wants to avoid paying taxes be/she can do that with new online cash register, too” (E32; repair of watches, clocks and jewellery; Hungarian/Hungarian).

Several interviewees mentioned that they would like to see more independence in running their business, as well as less bureaucracy, corruption and taxes. According to some respondents the main challenges for entrepreneurs are on the one hand the extremely high rate of Value Added Tax (which is 27% in Hungary for the most products, the highest rate all over the world), and on the other hand, the high rate of employment-related contributions.

“The 27 percent value-added tax is irrationally high. It increases the price of services and products; that is why most of the entrepreneurs are tempted to trick and cheat” (E34; maintenance and repair of motor vehicles; Hungarian/Hungarian).

Although the activities of the Municipality of Józsefváros were perceived positively by some of the respondents but in general the district authorities are considered as relatively weak actors with very limited competences.

“I know an entrepreneur in Baross Street who changed her municipally owned retail outlet to a private one, because its rent was less expensive. I think that the municipality has less subsidies from the State, that is why they need to raise income from their own sources (e.g. parking fee, rental fee, local taxes). But several arrangements introduced by the municipality destroy entrepreneurship” (E19; painting and glazing; Hungarian/Hungarian).

Other interviewees suggested that the municipality is a good partner as far as business issues are concerned. Most of their examples are individual cases, and the protagonists are entrepreneurs who are able to grow. As the owner and manager of a restaurant told:

“I have very good relationship with the local authorities. We feel very well in Józsefváros. The entrepreneurs can grow with pleasure if they develop mutual cooperation instead of falling to the deepest level of bureaucracy” (E21; restaurant and mobile food service activities; Jewish-Hungarian/Hungarian).

Nevertheless, according to the majority of the respondents institutionalised support and government-led business-specific initiatives are quite limited in the area. The only type of involvement that nearly all of them mentioned is the membership in the Budapest Chamber of Commerce and Industry5. Most of these firms do not have any other business specific membership. In addition, opinions about the role of the Chamber are

5 On 21 November 2011 the Hungarian Parliament accepted the amendment of certain tax laws and related acts including the regulation on economic chambers. According to this legislation, the membership in the Budapest Chamber of Commerce and Industry is voluntary, but from the beginning of 2012 all newly established and existing economic organisations have to apply for registration at the Chamber and they are obliged to pay a HUF 5,000 (approx.. €16) contribution annually.
quite contradictory among interviewees. Some of them did not mention their membership during the interviews till they were asked directly about it – as if this organisation did not even exist –, and these entrepreneurs thought the Chamber did not play a noticeable role in the life of their enterprises. Usually they do not ask for the help of the Chamber and they hardly get involved in its programmes. Others mentioned their membership voluntarily but they had a negative opinion about the Chamber, saying that they paid the annual fees, but the membership rarely had a positive effect on their business.

“Nowadays in countries like Germany, Austria or Italy it is impossible, and no one thinks of proposing or introducing any kind of act or regulation without [the active involvement of] economic chamber organisations. Here in Hungary we have to literally fight that politicians listen to the opinion of local chambers. Because the chambers here are weak. The membership is voluntary and only about ten percent of the entrepreneurs are involved” (E5; real-estate agent; Hungarian/Hungarian).

Finally, there are entrepreneurs who think that their firms definitely profit from the membership in the Chamber.

“…its main advantage is that regarding any topic related to the hotels’ association, or political or economic issues, we get informed immediately and they ask for our opinion. We can help the current government’s work with our proposals, so it is a well-managed collaboration, and in each year there are a couple of days when the elite of this sector assemble for a meeting, where we talk about possible changes in order to improve our services” (E10; hotels and similar accommodation services; Hungarian/Hungarian).

It can be concluded that according to the interviewees, the business support provided by the state is very limited. It can also be stated that according to the respondents the local government is relatively weak in this respect, and most of them would like to see better national level economic policy. The effectiveness of existing initiatives and organisations was also questioned by several interviewees, especially the performance of the Budapest Chamber of Commerce and Industry.

5.3. Wider awareness of organisations, programmes, and initiatives to support entrepreneurs

As the previous section suggested, there are some city-wide public organisations which aim to support entrepreneurs but most of the interviewees did not know any local or city-wide organisation and initiative that would support their activities. First and foremost, the Budapest Chamber of Commerce and Industry⁶ can be mentioned as a relevant actor. Its basic activities include the general development of business environment, management of vocational trainings and education, establishment of business partnerships, consulting services on taxation, legal advice and other business management issues.

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⁶ The 160 years old organisation is a key-important public body and it has the largest membership among economic chambers in Hungary. The Chamber supports its members and other actors of the economic sector in Budapest. It has more than 4,000 members representing trade, industrial, financial service provider and handicraft enterprises. The Chamber is divided into 23 district units based on the spatial structure of Budapest city administration (the areas of the district chambers are the same as those of the respective district municipalities).
The local organisations – including the Józsefváros Chamber – are responsible for the collective representation of private entrepreneurs, micro-, small- and medium-sized enterprises in their own areas, for looking after the interests of these firms and for the strengthening of their competitiveness.

Some interview partners mentioned the Chambers but most of them complained about their efficiency (see above). In Hungary all registered companies have to pay a fee (contribution) to the Chambers since 01.01.2012, irrespective of their status (i.e. if they are member or not). Several respondents considered the obligatory payment of contribution very negatively and criticised this practice. Moreover, the Chambers are in a marginal position in decision making processes. One of the interviewees – who is also a representative of the Budapest Chamber of Commerce and Industry – explained the organisation’s weaknesses and its difficult situation in this way:

“...the chambers are weak. The membership is voluntary and only about ten percent of the entrepreneurs are involved. This situation is the main problem. It is strange that most of the members are large companies. The reason is simple: you are considered to be an insignificant company on the international level if you do not participate in a Chamber” (E5; real-estate agent; Hungarian/Hungarian).

During some interviews various nation-wide advocacy organisations (e.g. Hotel Association of Hungary, Hungarian Publishers' and Booksellers' Association) were mentioned which aim at fostering the performance of the member enterprises. We can say that representatives of larger enterprises as well as highly-educated entrepreneurs have stronger awareness on specific local/city-wide organisations and initiatives. They are more active on professional and business fields, and they have more advocacy skills which can be interpreted based on the following statement:

“...as member of the Hotel Association of Hungary we are informed about relevant topics of the economy, and different policies. Additionally, we are asked about actual issues by the Association. We are able to support the decision making process of the government with our advice. It is really a well-maintained cooperation. There are a few days in each year when we get together and the main challenges of our sector are discussed...” (E10; hotels and similar accommodation services; Hungarian/Hungarian).

We did not find any difference between ethnic/non-ethnic entrepreneurs regarding the awareness of initiatives, or advocacy skills. The majority of ethnic entrepreneurs in our sample originated from the Far- or Middle East. According to one of the key respondents we can highlight that there are special chambers (e.g. Hungarian-Chinese Chamber of Economy), as well as trade centres (e.g. China Trade and Information Centre) established by the home country of ethnic enterprises (e.g. People's Republic of China), but these organisations focus mostly on large enterprises and they are functioning on national and global level. According to one of the expert interviewees there are special offices which provide comprehensive services for ethnic entrepreneurs:

“...the role of the so-called Service Offices is more important as against official commerce associations as well as chambers. These offices provide comprehensive services including assistance in establishing a new enterprise, preparing contracts, getting settlement and work permit, translation, giving legal and tax advice for foreign people. Most of the ethnic entrepreneurs do not
The Budapest Enterprise Agency\(^7\) can also be considered as one of the key public actors aiming at facilitating entrepreneurship in the city.

Based on the interviews we can note that the majority of the development programmes and subsidies are available only for a small group of companies (e.g. young entrepreneurs/start-ups, large enterprises, multinational companies).

“Most of the subsidies are applied for foreign multinational companies, therefore, most of the money go back home” (E5; real-estate agent; Hungarian/Hungarian).

The H13 Student- and Business Development Centre – which is a public institution established by the Municipality of Józsefváros in 2012 – was mentioned by some of the interviewees as a good example of supporting young professionals (e.g. students) to become entrepreneurs in the District. The “H13” provides incubating programmes included trainings, coaching as well as mentoring for young entrepreneurs. H13 also functions as a co-working space with workshop and courtrooms, where more than 40 entrepreneurs can work at the same time.

“When I started my business I visited the H13 Centre several times. I can say that the manager of that institute tried to help me somehow. Nowadays, I participate in trainings e.g. for women entrepreneurs” (E3; vegan bistro and gift shop; Hungarian/Hungarian).

As a consequence, there is a significant number of closed shops and property vacancies in Józsefváros which is a traditional district of handcrafts and retail. According to some of the interviewees neither the local and nor the city government pay attention to this issue. Respondents did not get any information on initiatives (e.g. Rögtön Jövők) which aim to reuse the vacant retail outlets in Budapest.

### 5.4. Policy priorities for entrepreneurship

Most of the suggestions of the interviewees focused on general social and economic problems which have to be tackled by decision-makers mainly on the national level. Consequently, relatively few concrete suggestions were made; in most of the cases the interviewees only identified the problem which then should be handled somehow. The proposals could be categorised by the possible stakeholders suggested: the European Union, the national government, and the local government. Among them the most often mentioned one was the national government, while the EU was barely mentioned by the respondents. Smaller businesses had more proposals for the local scale than the medium-sized and larger ones.

**What should the European Union do?**

Owners of small businesses complained about the administrative difficulties regarding EU funding. They think that the funding system should be simpler, and they would like to have equal opportunities with larger firms. Furthermore, local entrepreneurs think that

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\(^7\) The Agency is a local government-owned organisation, established by the Municipality of Budapest in 1993. The services of the Agency are available for all enterprises regardless of their field or location (operating in the administrative territory of the city or not), but its primary target group is the SMEs of Budapest.
the funds should be more diversified regarding their target groups (i.e. initiatives should aim at more types of entrepreneurs), or funding mechanisms. Small businesses often need to adapt unrealistic goals in order to get funded (e.g. increase their turnovers regardless of the macro-economic situation). The owner of a flower shop called for projects to help elderly entrepreneurs:

“There should be support for us, for the older generation of entrepreneurs. There are projects aiming to help young, early career entrepreneurs – and that is very respectful. But we, the older generation, also need help.” (E28; flower shop; Hungarian/Hungarian).

Most of the entrepreneurs – especially those with a small business – do not have sufficient information on funding opportunities and do not know where they can get information and technical support to apply for funding. This was particularly characteristic to ethnic entrepreneurs. Therefore, both the EU and the national government should help small businesses through organising consultancies, trainings to enhance entrepreneurial skills, to train how to apply for funding. This could decrease the level of fluctuation of businesses.

In conclusion, the EU should offer simpler funding schemes, create better functioning information flows on funding opportunities and provide technical assistance for possible applicants.

What should the national government do?
Besides the overall economic situation, the main problems seem to be the funding of businesses, the over-taxation, bureaucracy and corruption. They were all mentioned by our interviewees regardless their sector or the size of businesses. Problems caused by the lack of skilled and reliable workforce were also often mentioned.

Independently from the size of their businesses, a lot of entrepreneurs mentioned that the government should handle the general economic problems. The political and macroeconomic situation seems to be the most important factor for the larger businesses. As one of the managers of a construction company (also chief architect of the Corvin Promenade Renewal Project) said:

“We feel the negative effects of the worsening image of the country and the lack of stable business environment. From our point of view these problems should be fixed” (E6; property development; Hungarian/Hungarian).

Difficulties with funding cause problems for small and medium sized businesses as well. Therefore, easier access to credit schemes for starting a new business or expanding an operating one was mentioned several times by our interviewees.

Since many entrepreneurs complained about the high costs of entrepreneurship (taxes, local and national contributions), our respondents often stressed the need for tax reductions. The hope for two possible benefits was expressed: costumers would have more money to spend and the costs of entrepreneurship would decrease.

“I mean just leave the money at them, leave the money at the people. They will know, what to do with it. They will buy stuff, they will create employment” (E18; retail sale of hardware, paints and glass; Hungarian/Hungarian).
Those, who do businesses with the local and national government and public institutions often complained about corruption. For example, representative of a company specialised in translation said that “there is no real competition in this market, because of the corruption” (E1; owner and manager of a language school; Hungarian/Hungarian).

Bureaucracy was also mentioned as a problem by many interviewees, since it makes their activity more complicated, time-consuming and expensive. A lot of permits are needed to start a new business, and the rules are permanently changing. Therefore, local entrepreneurs emphasised the importance of simplification and stability.

“I am not up-to-date in political issues, but as far as I see, the rules tend to be more and more severe. [...] They create very difficult circumstances for us” (E3; vegan bistro and gift shop; Hungarian/Hungarian).

Based on our interviews, it seems that interventions related to employment and labour market are also needed. Two suggestions can be mentioned here; the national government should lower the costs of employment and the businesses need help to attract and keep their workforce. Therefore, the government should handle the problem of outmigration more effectively.

“Right now, we are eight, but we should hire a new employee. The problem is that I cannot find a skilled person for this job. The schools do not train enough confectioner, moreover, the newly graduated ones often move to Austria or Germany” (E25; owner and manager of a confectionery; Hungarian/Hungarian).

What should the local government do?
Mainly owners of small enterprises said that the local government should pay more attention to local businesses, for example by buying their products and services.

“Why should the local government buy at large malls outside of the districts? They should help us, local businesses by buying our products, by using our services. We pay our taxes here, after all” (E18; retail sale of hardware, paints and glass; Hungarian/Hungarian).

Moreover, a respondent who owns a confectionery raised the idea that the local government could help small businesses by giving space in local media to present their products. It would help significantly the information flows between various businesses and could serve as a useful marketing tool at the same time.

Finally, the owners of local small businesses would like to meet local decision-makers more often. They need more interaction between political actors and local businesses, because they feel that the information flow is insufficient between them, and the local economic decisions are not based on proper information. Furthermore, they also think that it could make local decision-making more transparent.

5.5. Conclusions
We can conclude that research findings presented in this chapter support our preliminary assumptions. Firstly, most of the interviewees reported a low level of political and civic engagement. Many of them do not participate in any organisation or programme, and those who are involved rarely experience any tangible benefits. Secondly, entrepreneurs know relatively little about local and national-level business initiatives and EU policies. In most cases they mentioned general challenges to their businesses but had few concrete
proposals. Thirdly, their main problems seem to be very similar to those of the whole Hungarian society (e.g. high level of tax burden, bureaucracy, mistrust towards the political sphere).

It is also worth noting that there are significant differences between enterprises according to their size. Smaller firms are better embedded in local social networks and as a consequence they have deeper knowledge on neighbourhood issues. At the same time, big companies are actors on the national and international markets, so they think and plan accordingly and their local relationships are relatively weak. Ethnic enterprises form a special group in this respect: even small-scale enterprises have very weak local ties, and they build mostly on ethnic networks and family ties.

Based on the interviews it can be concluded that local, city-wide and national government policies do not aim to use diversity as an asset or to foster the diversity of entrepreneurs. On the contrary, factors like complicated administration, bureaucracy and over-taxation hit small enterprises more severely than powerful economic actors. As a consequence, policies can indirectly support the reproduction of economic inequalities, and since ethnic enterprises are mainly small-scale companies, the current regulations have several negative effects on diversity. It is important to emphasise that residents of Józsefváros very much appreciate the variety of local services (Fabula et al., 2015), however, this economic diversity can be seriously eroded if the local business climate is not supportive for small enterprises.

6. Conclusion

6.1. Summary of the key findings

Our fieldwork with entrepreneurs resulted in many insights to the economic development of the case-study area (Józsefváros), the relationship between urban spaces and entrepreneurial activities, and the changing business milieu of the neighbourhood. The selected businesses covered a wide spectrum of entrepreneurs operating in the area, with different profiles, skills, competencies and ethnic background. The sample itself reflected already a good deal of diversity present in the local economy and provided a solid basis for empirical research.

Diversity in the local business milieu can be detected basically in three main forms: i.) the growing diversity of enterprises due to the influx of new (partly ethnic) businesses; ii.) the diversity of motivations of entrepreneurs to start a business in the area, and iii.) the growing diversity of entrepreneurs according to age, skills, ethnicity. These findings are in line with the relevant international literature which points to the growing diversity within the business sphere in large urban centres. For instance, in Józsefváros several types of enterprises can be found: in our sample we have ethnic ventures (Eraydin et al., 2010), creative enterprises (Florida, 2002) and ‘grey entrepreneurs’ (Kautonen, 2008; Weber and Schaper, 2004), among others.

According to our research findings, even though the role of urban diversity is relatively low in the motivation of entrepreneurs to start a new business here, it has been growing steadily. The neighbourhood provides a lot of opportunities for different types of entrepreneurs with its good location, relatively low property prices, and diversified markets due to its mixed population. The ‘springboard function’ of the neighbourhood also seems to change over time. With the ongoing gentrification and studentification processes, which
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are the outcomes of large-scale regeneration programmes, new population groups are arriving to the area, creating new demands and attracting new types of businesses (e.g. vegan bistro, creative firms, high-quality services, tourism etc.). Through the wide social and professional networks, and with the presence of university faculties the district offers good opportunities for young entrepreneurs and start-ups as well. The growing concentration of non-Hungarian (Roma, Chinese, Arab, Turkish, Vietnamese etc.) people in the area (compared to other parts of Budapest) also positively contributes to the economic profile of Józsefváros. Ethnic based business enterprises contribute positively to a vibrant urban life, making the area more attractive for younger and better-off people and those with alternative lifestyles. Therefore, our results support the argument of those studies which emphasise the role of diverse populations in generating markets for greater variety of goods and services, and providing motives for professionals to start their own businesses (Nathan, 2006; Rodríguez-Pose and Storper, 2006; Saxenian, 1999).

There is clear difference between older, traditional, small firms (often family based businesses) and newer ones which aim to answer new markets’ needs, new customers. Firms belonging to the first group concentrate in the older, mostly run-down areas of Józsefváros inhabited by elderly and low-status inhabitants. Businesses that were set up recently in the district are located either in the regeneration area or in the ethnic enclaves under formation. The future prospects of ‘old’ and ‘new’ types of businesses are also very different. Traditional craftsmen, shopkeepers who are mostly elderly, fight steadily for survival, they cannot expect new clients from among the newcomers. New enterprises try to supply the young middle-class people arriving to the area, tourists and other better off strata living in other parts of Budapest.

The interviews also showed that success definitions of entrepreneurs reach beyond growth of turnover and employment; earning trust or building community at the workplace is often considered important achievements as well. Although the interviewees rarely labelled diversity as an important factor of their business, it has some relevance. The role of diversity in business performance can be detected in the cases of enterprises which are benefitting from the transformation of Józsefváros: the diversity of markets creates favourable business environment to them. At the same time, traditional enterprises are also present – therefore there is a mix of firms serving new and old markets.

We can also conclude that the level of political and civic engagement of entrepreneurs (just like the residents) is relatively low. They do not participate in any organisation or programme, and those who are involved rarely experience any tangible benefits. Entrepreneurs know also relatively little about local and national-level business initiatives and EU policies. In most cases they mentioned general challenges to their businesses but had few concrete proposals. Thirdly, their main problems seem to be very similar to those of the whole Hungarian society (e.g. high level of tax burden, bureaucracy, mistrust towards the political sphere).

It is also worth noting that there are significant differences between enterprises according to their size. Smaller firms are better embedded in local social networks and as a consequence they have deeper knowledge on neighbourhood issues. At the same time, big companies are actors on the national and international markets, so they think and plan accordingly and their local relationships are relatively weak. Our findings are similar to those of previous studies pointing to the low level of trust and civic engagement of Hungarian enterprises (Balás et al., 2010; Sik, 2012; Stark, 1996). Ethnic enterprises form
a special group in this respect: even small-scale enterprises have very weak local ties, and they build mostly on ethnic networks and family ties. This suggests that utmost reliance on specific forms of social capital (e.g. ethnic entrepreneurs on ‘their own communities’) can have negative outcomes (Portes and Senberger, 1993; Schutjens and Wölker, 2010; Waldinger, 1997), for example limited cooperation with other neighbourhood-based entrepreneurs.

6.2. Policy recommendations

Based on the interviews we can conclude that local, city-wide and national government policies in the Hungarian context do not seem to pay enough attention to use diversity as an asset or to foster the diversity of entrepreneurs. On the contrary, factors like complicated administration, bureaucracy and over-taxation hit small enterprises more severely than powerful economic actors. As a consequence, policies support indirectly the reproduction of economic inequalities and diversity can be seriously eroded if the local business climate is not supportive for small enterprises. Due to the distribution mechanisms of funds, the Hungarian political traditions and recent re-centralisation processes, the National government has more potential in supporting entrepreneurial diversity than policy-makers and institutions at the local scale. Therefore, the following recommendations can be formulated for policy-makers:

- In national and local economic development policies the aspects of diversity and its possible positive effects should be taken more into account.
- The diversity of local economic activities, jobs and services seems to be an important asset in the competition of urban neighbourhoods, therefore, local government should prioritise mixing of different activities and firms in local development policies.
- Even though local politics actively supports the creation of new enterprises (start-up businesses, real estate companies, firms in creative industries etc.) traditional businesses serving the needs of local, less affluent people should also be paid more attention.
- The local government could support local businesses in several ways, e.g. through marketing campaigns, promoting them in local media or in other information channels. Moreover, local government could start a ‘buy and consume locally’ campaign as well.
- The local government could also create a shared platform for entrepreneurs, through which they could collect information and could establish new cooperation.
- Entrepreneurs in general are, just like the mainstream society, strongly depoliticised and there is mistrust among them towards politics. Bureaucracy should be decreased and corruption should be punished more seriously in order to make national and city wide business support schemes more transparent and attractive for entrepreneurs.
- The outmigration of skilled labour to Western Europe should be slowed down, place attachment programmes for young and skilled entrepreneurs should be formulated.
- Information flows about support schemes and other (e.g. EU) funding opportunities among entrepreneurs should be improved.
The activity of the Chamber of Commerce and Industry should focus more on diversity, including the support of ethnic businesses, campaigns or training programmes among owners of newly established SMEs and start-ups.

The tax and administrative burdens of locally embedded new enterprises (e.g. younger than 5 years) should be lowered.

Local government should pay increasing attention to traditional craftsmanship, which is losing ground in Józsefváros. The ageing of craftsmen and the lack of new generation can cause the disappearance of some traditional activities from the area. Local government could help the survival these enterprises with financial aid and marketing.

Incubation of new businesses should be taken more seriously (given the positive example of H13 and the great number of university students (potential entrepreneurs) in the area.

References


Andersson, Th., P. Formica and M.G. Curley (2010), Knowledge-Driven Entrepreneurship. New York: Springer.


## Appendix 1: List of the interviewed entrepreneurs

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Age</th>
<th>Gender</th>
<th>Type of enterprise* (size*; main activities**)</th>
<th>Type of entrepreneur (ethnicity***/nationality; educational attainment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>63</td>
<td>M</td>
<td>Micro-sized; education (language school and translation services)</td>
<td>Hungarian/Hungarian; Master's degree</td>
</tr>
<tr>
<td>2</td>
<td>64</td>
<td>M</td>
<td>Micro-sized; site preparation (construction industry)</td>
<td>Roma/Hungarian; High-school degree</td>
</tr>
<tr>
<td>3</td>
<td>37</td>
<td>F</td>
<td>Micro-sized; retail sale in non-specialised store with food, beverages or tobacco (vegan bistro, biofood and gift shop)</td>
<td>Hungarian/Hungarian; Master's degree</td>
</tr>
<tr>
<td>4</td>
<td>35</td>
<td>M</td>
<td>Small-sized; restaurant and mobile food service activities</td>
<td>Hungarian/Hungarian; High-school degree (secondary vocational school)</td>
</tr>
<tr>
<td>5</td>
<td>62</td>
<td>M</td>
<td>Micro-sized, real estate agency – KEY INFORMANT</td>
<td>Hungarian/Hungarian; Master's degree</td>
</tr>
<tr>
<td>6</td>
<td>38</td>
<td>M</td>
<td>Medium-sized; property development – KEY INFORMANT</td>
<td>Hungarian/Hungarian; Master's degree</td>
</tr>
<tr>
<td>7</td>
<td>34</td>
<td>M</td>
<td>Micro-sized; food and beverage service activities (bar and restaurant)</td>
<td>Hungarian/Hungarian; Master's degree</td>
</tr>
<tr>
<td>8</td>
<td>68</td>
<td>M</td>
<td>Micro-sized; cutting, shaping and finishing stone (stonemasonry)</td>
<td>Hungarian/Hungarian; High-school degree</td>
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<tr>
<td>9</td>
<td>41</td>
<td>F</td>
<td>Large-sized; retail sale of books in specialised stores</td>
<td>Hungarian/Hungarian; Master's degree</td>
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<tr>
<td>10</td>
<td>40</td>
<td>M</td>
<td>Small-sized; hotels and similar accommodation services</td>
<td>Hungarian/Hungarian; Bachelor's degree</td>
</tr>
<tr>
<td>11</td>
<td>74</td>
<td>M</td>
<td>Micro-sized; craftsman (musical instrument – violin – maker)</td>
<td>Hungarian/Hungarian; Master's degree</td>
</tr>
<tr>
<td>12</td>
<td>65</td>
<td>M</td>
<td>Micro-sized; site preparation (construction industry)</td>
<td>Hungarian/Hungarian; High-school degree (certificate of higher education)</td>
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<tr>
<td>13</td>
<td>64</td>
<td>M</td>
<td>Small-sized; hotels and similar accommodation services</td>
<td>Hungarian/Hungarian; Bachelor's degree</td>
</tr>
<tr>
<td>14</td>
<td>45</td>
<td>M</td>
<td>Micro-sized; restaurant and mobile food service activities</td>
<td>Hungarian/Hungarian; Master's degree</td>
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<tr>
<td>15</td>
<td>33</td>
<td>M</td>
<td>Small-sized; technical testing and analysis (environmental services)</td>
<td>Hungarian/Hungarian; Master's degree</td>
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<tr>
<td>16</td>
<td>51</td>
<td>M</td>
<td>Micro-sized; retail sale of bread, cakes, flour confectionery and sugar confectionery</td>
<td>Hungarian/Hungarian; High-school degree (vocational school)</td>
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<td>17</td>
<td>44</td>
<td>M</td>
<td>Micro-sized; pre-press services</td>
<td>Hungarian/Romanian; High-school degree</td>
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<tr>
<td>18</td>
<td>65</td>
<td>M</td>
<td>Micro-sized; retail sale of hardware, paints and glass (and upholster)</td>
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<td>19</td>
<td>53</td>
<td>M</td>
<td>Micro-sized; painting and glazing</td>
<td>Hungarian/Hungarian; High-school degree (vocational school)</td>
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<tr>
<td>20</td>
<td>56</td>
<td>M</td>
<td>Micro-sized; retail sale of furniture, lighting equipment and other household articles (china shop)</td>
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<tr>
<td>21</td>
<td>72</td>
<td>M</td>
<td>Small-sized; restaurant and</td>
<td>Hungarian-Jewish/Hungarian; High-</td>
</tr>
<tr>
<td>No</td>
<td>Sex</td>
<td>Micro-/Small-Sized Employment</td>
<td>School Degree</td>
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<tr>
<td>22</td>
<td>M</td>
<td>Micro-sized; repair of furniture and home furnishings (cabinetmaker/carpenter)</td>
<td>Hungarian/Hungarian; High-school degree</td>
<td></td>
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<tr>
<td>23</td>
<td>M</td>
<td>Micro-sized; veterinary activities (dog cosmetics)</td>
<td>Hungarian/Hungarian; Master’s degree</td>
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<tr>
<td>24</td>
<td>M</td>
<td>Micro-sized; retail sale of clothing (hat-maker/hat-repair)</td>
<td>Hungarian/Hungarian; High-school degree</td>
<td></td>
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<tr>
<td>25</td>
<td>M</td>
<td>Micro-sized; retail sale of bread, cakes, flour confectionery and sugar confectionery</td>
<td>Hungarian/Hungarian; High-school degree</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>F</td>
<td>Micro-sized; retail sale of fruit and vegetables</td>
<td>Hungarian/Hungarian; High-school degree</td>
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<tr>
<td>27</td>
<td>M</td>
<td>Micro-sized; retail sale of food</td>
<td>Vietnamese/Vietnamese; Master’s degree</td>
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<td>Micro-sized; retail sale of plants and seeds (flower shop)</td>
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<td>29</td>
<td>M</td>
<td>Micro-sized; metalworking</td>
<td>Hungarian/Hungarian; High-school degree</td>
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<td>30</td>
<td>F</td>
<td>Micro-sized; retail sale of paper and stationery</td>
<td>Hungarian/Hungarian; High-school degree</td>
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<tr>
<td>31</td>
<td>M</td>
<td>Micro-sized; repair of footwear and leather goods (tanner)</td>
<td>Hungarian/Hungarian; High-school degree (vocational school)</td>
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<td>32</td>
<td>M</td>
<td>Micro-sized; repair of watches, clocks and jewellery</td>
<td>Hungarian/Hungarian; High-school degree (vocational school)</td>
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<tr>
<td>33</td>
<td>M</td>
<td>Micro-sized; wholesale of meat and meat products (Turkish butcher and food shop)</td>
<td>Turkish/Turkish; High-school degree</td>
<td></td>
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<tr>
<td>34</td>
<td>M</td>
<td>Micro-sized; maintenance and repair of motor vehicles</td>
<td>Hungarian/Hungarian; High-school degree (vocational school)</td>
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<td>35</td>
<td>M</td>
<td>Micro-sized; retail sale of food, beverages and tobacco</td>
<td>Persian/Iranian; Master’s degree</td>
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<td>36</td>
<td>M</td>
<td>Small-sized; wholesale of textiles (supermarket)</td>
<td>Kurdish/Turkish; High-school degree</td>
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<td>37</td>
<td>F</td>
<td>Micro-sized; restaurant and mobile food service activities (fast-food restaurant)</td>
<td>Chinese/Chinese; High-school degree</td>
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<tr>
<td>38</td>
<td>F</td>
<td>Micro-sized; web portal services (medico booking start up)</td>
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<td>F</td>
<td>Teacher and researcher (sociology and social anthropology) – KEY INFORMANT</td>
<td>Hungarian/Hungarian; PhD candidate</td>
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<td>40</td>
<td>F</td>
<td>Independent researcher (social anthropology) – KEY INFORMANT</td>
<td>Hungarian/Hungarian; PhD candidate</td>
<td></td>
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</tbody>
</table>

* Enterprises have been categorised by the number of their employees, according to the Act XXXIV of 2004 (on Small and Medium-Sized Enterprises and the Support Provided to Such Enterprises [“SMEA”]): micro-sized (less than 10 employees); small-sized (10-49 employees); medium-sized (50-249 employees); large-sized (250 or more employees).

** Enterprises have been categorised by type on the basis of the Hungarian TEÁOR’08 system which is equivalent to the Statistical Classification of Economic Activities in the European Community called ‘NACE Rev.2’ (Regulation [EC] No 1893/2006 of the
European Parliament and of the Council), according to the enterprise database of the National Tax and Customs Administration of Hungary.

*** Based on self-identification.