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A BI-KA Logisztika Kft. hosszú távú stratégiai céljai és terjeszkedési
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The long-term strategic objectives and expanding opportunities of BI-KA
Logistics Ltd. in Germany

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INTRODUCTION

Nowadays, thanks to globalization international trade, transportation and commerce have become essential parts of the lives of companies. Some companies realized that they can only survive if they relocate or broaden their services abroad, to achieve higher customer satisfaction, to be able to satisfy the needs of the market and becoming more ‘international’. In order to fulfil the requirements, they have to decide whether they want to offer their services outside the borders of their own country or establish a subsidiary abroad.

I chose this topic, because I spent my internship at BI-KA Logistics Ltd. and managed to get to know its operation and working mechanisms.

In my thesis my aim is to analyze the opportunities for BI-KA Logistics Ltd. to enter the German market with the establishment of a local subsidiary in North-Rhine-Westphalia or in Hamburg.

In the first chapter, I deal with the internationalization process in the lives of companies and try to highlight the importance of expanding abroad, especially in case of a logistics company. Then I introduce the effects of globalization on international trade and on the services industry as a whole: what kind of effects it had on the economies and how countries can specialize according to their comparative or competitive advantages. After that, I present the European Union as an economic community and emphasize the four freedoms which are essential when writing about the expansion of a logistics company. I also introduce the EU’s trade, highlighting the importance of the German economy as one of the biggest trading partners of Hungary.

In the second part, my goal is to introduce and emphasize the significance of trust between companies and to express what kind of effect trust has on companies when entering international markets. I especially deal with the German economy, which is well-known for its high level of trust and which is successful thanks to their relationships based on trust as well. Then I highlight the role of trust in BI-KA Logistics Ltd., as the future key for success both in the home market and in Germany.

In the next chapter, I am going to present BI-KA Logistics Ltd. and give an overview about its activities. Then I present the Top 50 business ventures in Jász-Nagykun-Szolnok County and locate the position of BI-KA among the top 50 companies. After that, I analyze the characteristics of the company with the help of a SWOT analysis. Finally, I give in detail the criteria and results of a customer satisfaction survey about the company from 2011. The survey was made among its partners and points out those features which are advantageous for BI-KA as well as those which should be developed in the future. It turns out that its major partner is Claas Hungária Ltd., which is the main reason why BI-KA considers setting up a business unit in the German town of Harsewinkel, where the German firm's headquarters is located.

In the fourth part, I introduce the characteristics of the German-Hungarian relations and examine the country from an economic perspective. I analyze the investment opportunities in Germany and try to highlight why it is advantageous for a logistics company to have a subsidiary there. In this part I also examine the different kinds of legal forms, and based on that I try to recommend the best one for BI-KA. I also focus on the steps of establishing a branch in Germany and detail what the necessary documents are to be registered with the German authorities.

In the last chapter I examine the two possible locations for establishing a branch in Germany. I present the main general and economic data about Harsewinkel and Hamburg and on the basis of this data I make a comparison considering the most important aspects.

Then I come to the conclusions and give suggestions in connection with the legal forms and the possible suitable premises in Germany.

Finally, I sum up my thesis work, especially focusing on my own research and own recommendations.

1. INTERNATIONALISATION DURING THE OPERATION OF COMPANIES

1.1 The effect of globalization and the importance of international trade

Globalization has become part of our everyday lives. Companies are more and more affected by external economic events and the decisions of global institutions. The word itself 'globalization' means the 'horizontal expansion' and 'vertical immersion' of the world economy. By the horizontal expansion, we understand the comprehensive and interconnected operation of the world economy. In parallel, the vertical immersion means the mutual dependence of the actors of the world economy, which is the result of the transnationalization.¹ With the expansion of globalization companies also have to face with many problems such as pollution, increased energy and raw material needs and overpopulation. On the other hand, it also brings advantages both to companies and EU citizens such as easier access to EU markets, technology and finance and the accessibility to a larger variety of goods.²

Globalization also consists of the increased movement of goods, services, labor, capital and technology etc. The increased demand for the transportation of goods and for services has also contributed to the expansion of TNCs (transnational companies), firms which have subsidiaries all over the world. A close connection can be observed between globalization and internationalization.³

Among trade theories, one of the most important ones in connection with globalization is the internationalization theory. It refers to the process, in which companies enter the international market, start to operate abroad or just get involved in international activities such as trade, investment etc.⁴

¹ Bozsik Norbert (2011): Az Európai Unió gazdaságtana, Budapest, pp. 9-10

² Globalization. Retrieved 22 September, 2012, from http://ec.europa.eu/economy_finance/international/globalisation/index_en.htm

³ Chikán Attila (2008) : Vállalatgazdaságtan (Business economics), AULA Kiadó, Budapest, pp. 99-103.

⁴ 3 Internationalisation theories. Retrieved 14 October, 2012, from http://wse103331.web15.talkactive.net/activebuilderfiles/ibeforeningen.se/filer/International_Marketing.pdf

International trade is necessary because countries vary; there are differences in culture, natural endowments, technological development, labour costs, economies of scale etc. According to Adam Smith's absolute advantages theory, two countries can produce the same products, but they differ. They have difference in labour productivity; some have lower production costs for one product, and others for another product. That is the reason why countries specialize in the production of products and services in international trade. Smith also supported free trade and some trade restrictions.⁵

Based on David Ricardo's theory, countries specialize according to their comparative advantages. This means that a given country can produce a good at a lower opportunity cost than another country. According to trade theories, countries specialize according to their absolute or comparative advantages. The base of specialization is the difference in labour productivity thus the difference in natural endowments. Today's integration theories are still based on mercantilist principles, i.e. the enrichment can be obtained only if money streams into the country. To achieve this, an active trade balance is necessary, thus the number of exports should exceed the number of imports.⁶

1.2 The EU as an economic community and its integration forms

The European Union was created after the Second World War, its founding members were: Belgium, France, Italy, Germany, Luxembourg and the Netherlands. The EU today has 27 member states and it operates as a common economic and politic partnership between the countries. The basic objective was to revive the economies of the members after the wars and to make a strong economic area to avoid conflicts in the future. The first step was the establishment of the EEC (European Economic Community) in 1958, aiming at fostering the economic cooperation between the member countries. Later the EEC was transformed, and the European Union was created in 1993. Among its basic objectives human rights are essential such as the freedom, dignity, equality etc.⁷

⁵ Absolute and comparative advantage. Retrieved 13 October, 2012, from <http://www.skidmore.edu/~mdas/AbsoluteandComparativeAdvantage.pdf>

⁶ Definition of Comparative Advantage'. Retrieved 13 October, 2012 from <http://www.investopedia.com/terms/c/comparativeadvantage.asp#axzz26fS3DIBO>

⁷ Basic information on the European Union. Retrieved 13 October, 2012 from http://europa.eu/about-eu/basic-information/index_en.htm

In connection with trade, the international economic integrations should be highlighted in order to get a clearer picture about the EU's markets and operating mechanisms.

The integrations can be grouped according to their forms, development and number of their participants and to their traits. These are the following: Preferential area, Free trade area, Customs Union, Common market, Single market, Economic union and Political union.

In case of Hungary and Germany, all integration forms are very important as they both are member states and trade is outstanding among the two countries.

- *Customs Union*

Within this area, the flow of goods is free i.e., there are no barriers to free trade, but as far as outsiders are concerned the members of the union follow a common external policy.⁸

- *Common market*

This integration form is almost the same as the Customs Union; the only difference is that apart from the liberalized movement of goods and services, the free movement of the factors of production (workforce, capital) is also involved.⁹

- *Single market*

This form includes all the principles which are contained in the Common market, plus the additional elimination of barriers such as the physical, technical (standards, regulations) and fiscal ones.¹⁰

- *Economic union*

This integration is more specified compared to the previous ones, because it also includes the coordination of economic and monetary policies. The EMU (Economic and Monetary Union) includes all the Member States of the EU and besides the regulation of fiscal and monetary policies the single currency must be mentioned.

The euro was established in 1999. This was one of the most important stages in connection with the economic integration and now almost 17 countries use this single currency with success. In case of Germany, the Euro was introduced in 1999 (in 2002 in the forms of banknotes and coins) and it transposed the very strong Deutsche Mark. As to Hungary, the country still did not accomplish the requirements of the Maastricht treaty or the

⁸ Customs Unions. Retrieved 29 August, 2012, from http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/customs_unions/index_en.htm

⁹ Horváth Zoltán (2007): Handbook on the European Union, Hvgorac Lap-és Könyvkiadó Kft. p.35

¹⁰ The Single Market. Retrieved 29 August, 2012, from http://europa.eu/abc/12lessons/lesson_6/index_en.htm

convergence criteria (stable inflation and exchange rates), this is why, it still uses the Hungarian Forint as currency.¹¹

- *Political union*

This kind of union operates as a confederation between the states. Concerning the legislation and the political decisions, they are at the level of the community, and ‘common decisions’ can be made applying to the member states as well.¹²

1.3 Trade of the European Union

The EU is in close connection with world trade through the movement of goods, services and factors of production and by the tight relations with international organizations (UN, WTO, OSCE etc.) The EU is one of the biggest trade powers in the world nowadays. Compared to the USA or China, its external trade is similar regarding the data of exports and imports. Its external trade exceeds 2300 billion Euros and 1/6 of its circulation of commodities is in its hands.¹³

The EU’s export partners are mainly the USA and China, but the Swiss and Norwegian market also has a big potential. Concerning its import partners the set-up is very similar. As far as the relation between Hungary and Germany is concerned, our country’s exports of goods and services are about 50-75% compared to the GDP. In contrast, Germany is the EU’s biggest exporter and provides 27% of the EU’s total exports.¹⁴

In terms of the EU’s structure of trade, more than 40% of its exports are realized through the transportation of machines and vehicles of transport. Furthermore, chemicals, finished products and manufactured goods also form part of its trade.

In case of imports, machines and engines of vehicles have the biggest share. This is followed by products and energy sources. The EU is also very dependent on other countries for the fulfillment of its energy needs.¹⁵

¹¹The euro. Retrieved 29 August, 2012, from http://ec.europa.eu/economy_finance/euro/index_en.htm

¹² Bozsik Norbert (2011): Az Európai Unió gazdaságtana (Economics of the European Union), Budapest, pp.18-19.

¹³ Bozsik Norbert (2011), p. 217.

¹⁴ Bozsik Norbert (2011), pp. 218-219.

¹⁵ Bozsik Norbert (2011), p. 220.

As far as the EU's internal trade is concerned, Germany is still outstanding and has the biggest share among the member states. Germany's trade is especially significant with countries such as Italy, France, and the United Kingdom. The structure of trade consists mainly of machines, means of transportation and different manufactured goods.

As to the service sector, it plays one of the most important roles in the economy of the European Union. Approximately 30% of its trade consists of services and the most important segments are transportation and travel.¹⁶

Foreign direct investments (FDIs) form part of the lives of countries and companies, thus they are part of the globalization process. FDIs are especially typical for the developed countries or open economies, and play an important role in forming a country's economy.

Foreign direct investment „is an investment made by a company or entity based in one country, into a company or entity based in another country.”¹⁷ It is also the base of international production as well. We can distinguish inward and outward FDI, depending on the direction of the investments. Inward FDI “is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor.”¹⁸ Contrary, outward FDI is the investment abroad, or it also means the outplacement of the capital to a foreign country.

Taking into consideration the EU's FDI stock, it can be said that it shows a stable growth both in case of inward and outward FDI. The countries where these capital outflows from the EU are mainly oriented to are the USA, Asia and Central- and South America.

Concerning the inward FDI to the EU, the USA is also the major capital exporter country.¹⁹

All in all, it can be said that the European Union is one of the significant players in the global economy, both in terms of the capital and of the international markets.

¹⁶ Bozsik Norbert (2011), p. 221.

¹⁷ Definition of 'Foreign Direct Investment – FDI. Retrieved 23 September, 2012, from <http://www.investopedia.com/terms/f/fdi.asp#axzz27K85j7wL>

¹⁸ Definition of 'Foreign Direct Investment – FDI. Retrieved 23 September, 2012, from <http://www.economywatch.com/foreign-direct-investment/definition.html>.

¹⁹ Bozsik Norbert (2011), pp. 221-222.

1.4 Hungary as member of the EU

Hungary became part of the European Union on 1 May in 2004. One of the basic achievements in the field of the four freedoms (free movement of goods, capital, services and people) is that since 2011 all Hungarian citizens can work in either member countries, as in that year both Germany and Austria also allowed free employment for those countries that joined in 2004. Since the accession of our country, the process of creating basic regulations in connection with the four freedoms (especially concerning the free movement of services and people) can be considered finished. On the other hand, their implementation is questionable, although they contribute to the improvement of Hungary's relations with other countries. Hungary as member state is also entitled to get support from the common budget which is very important as these subsidies helps to maintain and improve the country's modernization and competitiveness. As far as Hungary's GDP is concerned, it is still lagging behind the EU's average data.²⁰

Hungary has a very open economy and the ratio of the foreign trade is quite high compared to the performance of the economy. In terms of the goods- and services exports, it can be said that it is 80% of the GDP and this is true for the value of the imports as well. Our trade with the EU can be described as significant, export was about 78% and import was approx. 69% in 2011. Exports are characterized by highly developed technology and specialization. The Hungarian capital market is significantly integrated into the global markets and its capital is liberalized completely except for the buying restrictions regarding land.²¹ The labour market in Hungary is not mobile, in terms of the EU's average it can be said to be moderate. Its flexibility is quite high and the wage adjustment is high, too. One of the main objectives in Hungary in connection with the labour market is the improvement of the current situation of the workforce. It is also part of the agenda of the European Union's development strategy.²²

As far as the EU's convergence programme is concerned, Hungary is trying to provide the conditions to accomplish them within a given period to introduce the Euro. Apart from

²⁰ Bozsik Norbert (2011) pp. 207-210.

²¹ Bozsik Norbert (2011) pp. 209-210.

²² Bozsik Norbert (2011) pp. 209-214.

Dania and the UK, Hungary does not have the right of out-put, so the introduction of the single currency is compulsory. Thus, the country prepares its convergence programme every year, to see whether the amount of deficit is significant, and if it is, then what measures should be implemented to improve its state. The Maastricht criteria are in a strong correlation with the convergence programme, as they are an essential part of it. Unfortunately, since the accession, Hungary still was not able to accomplish these criteria (3% lack of deficit). From year to year public debt has been increasing, thus the country had to take up loans from e.g. the IMF, the World Bank and the European Union. In addition Hungary still hasn't managed to accomplish the inflation criteria either. In contrast, Germany is one of the member countries with the lowest inflation rate.²³

In order to achieve the criteria, Hungary has to guarantee the independency of the bank of issue, the prohibition of monetary financing, and the exclusion of the access of the public bodies to the sources of financial institutions.

²³ Bozsik Norbert (2011) pp. 212-214.

2. THE ROLE OF TRUST IN THE EXPANSION OF COMPANIES ABROAD

2.1 The importance and essence of trust between the companies

In the globalized world of today, more and more companies recognize that trust is essential not only in the family or in personal relationships, but also in the field of business. Trust must be built within organizations in order to be successful, competitive and gain more partners on the market. Countries like Germany, Japan and China are the greatest examples to show that intense trust is the base of a successful economy and well operating companies as well.

In close connection with trust, culture also has a very outstanding role for countries, thus it can even define the relationships between countries. The significance of culture is not only notable within nations, but in the globalized world as well. According to Samuel Huntington, the cultural differences can be the source of clashes of the nations, but these traits can also contribute to something new and can be procreative if the cultures use them in a positive sense. Today, one of the fields on which culture has the greatest effect is the economy. Thus, it can be said that culture influences directly the welfare of the families and individuals and the economic order too, by the economy. The economic activity is closely connected to the social and political life and in modern societies the economy is one of the most dynamic media of human association.²⁴ Human collaboration can be observed in the best way at the workplace. People work, but not only for the money, but also for the feeling to work in a community. So economic activity can be considered as an essential part of social life and its main components are the norms, rules and other responsibilities which form the whole of the society. It should be also stated that the economy cannot be separated from the culture. Thus, according to Francis Fukuyama, the consequence which can be drawn is that there is one cultural factor which determines the welfare and competitiveness of the countries: the level of trust in a given society.²⁵

²⁴ Francis Fukuyama (2007): *Bizalom (Trust)*, Európa Könyvkiadó, Budapest, pp. 16-17

²⁵ Francis Fukuyama (2007) p 19.

Trust can be also defined as “an expectation of a behavior which is formal, honorable and ready for teamwork within a community, based on common norms”²⁶ It is also proven that those organizations in which the level of trust and solidarity is high can be more efficient compared to those where these characteristics are missing.

As far as the German economy is concerned, it has been successful for a long time and managed to preserve its position as one of the leading countries in the world. Mutual trust is fundamental among people working together. Throughout history, the German industry could develop so much partly because the economic actors supported each other and belonged to a community whose base was mutual trust. In Germany, the level of trust is much higher than in any of the other European countries as it is usual that workers cooperate and trust in their colleagues and bosses.²⁷ Their attitude towards work can be described as strict and they take all kinds of work quite seriously. Thanks to the capability for developing, the German industry was (and still is) abundant in small family companies which later transformed into successful, bigger firms or even multinationals. The level of community organization is also very high in the country. The borderline between white-collar and blue-collar workers are quite noticeable on the German market and the number of those who do office work or have degrees are lower compared to the manual workers. So, the German economy also managed to avoid the overflow of those graduates who would be unnecessary for the industry and rather trained experts for those areas where the need arose.²⁸

Besides the intense trust, social capital is also considerable in German society, thus the ability for forming organizations and collaborations is high without any kind of state intervention. In a country like this, people prefer subservency and respect the standing. Germany was one of the first countries besides the USA or Japan, which managed to establish companies with modern and rational management.²⁹

²⁶ Francis Fukuyama (2007) pp 44-47

²⁷ Francis Fukuyama (2007) pp. 343-347

²⁸ Francis Fukuyama (2007) pp. 329-332

²⁹ Francis Fukuyama (2007) p 79.

As far as trust is concerned, the definition of ‘social capital’ has to be mentioned. The term was used by the American sociologist James Coleman who stated that social capital means the ability of working together in groups and organizations in order to reach common objectives. It can be found both in smaller communities like families, as well as in bigger ones like countries. Social capital can be the precondition for establishing a community, in which the members share similar morals and norms. In connection with social capital the definition of ‘human capital’ is also very important, which refers to human knowledge and expertise. Furthermore, human capital has another feature which is the ability for forming partnerships. This ability is important not just in business, but also in normal, everyday life. It can depend on the norms and values of the given communities, in other words to what extent these traits can be the same, and whether people can adapt to the interest of the bigger groups or not. As a consequence, common norms and values can result in the creation of trust, and trust has a significant positive effect on the economy as a whole.³⁰

In contrast with human capital, social capital differs in the aspect that it is created by cultural mechanisms such as religions, traditions or historical happenings. It also cannot be gained by rational investing decisions like the human capital. Therefore those who want to acquire social capital, have to adjust to the norms of the community and have to experience values such as reliability, trustworthiness and consciousness of commitment towards each other. Those countries which can be characterized by high social capital can adjust to changes and adapt to new organizational structures much easier. These nations can organize workplaces pliantly and teamwork oriented.³¹

Within the framework of social capital the ‘spontaneous social skill’ has to be highlighted. Its effects are significant on the economies of the countries. In those countries where social capital is high, the above mentioned skill will be strong as well. Furthermore, the number of modern and big companies will also increase if the society of the country possesses high spontaneous social skills. Those countries, which lack trust or social skills for association, have two options if they want to establish large-scale organizations: either the state intervenes directly or the setting up of FDIs is necessary to be able to create bigger

³⁰ Francis Fukuyama (2007) p. 23

³¹ Francis Fukuyama (2007) p. 51

organizations. The existence of this social skill also contributes to the increase of GDP of the given country.³²

In the recent decades the information revolution has also contributed a lot to the formation of trust among companies. Especially, in case of logistics and forwarding companies it is essential to have basic information about the partners (suppliers and subcontractors) and to know them well enough to be able to trust them. Although trust requires the exchange of information, it cannot be restricted only to information. It can be observed that the community depends on trust and trust is based on the culture, thus the spontaneous community will appear in different forms in different cultures. So the ability of companies to convert small ventures into flexible and bigger networks depends on the extent of the already existing trust and social capital.³³

It can be perceived that the lack of trust can lead to weak economic results just as in the case of Italy, France or the USA. In these countries the level of trust is quite low and there are many regulations in almost all areas of life. For example in the USA the propensity towards trust and establishment of relations resulted in the collapse and deterioration of the family structure and social structures (churches, clubs and unions). In parallel, the number of violent crimes and lawsuits has also increased. These results can be only due to one fact: to the lack of trust among people and in societies as well.³⁴

Those people who don't have trust towards each other can only cooperate if there are strict regulations and rules which regulate their work and relations. These regulations result in a high mistrust which can lead to the judiciary acting which then can be visible in the form of additional taxes within nations. In contrast, in countries where trust is outstanding, like Germany or Japan the societies don't have to pay extra taxes.³⁵ In terms of economic aspects, if there are too many regulations in a society, they can be considered as the sign of mistrust. Thus the conclusion can be drawn: the more rules and regulations people have to keep, the less will be the trust towards each other.

³² Francis Fukuyama (2007) pp. 468-477

³³ Francis Fukuyama (2007) p. 45

³⁴ Francis Fukuyama (2007) pp. 48-49

³⁵ Francis Fukuyama (2007) pp. 48-49

2.2 Examination of an empirical study on German business networks

The study “(Partner selection, partner behaviour, and business network performance)” was compiled in 2010 by Klaus Moeller. The paper examined the different business networks in Germany in connection with their partner selection criteria. The objective of the study was to provide information on partner selection as a control mechanism, which aims at monitoring the attitude and performance of various business networks. The basic idea is that business networks have to avoid opportunistic behaviour which can be the outcome if the partners do not cooperate with each other and the networks should rather harmonize the goals of their business partners. The other objective of the study was to examine trust, commitment and opportunistic behaviour and its effect on the network performance.³⁶

In its findings the study, it gives an overview about the cause-and-effect relationships concerning partner selection, the attitude of partners and network performance. It details that partner selection has not just a positive effect on the network performance, but is also a basic requirement for successful businesses. The study is limited in a way, as it is founded on empirical data which were collected by individuals. It also argues that the data were collected in a certain period of time and the effects cannot be justified in all cases.³⁷

The need for the study

During recent years, the role and importance of organizational structures and business networks have changed. Business networks started to play a more important role in the business environments and the coordination of the common goals of the partners has become a basic requirement. Some features such as the lack of partner compatibility and trust as well as the presence of opportunistic behaviour can lead to conflicts within business networks which can result in a negative effect on business performance. Thus the study claims that the importance of partner selection is very remarkable and with a good selection of partners and the strengthening of trust within business networks, opportunistic behaviour can be reduced. The objective of partner selection is to reveal the potential of business partners in order to create a common value. The partner selection mainly consists of the decisions of partners, structure and the strategy. With the reduction of these

³⁶ Klaus Moeller, (2010), "Partner selection, partner behaviour, and business network performance: An empirical study on German business networks", Journal of Accounting & Organizational Change, Vol. 6 Iss: 1 pp. 27.

³⁷ Klaus Moeller, (2010), p. 27.

negative traits, the network performance is improvable. The network strategy and structure are also parts of the partner selection. Within business networks and within the framework of partner selection, the selection of suppliers is very important. A suitable supplier can have a positive effect on productivity, competitiveness and on the quality of the business network. According to the results of the study, partner selection helps to identify the behaviour of the partners and has a notable effect on the network performance.³⁸

Whilst examining the business networks and relationships, trust seems to be an outstanding element within them and it is claimed that businesses can be only successful with the appropriate amount of trust. According to some researchers, trust is a kind of control mechanism which results less control systems. Besides trust, commitment to business networks is also very important when examining the contact between network partners. Evidently, the lack of commitment can lead to the increase in opportunism.

Data collection

The data was collected in the form of a large empirical study with the help of a questionnaire in written form. In the study 8555 German companies were asked to express their opinion in connection with cooperation between businesses. They were asked about the different cooperation forms and about networking, referring to the spread of the business networks. It turned out that the majority of those forms were networks (15.6%), followed by franchises (9.7 %) and joint ventures (6.7 percent). The main target group was the various heads of managements and accounting departments. The questionnaires were sent to them as they can be considered as experts in the field of evaluating of the partner selection. The questionnaires were addressed to them in person. Out of 120 questionnaires, 109 were returned and form the base of the study. The representativeness of the study can be considered as limited as it is the first empirical study which deals with business networks in German.³⁹

³⁸ Klaus Moeller, (2010), p. 28.

³⁹ Klaus Moeller, (2010), pp. 28-29.

2.3 Results of the study

According to the study, different kinds of conclusions can be defined. If a business network has a well-chosen partner selection, then the trust will be better between the partners in the businesses (H1). The paper also highlights that if the partner selection is suitable for the network, then the commitment to network will be stronger as well (H2). As a third hypothesis, it can be formulated that the better the partner selection for the business network, the smaller the risk of the opportunistic behaviour will be. (H3).⁴⁰

In case of network performance, this will be higher if the partner selection is better for the business network (H4). As a fifth statement, the risk of opportunistic behaviour will be smaller if the trust between partners is greater (H5). Furthermore, the commitment to network will be greater as well, if the trust between partners is stronger (H6). If the trust is higher in the networks, it also contributes to the higher network performance on the long run (H7). As far as the commitment to the network is concerned, it will be higher if the risk of opportunistic behaviour will be smaller (H8). The network performance will be also higher if the commitment to network is stronger (H9). As the last hypothesis, it can be stated that if the risk of opportunistic behaviour is higher, the network performance will be lower in the network (H10).⁴¹

2.4 Importance of trust in BI-KA Logistics Ltd.

The company considers certain values very important, which it tries to put into practice during everyday life and its operational processes. One of these values is the trust-based relationships with their partners, which is mutual and essential in businesses. According to the perception of the company, the basis for any kind of relationship is trust. Thus, BI-KA aims at establishing and maintaining contacts with its partners which are based on trust. The company highlights that without trust the cooperation in business life will not be successful and the common objectives cannot meet. It can happen that a business offer is favourable, but if the partners cannot reconcile their corporate culture and cannot trust each other (although the terms and conditions are advantageous), the partnership will not be successful on the long run.

⁴⁰ Klaus Moeller (2010), p. 33.

⁴¹ Klaus Moeller (2010), pp. 34-39

According to Karmazin György, the base of long-term business relationships is trust and without it the cooperation cannot be effective enough and companies cannot reach the common goals.⁴²

Trust is an especially important factor for BI-KA in case of entering the German market. Because of the cultural differences and different behavioural characteristics, the company has to look for those partners with whom it can establish long-term strategic relationships. The logistics sector in Germany also requires high trust based relationships, as businesses on the German market are very strict and require punctuality and reliability. The German-Hungarian economic relations are quite strong, which can be due to the common history and proximity of the two countries. The company's leading partner is CLAAS Hungária Kft. in Törökszentmiklós. They have been working together for years now, so in case of a possible branch establishment, CLAAS KGaA mbH in Harsewinkel would be the suitable partner for BI-KA as most of the exports go there. CLAAS also puts a large emphasis on trust in connection with its values and aims in business life. In my opinion, in case of a possible branch establishment CLAAS in Harsewinkel (among the partners) could be the best option for the BI-KA to gain market presence in Germany.

⁴² A bizalom szerepe az üzleti világban (The role of trust in business world). Retrieved 18 November, 2012, from <http://www.bi-ka.hu/hirek/A-bizalom-szerepe-az-uzleti-vilagban/886>

3. BI-KA Logistics Ltd.

3.1 The field of logistics

Nowadays logistics companies have to face with challenges of the globalized world. The process of globalization had an effect not just on the development and transformation of companies, but on the market competition as well. In order to remain and be competitive on the market, logistics companies have to adjust to changes and pay intensified attention to different factors such as the appreciation of time and customer voice. Therefore logistics providers have to satisfy their customers' needs and maximize their costs and the provided quality in the best way. All these factors have resulted in the competition of supply chains which lead to the appearance of 3PL (third-party logistics) providers, like BI-KA Logistics company.⁴³

Logistics “is defined as a business planning framework for the management of material, service, information and capital flows. It includes the increasingly complex information, communication and control systems required in today's business environment.”⁴⁴

The main areas of logistics are (in connection with material flow) are:

- procurement (of raw materials)
- distribution
- inventory management
- warehousing
- transportation
- forwarding
- dealing with orders and communication
- IT background⁴⁵

⁴³ Szegedi Zoltán, Prezenszki József (2005): Logisztika menedzsment (Logistics management), Kossuth Kiadó, p. 23.

⁴⁴ What is logistics? Retrieved 12 November, 2012 from <http://www.logisticsworld.com/logistics.htm>

⁴⁵ Szegedi Zoltán, Prezenszki József (2005) p. 26.

The mission (objectives) of logistics can be defined with the 7R principles, which consist of:

- Right product
- Right time
- Right place
- Right quality and quantity
- Right condition
- Right person
- Right costs⁴⁶

The right product has to be transported in the right time, to the right place, in the right quality and quantity, in the right condition, to the right person and at the right cost.

Thus, logistics service providers have to fulfill these conditions in order to satisfy the customer needs on the market and to accomplish the basic requirements in connection with logistics.

Logistics companies have to avoid the long transportation times, transportation expenses, high inventory costs and inelastic transportation relations to be able to fulfill the conditions of 7R principles.⁴⁷

In connection with logistics the supply chains should be highlighted. The supply chains are those value creating processes which create products and services aimed at satisfying the customer needs. In order to provide the customer with quality and satisfy their needs in the best way, companies should cooperate instead of competing in the sector.

The basic tasks of the supply chain management are:

- Determining and increasing the service level of the consumers
- Creating mechanisms in order to make the supply chains more optimal
- Creating correlation between the frequency of stockpiling and transportation
- Improving the quality of services in line with the logistics cost in order to reach customer satisfaction
- Evaluating the activities of organizations participating in the supply chain⁴⁸

⁴⁶ Szegedi Zoltán, Prezenszki József (2005) pp. 29-31.

⁴⁷ Prezenszki János (2004): Logisztika 1 (Logistics 1), Budapest, pp. 24-25.

⁴⁸ Prezenszki János (2004): Logisztika 1 (Logistics 1), Budapest, pp. 31-32.

3.2 Activities of BI-KA Logistics Ltd.

The company started its activities as a small family business in 1991. It is 100% Hungarian owned and by now it has become the most significant forwarder and logistics company in the Jász-Nagykun-Szolnok County and in the Szolnok micro region as well. The company has 20 years of experience on the field of logistics: it deals with international and domestic freight forwarding, warehousing and customs clearance. Considering public recognition like awards and prizes, the company managed to win the 'Business of the year' title in Jász-Nagykun-Szolnok County in 2006 and in 2011. The manager was also honored with the prize 'For the Hungarian economy'. The company has 150 different kinds of truck capacities and in per year; it undertakes more than 30.000 freight tasks with the help of its own and with its subcontractors' trucks. BI-KA also has an outstanding amount of forwarding liability insurance, which is 500.000 EUR. The company also possesses a 15.000 square meters warehouse, which can be expanded. The warehouse received the 'Regional Logistics Center' prize at the Hungarian Association of Logistics, Purchasing and Inventory Management Congress in 2011. The venture employs about 70 people who are highly-qualified and experienced and competent in their field of business. BI-Ka is also a member of 5 professional organizations: MLBKT, MSZLSZ, MLSZKSZ, JNSZMKIK and VOSZ.⁴⁹

The mission of BI-KA is characterized by long term goals. Its basic aim is to provide complete logistics services for the actors of economic life. The base of these relationships is the mutual trust between partners with the objective of long-term cooperation and with the help of cooperation, being professionally outstanding in the sector.⁵⁰

As far as the goals of BI-KA are concerned, it focuses on the measurement of the continuously expanding procurers' needs and fully understands them. Among the objectives of the company, one of the most important tasks is to increase the competitiveness, by establishing mutual trust-based relationships with highly qualified partners, thus reaching a high standard in the field of logistics.⁵¹

⁴⁹ Céghismertető (2012) BI-KA Logisztika Kft. p.3

⁵⁰ Céghismertető (2012) BI-KA Logisztika Kft. p.3

⁵¹ Céghismertető (2012) BI-KA Logisztika Kft. p.2

Dynamic development can also be found among its values and despite the economic crisis, the firm also tries to satisfy the continuous and emerging needs of the market and tries to keep up with the development in the logistics sector. It focuses on the quick and flexible reaction to market demand changes which is a prerequisite if the company wants to maintain its leading position in the region. By continuous development, it is able to handle the problems and challenges adequately.

BI-KA also puts an emphasis on corporate cultural renewal, with the aim of creating a full-organized community. As a part of its corporate culture, it pursues creating and maintaining a family atmosphere and tries to achieve individual and corporate objectives together. The development of skills is also very important among the values of the firm, which is assured by continuous trainings and seminars for the workforce. These trainings also lead to development for the company itself, because the colleagues mean ‘the values’ for the company and by the employees’ development, the knowledge and ability also improves on the company level.⁵²

Among the wide range of services BI-KA offers are:

- *International forwarding:*

BI-KA disposes of a modern and expanding vehicle park and the experienced and qualified international forwarder colleagues provide complete logistics solutions in the field of forwarding. In a yearly average, it does more than 20.000 freight tasks and offers cost-effective and customized solutions. The international forwarding activity is usually done by 1-24 tons trucks with sheet and trends towards almost all the European countries. The company also deals with special transportation tasks such as oversized and container shipping and also with goods which require temperature controlled trucks.

- *Inland distribution*

The inland logistics department has been operating as an independent business unit for five years now and deals with nation-wide domestic pallet distribution. Besides its regular services there are additional ones like the ‘BI-KA express’ service, cargo insurance, cit-logistics solutions and removals with the help of stevedores.

⁵² Cégismentető (2012) BI-KA Logisztika Kft. 2012. p.2

- *Warehouse logistics services*

As a part of the warehouse services, the firm offers both indoor and outdoor storage facilities for goods. There is also a VAT warehouse and moving storage is also provided. Besides, the company also offers a wide range of services such as

- the full customs clearance
- manual and mechanical handling,
- commissioning, picking, wrapping
- packing
- computerized inventory management
- siding connection

Apart from the above mentioned services, the company also offers special, additional logistics consulting for individuals. It also deals with complex logistics projects which are popular among the partners of BI-KA.⁵³

3.3 The position of BI-KA among the Top 50 business ventures in Jász-Nagykun-Szolnok County

According to the ‘Top 50 most significant business ventures of Jász-Nagykun-Szolnok County’ (2011) publication, the region is developing constantly and its economic life is also gaining a higher reputation from year to year. This phenomenon can be due to the fact that many existing and new ventures managed to increase their turnover of sales and their business results in the region. This is outstanding, because the Northern Great Plain Region is still lagging behind compared to the Western part of Hungary, where both the natural endowments and the state of infrastructure are more favourable. The publication analyzed the businesses according to their legal forms, or in other words, the taxpayers’ categories. Three kinds of types were distinguished partnerships, entrepreneurs and sole traders. As for the companies, approximately 27. 614 firms were registered as business ventures with legal entity. Among them, the most popular legal form proved to be the limited company with the number of 26, 383. The number of partnerships has grown by 2,172 since the end of 2009. In the region, partnerships are mainly consisting of limited liability companies and limited partnerships. The number of LLCs was 5, 856, while the number of limited

⁵³ Cégismerető (2012) BI-KA Logisztika Kft. pp. 4- 5

partnerships was 3,700 at the end of 2010 in the county.⁵⁴ Besides, 46% of the partnerships are firms with legal entities, while the rate of those that don't have legal entities is 33%. According to 2010 statistics, the number of firms which have legal entities increased by 7% in contrast with those which doesn't have decreased by -3%. The publication also analyzed the net turnover of sales of corporations in the county. In 2010 the net turnover which was realized by the companies was HUF 208, 8 billion and in 2011 this amount became HUF 217, 6 billion. In terms of the national economic sectors, the processing, catering and transport sectors increased last year compared to the others. Domestic sales also increased in the transport industry, but dropped in others, except for the services, export and agriculture sectors. Trade concerning domestic sales also fell back by 7.5% in 2010. In the county, it was general that many business ventures accomplished only small amounts of sales i.e. one-tenth of them realized only HUF 1 million.⁵⁵

Among the examined business ventures, one-third had reached a turnover of about HUF 10 million to HUF 50 million, while 15.6 % materialized about HUF 50 million to HUF 250 million. As far as the pre-tax profit by national economy sectors is concerned, more than 60% of corporations operating in the transportation industry (among others) have managed to realize a profit. In case of wage costs and average wages, it can be observed that the wages of employees who are working in the transport industry have increased by the amount of HUF 45,000.⁵⁶

In the publication about the top 50 business ventures in Jász-Nagykun-Szolnok County, corporations were analyzed by the sum of their net turnover of sales, based on the company's tax returns which were submitted to the tax authority. The Top 50 list only includes those corporations which allowed publishing their data to the public. Out of the 50 businesses, 47 allowed using their data and publish their names in the list. Within the micro region of Szolnok, 8,054 business ventures operate. In Szolnok, the aggregate turnover was HUF 344,6 billion, which was mostly achieved by the largest firms. In 2010,

⁵⁴ Adó- és Pénzügyi Ellenőrzési Hivatal Észak-alföldi Regionális Főigazgatósága: Jász-Nagykun-Szolnok megye gazdaságát bemutató TOP 50 kiadvány (2011) Retrieved 23 September, 2012 from http://jnszmkik.hu/userfiles/file/TOP50_hun_s.pdf

⁵⁵ Jász-Nagykun-Szolnok megye gazdaságát bemutató TOP 50 kiadvány pp. 11-12.

⁵⁶ Jász-Nagykun-Szolnok megye gazdaságát bemutató TOP 50 kiadvány pp. 16-17

the order of the top 50 list changed, as eight new members entered the table. BI-KA Logistics Ltd. managed to step to the 49th place with a net turnover of HUF 2.8 billion.⁵⁷

3.4. SWOT analysis of BI-KA Logistics Ltd.

The SWOT analysis is a method of strategic planning that is used to define and evaluate the strengths, weaknesses, opportunities and threats of a given business unit or project. By using this method, we can distinguish the internal (strengths, weaknesses) and external (opportunities, threats) characteristics. By knowing these data, the business venture will be able to make wise decisions and set up objectives for the future. Strengths are those values in which the company is good at, thus can build upon in the future. These strong values must be the base of the operation and should be developed in order to optimize technology, reach competitive advantages and employ the best experts. Weaknesses are those traits which need to be improved. In this case, the problematic points can be the reasons why the company is lagging behind or the customers are dissatisfied. Opportunities are those points which can be observed from the environment. If the business venture is able to recognize these options and act in time, it could influence its operation favourably on the long run. Threats are all around the firm, and it is essential to remove and not to ignore them. The most common threats are the appearance of competitors on the market, the changes in demand and supply or the changes of customer behaviour. It is not easy to react immediately and reduce them, but they can be aggravated if the management doesn't recognize them and take steps to eliminate or diminish them.⁵⁸

⁵⁷Jász-Nagykún-Szolnok megye gazdaságát bemutató TOP 50 kiadvány pp. 18-19

⁵⁸ SWOT analysis Retrieved: 23 September, 2012, from <http://www.managementstudyguide.com/swot-analysis.htm>

Table 1. **SWOT analysis of BI-KA Logistics Ltd.**

STRENGTHS • Complex logistics services • Capital intensity => good liquidity • Strong brand • Flexibility towards the need of contractors • Thinking about solutions in all cases • Openness to changes • Need for innovation, continuous investments • Sequential trainings and developments • Proper organization • High ratio of graduates	WEAKNESSES • Lack of a motivational system • Lack of presence outside the region • Lack of managers' supply • Constraints of capacity • Fragmentation in the area
OPPORTUNITIES • Proximity of Kecskemét and Jászberény • Development of the agricultural industry • Strong German relations • Local relationships • Opening of the market • Development of Szolnok micro-region (as the result of the settling companies) • Rail centre (factor siding)	THREATS • Composition of the customer portfolio • Drying up of the sources of funding • Appearance of strong competitors in the region • Losing partners because of fluctuation • Unfavourable economic environment, effects • Danger of losing clients because of the lack of capacity

Source: Own compilation based on company documents

3. 5 Summary of a customer satisfaction survey (2011)

In 2011, Bi-KA made a survey in connection with its top 50 partners to be able to know its clients' opinions about the quality of the company and its services. The survey took place from 28 September to 14 October 2011. The number of asked companies was 44 and they included ventures like the Claas Hungary Ltd., Aunde Ltd. and Eagle Ottawa Hungary Ltd. The characteristics of the sample consisted of the companies which could be found in the protocol list in 2011, were among the top 50 partners and were Hungarian companies.

Table 2. **The list of the asked companies**

1	Claas Hungária Kft	23	Graboplast Padlógyártó Zrt.
2	Aunde Kft	24	Böllér Élelmiszeripari Ker. Szolg. Kft.
3	Eagle Ottawa Hungary Kft.	25	Flexi Force Hungary Kft
4	Derula Kft.	26	Vibracoustic Mo. Légrugó Kft.
5	Contarex Agrotechnika Kft.	27	Alfred Schuon Kft.
6	Vajda-Papír Kft.	28	Huntraco Zrt.
7	Dometic Zrt.	29	Agribrands Europe Hungary Zrt.
8	Star Kereskedelmi és Szolgáltató Kft.	30	Antalis Hungary Kft.
9	Keramitália Kft	31	Techno-Cenzor Kft.
10	KÉSZ Ipari Gyártó Kft.	32	AL-KO Kft.
11	Monsanto Hungária Kft	33	Kunferr Acélszerkezeti Kft.
12	Branaldi Ker. és Szolg. Kft	34	UTT Europe Kft.
13	Schwinn Csepel Zrt	35	Kevefém Kft
14	ITT Lowara Hungary Kft	36	CG Electric Systems Hungary Zrt
15	Stadler Szolnok Vasúti Járműgyártó Kft	37	Multikomplex Budapest Kft
16	Malagrow Kereskedelmi Kft	38	Silwell Kft
17	Ilpea Profext Kft	39	Szolmet Kft
18	Petruzalek Kft	40	Magtár Termeltető Kereskedelmi Kft
19	Unimax-Hungária Légtechnika Zrt	41	MBT Polymers Hungary Kft
20	COLOR Pack Nyomdaipari Zrt	42	Gépész-Koordinátor Kft
21	Szatmári Kft	43	Portus Kft
22	Uniall Kft	44	Rath Hungária Kft

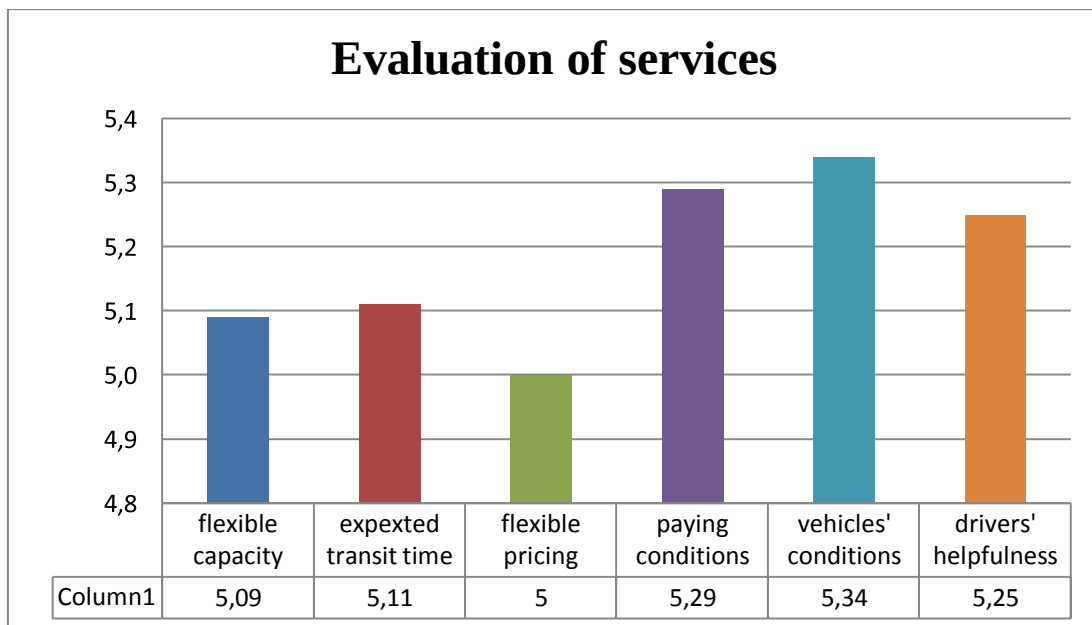
Source: Based on the summary of the customer satisfaction survey - 2011 in case of TOP 50 companies BI-KA Logistics Ltd.

The survey included 7 questions in connection with their customers' satisfaction with BI-KA:

- Evaluation of the services used according to the given standpoints
- Opinion about their satisfaction concerning the work of freight forwarders
- Finance (understanding the invoices, promptness)
- Evaluation of the newsletters
- Setting up a prioritization according to the given standpoints
- Expected investments and developments of the partner business ventures
- Requisition of the services

In each case, the respondents had the opportunity to express their opinions in a longer way and to make notes or remarks. The scale was from one to six, one was the worst and six was the best.

Figure 1. **Evaluation of services used according to the given standpoints**

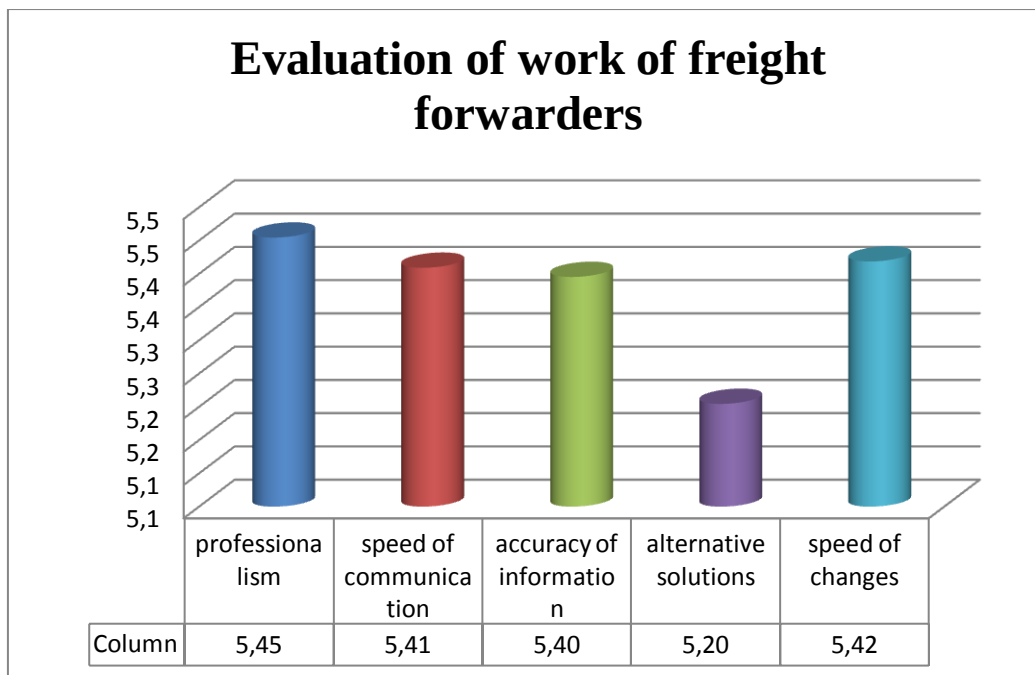


Source: Own compilation based on the customer satisfaction survey of BI-KA Logistics Ltd.

During the evaluation of services (see Figure 1), the examination criteria were the following: providing flexible capacities, providing the expected transit time, flexible pricing, paying conditions offered by BI-KA, technical conditions and equipment of

vehicles and the helpfulness of the drivers. According to the results, the partners were the least satisfied with the flexible pricing, where the average was 5. Providing flexible capacities and the expected transit time were also a little bit lower than the over-all average. What was ‘best’ according to the partners’ opinions was the technical conditions and equipment of vehicles where the average was 5.34. Surprisingly, two companies, Star Kereskedelmi Kft. and Antalis Hungary Zrt., had problems with the cleanliness of the vehicles and with the helpfulness of drivers.

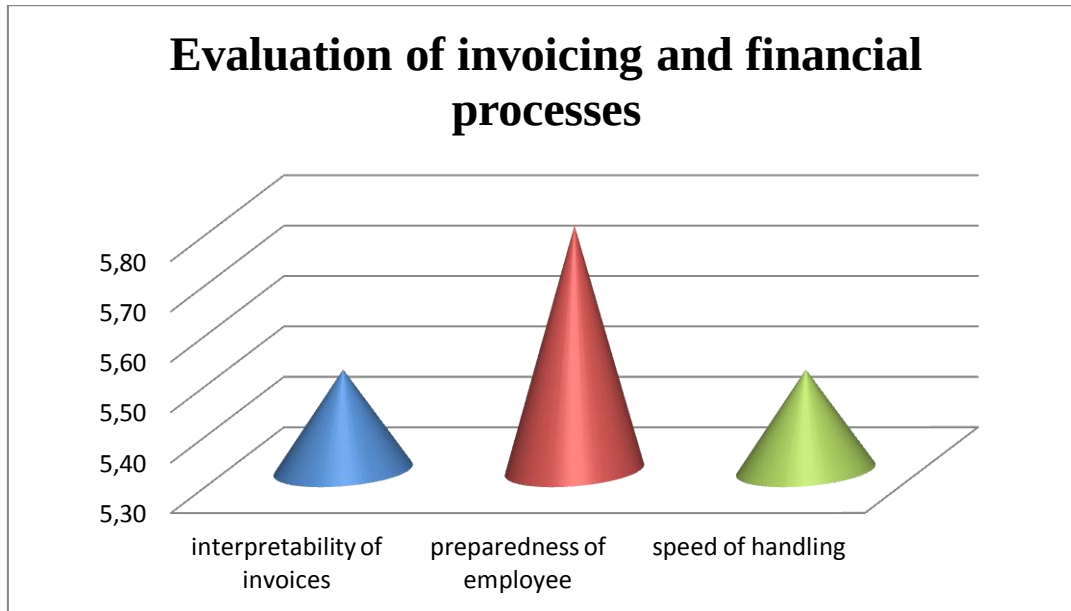
Figure 2. Evaluation of work of freight forwarders



Source: Own compilation based on the customer satisfaction survey of BI-KA Logistics Ltd.

In the case of the evaluation of the work of freight forwarders (see Figure 2) the examined aspects were: professionalism, the speed of communication, accuracy of information, supply of alternative solutions, and the speed of measure if the needs of the contractor change. The respondents considered professionalism as the best value of the company, as it received a 5.45 average on the scale. The opinion was also very positive about the speed of work with an average of 5.45, although Alfred Schuon Ltd. only gave 2 for this aspect. The speed of communication and the accuracy of information almost received the same evaluation with an average of 5.41 and 5.40. The supply of alternative solutions was the worst according to the partners with an average of 4.20 only. The worst rating here came from STAR Kereskedelmi Zrt. with 2 points.

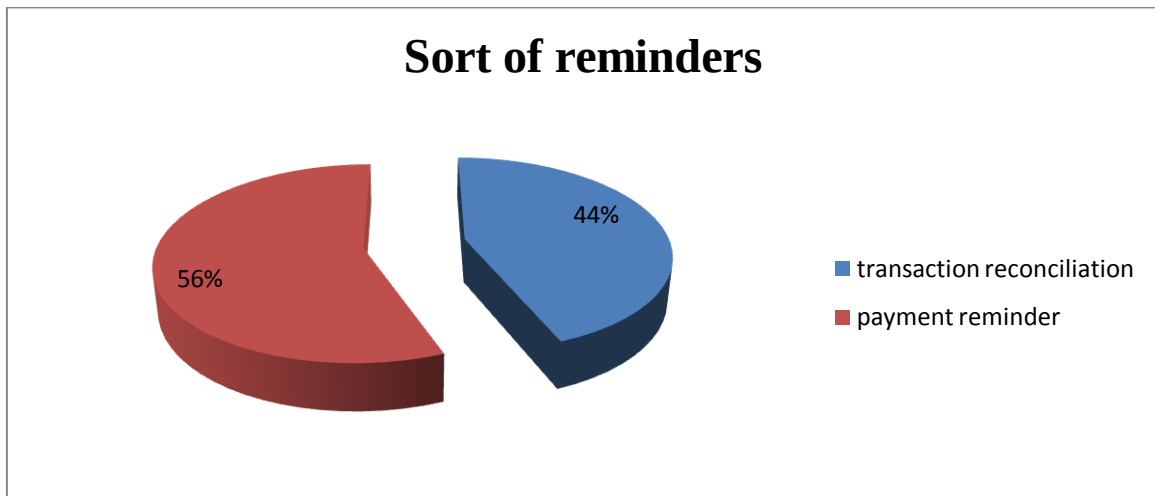
Figure 3. Evaluation of invoicing and financial processes



Source: Own compilation based on the customer satisfaction survey of BI-KA Logistics Ltd.

For the evaluation of the invoicing and financial processes (see Figure 3) the examined viewpoints were: the interpretability of invoices, the preparedness of the financial employee, and the speed of handling in case of invoice complaints. All the respondents answered that they were satisfied with the quality and accuracy of staff, accordingly it was rated excellent with an average of 5.79. The other two aspects were measured with an average of 5.50, which can also be characterized as quite good.

Figure 4. **Sort of reminders**



Source: BI-KA Logistics Ltd. customer satisfaction survey

Concerning the types of reminders (see Figure 4), there were two options offered for the partners: whether BI-KA should send transaction reconciliation before the invoice expiration or should send payment reminders after the payment expiration. The conclusion can be drawn that payment reminder (with 56%) is the option what the majority of partners wants and that the reconciliation would be required by only 44% of the them if these options would be offered in the future. One company, Unimax Hungária Ltd, would prefer if they could be notified via phone in the future in connection with invoices.

4. Newsletters

In connection with newsletters sent to the partners, the survey looked for the answer to the question whether they receive them regularly or not. Those who have subscribed to them, were also asked about their opinion about the content. On the basis of the results, the conclusion was drawn that those partners who didn't get letters at all should get them in the future, therefore they were entered into the database.

5. Prioritization

In the survey, Bi-KA also wanted to know which aspects are the most important ones during the transportation process. According to the results, the order is the following:

1. Fast information flow
2. Providing marketable freightage

3. Punctual and fast capacity providing
4. Personal relationship established with the freight forwarder

It can be clearly seen that the partners consider speed as one of the most important aspects.

6. Investments and developments

The survey also measured the partners' willingness to invest. Out of the 44 companies asked only nine answered that they plan investments in the following year. 32 ventures said that they are not planning anything like that, while three didn't reply to the question.

7. Services in connection with forwarding

The majority of respondents chose customs clearance (16 %), which was followed by marine transportation (9 %). The BI-KA express service and warehousing services both received 7%, while removal and air transportation did not prove to be popular, as nobody among the surveyed partners chose them.⁵⁹

3. 6 CLAAS Hungária Kft. as major BI-KA partner

CLAAS Hungária Kft. was established in 1995 in Törökszentmiklós and since then it has been operating successfully. It mainly manufactures rotary drum machines and cutter bars as well.⁶⁰

In connection with the Hungarian subsidiary CLAAS (Helmut CLAAS GmbH) should be mentioned as well. The family firm was established in 1913 in Clarholz (Westphalia) by its founder August Claas. The company moved to its current location, to Harsewinkel in 1919. In the 1930's, it started to manufacture its first combine harvesters and started to spread to Europe. In 1962 it set up production in Metz, France. In 1997, CLAAS took over a new plant in Törökszentmiklós, which is still one of the most successful and profitable factories in Hungary according to the orders. In 2005, the company expanded to Krasnodar (South-Russia) and three years later to Chandigarh, India. These steps have contributed to the constant development and growth of the company. Today, Class is represented all over the

⁵⁹ Elégedettségmérés összesítése – 2011 TOP 50 cég esetében BI-KA Logisztika Kft. (Summary of the customer satisfaction survey - 2011 in case of TOP 50 companies BI-KA Logistics Ltd.)

⁶⁰Hungary – Törökszentmiklós. Retrieved 12 September, 2012 from http://www.claas.com/cl-gr/en/company/standorte/europa/ungarn/start,lang=en_UK.html

world, including most of the European countries, America, Asia and naturally Germany. It can show up EUR 3, 3 billion Euros as turnover for the 2010/2011 fiscal year.⁶¹

In its business relationships with the suppliers, CLAAS tends to focus on the close collaboration and common growth with each other. It is very important for the company, to maintain a high level of communication, commitment and mutual trust, which are essential concerning the long-term objectives towards its partners. The firm emphasizes that it can only work on the long run, if they and their partners work and compete together on the global market. Besides the importance of the supplier relationships, CLAAS also considers it very important to provide the highest quality products which are characterized by constant and intense technical innovation.

As for quality policy, the firm highlights the significance of customer satisfaction which can be only guaranteed if the given products and services are faultless and meet the expectations of the market.⁶²

As mentioned before, one of the biggest and most significant partners of BI-KA Logistics Ltd. is CLAAS Hungária Kft. in Törökszentmiklós. Not only if we take into consideration the exports but also the import which is coming from CLAAS KGaA mbH in Harsewinkel as well. It can be stated that concerning exports to the German area, Claas places the highest number of most orders with the company. Thus, not surprisingly, the question arises whether BI-KA should establish a local branch office or subsidiary in Harsewinkel.

Revenues data

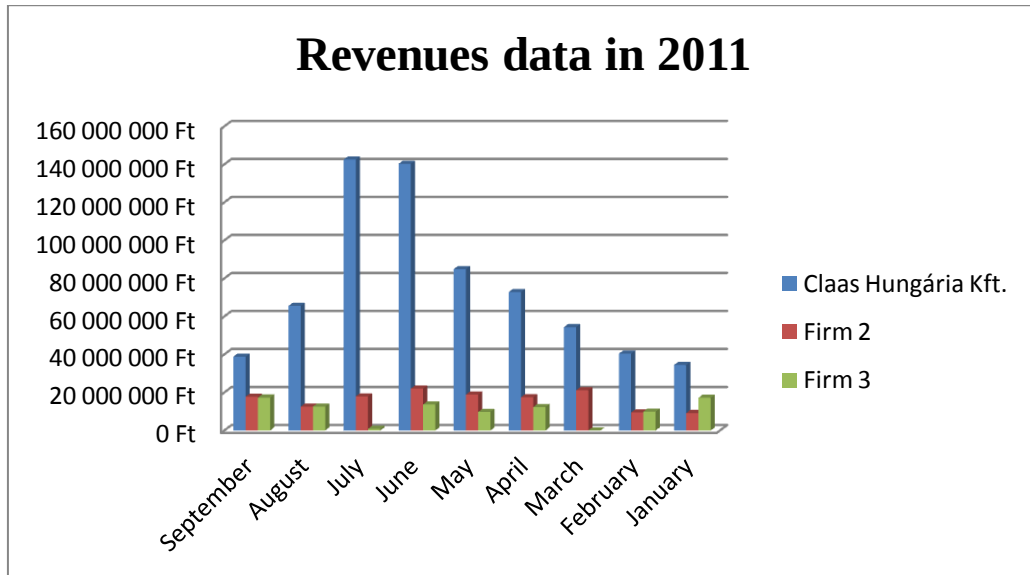
In order to get a clear picture about the dominant situation of Claas Hungária Ltd among BI-KA partners, I analyzed the revenues data and number of orders in 2012 from January to September. I compared the revenues and number orders of Claas to the other nine biggest partners of BI-KA (Claas – Firm 10, see Annex 1 and Annex 2).

I made diagrams to illustrate the dominance of CLAAS Hungária Kft. concerning the revenues data.

⁶¹ Claas – Milestones. Retrieved: 11 September, 2012, from <http://www.claas.com/cl-gr/en/company/history/milestones/start,bpSite=35108.html>

⁶² Claas Guideline – Quality, Supply chain management .Retrieved: 11 September, 2012, http://www.claas-supplier.net/bp/servlet/contentblob/CSN/en_EN/partner/quality/terms-en,property=data.pdf pp. 4

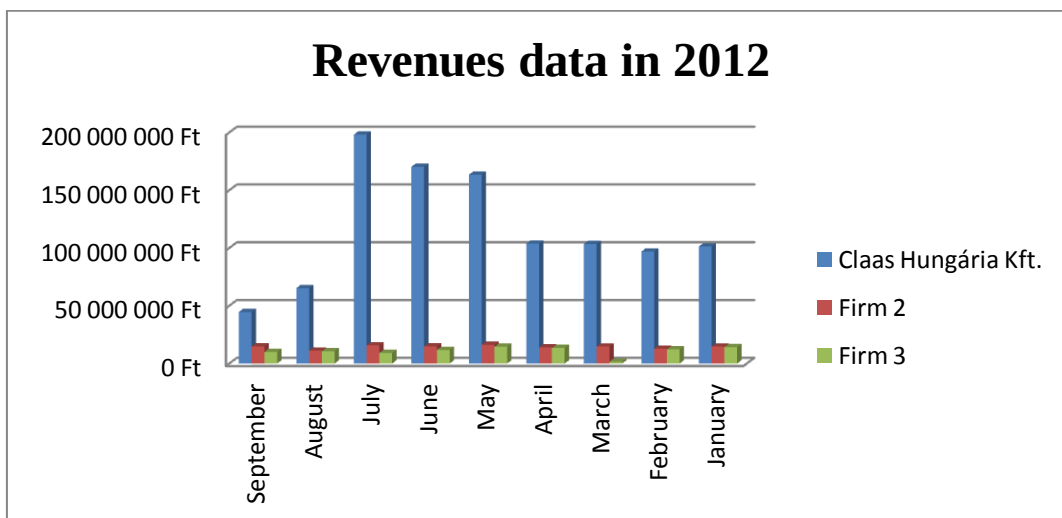
Figure 5. Revenues data in 2011



Source: Own compilation based on company documents

I compared the revenues from CLAAS to the other two biggest partners of BI-KA (Firm 2 and Firm 3). It can be seen clearly that CLAAS is highly stands out in each month in 2011.

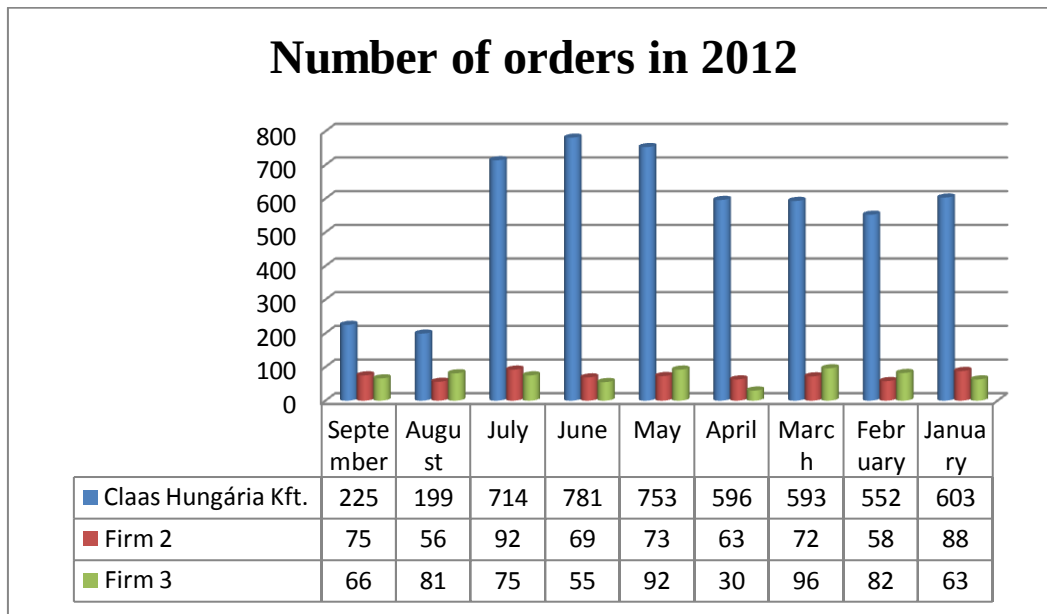
Figure 6. Revenues data in 2012



Source: Own compilation based on company documents

I also did the same comparison with the same BI-KA partners in 2012. The result is also the same, it is evident that CLAAS has the biggest share in connection with revenues compared to the other biggest partners of BI-KA.

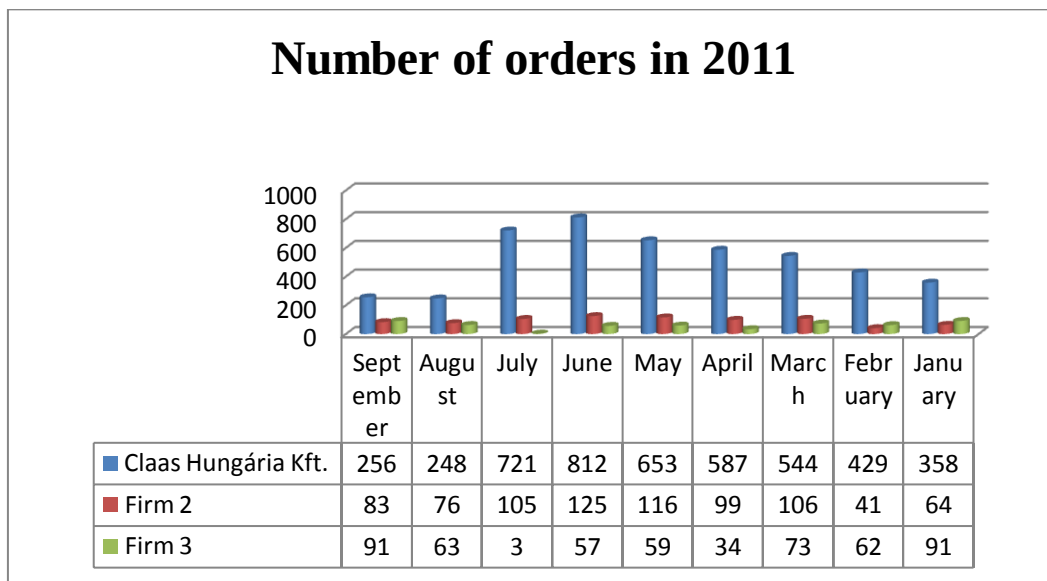
Figure 7. **Number of orders in 2012**



Source: Own compilation based on company documents

Besides the revenue data, I also examined the number of orders given by the biggest partners in 2011 and 2012. As the diagram shows, the number of orders given by CLAAS Hungária Kft. is highly outstanding compared to the other firms.

Figure 8. Number of orders in 2011



Source: Own compilation based on company documents

In 2011, the situation was the same, as the diagram shows, CLAAS Hungária Kft. still managed to preserve its first place as the partner who gives the majority of orders to BI.KA.

The conclusion can be evidently drawn, that CLAAS Hungária Kft. is the major partner of BI-KA both in terms of revenues data and number of orders as well. Taking into consideration the results of the examined years, CLAAS it is still leading; what's more in July (2012) the revenues from the company almost reached the 200,000,000 HUF.

4. DOING BUSINESS IN GERMANY

4. 1 Bilateral relations between Germany and Hungary

As far as the economic relations between Germany and Hungary are concerned some historical milestones should be highlighted. They are the following:

- 1989 - Hungary laid down the base for bilateral relations on 10 September when it opened up its border with Austria.
- 1992 - Friendly Cooperation and Partnership was the next step for forming bilateral relations between the two countries.
- 1994 - By the Europe Agreement the relations between the two countries became more expanded and intensified.
- 1999 – Hungary became member of the NATO.
- 2004 – Hungary joined to the European Union, while Germany was one of the founding members

With the accession to the EU, Hungary became a member of the customs union and the internal market. The customs union is a trade bloc which consists of a free trade area and there is a common external tariff. Being a member of the customs union means that the countries define a common external trade policy, but it happens that they use different import quotas.

By belonging to the internal market, the free movement of persons, goods, services and capital (the four freedoms, removal of barriers) is essential between the EU Member States.

The accession supported the development of economic relations between Hungary and Germany as Hungary offered more opportunities in the field of business as an EU member. After joining, Hungary became an equal partner within the zone and Germany became its main trading partner. The bilateral political relations are close and trustful among the two countries, which can be observed by the numerous visits at all levels. Additionally, the two countries work together closely in numerous international organizations such as the United Nations, the OSCE or the Budapest-based Danube Commission.⁶³

⁶³ Hungary. Retrieved 22 September, 2012, from http://www.auswaertiges-amt.de/EN/Aussenpolitik/Laender/Laenderinfos/01-Nodes/Ungarn_node.html

As far as their trade is concerned, two important organizations are essential, when looking at the bilateral relations between the two countries: The German -Hungarian Chamber of Industry and Commerce and the Danube Commission.

The Chamber was established in 1993 by 47 German and Hungarian companies and institutions. “The Chamber is a voluntary organization of about 900 companies committed to strengthening and broadening the economic ties between Germany and Hungary. It is the largest foreign chamber in Hungary.”⁶⁴ Its primary objective is to promote and strengthen German-Hungarian economic relations. It also offers a wide range of information to different business services.

Its principles are:

1. “The DUIHK is a strictly bilateral organization. This applies to the organizational structure as well as to the focus of its services and activities.
2. The DUIHK is strictly neutral towards political parties and does not engage in issues of political nature. Matters of economic policies are being treated according to the principles of European law and of fair and transparent market competition.
3. Finally, the DUIHK focuses on practical solutions for companies which enable them to be more successful in their field of business.”⁶⁵

The Danube Commission is an international intergovernmental organization established by the Convention regarding the regime of navigation on the Danube signed in Belgrade on 18 August 1948.

The basic aim of the Commission consists in providing and developing free navigation on the Danube for commercial vessels and to strengthen and develop economic and cultural relations of the member states. The commission’s headquarters can be found in Budapest. German, Russian and French are the basic languages of the organization. In order to modernize the Commission the primary aim in the next years is to strengthen its role and to expand the number of the member countries.⁶⁶

⁶⁴ The German-Hungarian Chamber of Industry and Commerce. Retrieved 13 August, 2012, from <http://www.ahkungarn.hu/ueber-uns/english-pages/>

⁶⁵ Danube Commission Retrieved 13 August, 2012, from <http://www.ahkungarn.hu/hu/magunkrol/english-pages/>

⁶⁶ Welcome to the Danube Commission website. Retrieved 13 August, 2012, from http://www.danubecommission.org/index.php/en_US/welcome

4.2 Importance of the German economy

The German and Hungarian economic relations are quite close and intensive, which might be the result of their common history and common interests both in economic and development terms. According to 2011 statistics, Hungary's most important trading partner is Germany and approximately a quarter of Hungary's foreign trade was with Germany. According to figures, bilateral trade was worth 33, 9 billion Euros in 2011. "Germany is also the leading foreign investor in Hungary: at the end of 2009, German companies accounted for 22 per cent of all foreign direct investments in Hungary with aggregate investments of approximately EUR 69 billion There are more than 7,000 companies in Hungary set up partially or wholly with German capital, which employ a total workforce of more than 250,000."⁶⁷

Since the EU accession, the cooperation between the two countries even strengthened. Due to the intensifying relations, by 2010 the ratio of imports to exceeded the ratio of exports from Germany. According to statistical data (KSH) there was a continuous growth of the Hungarian exports to Germany between 2003 and 2007. There was a continuous growth (12, 3 billion Euros to 17, 3 billion Euros), while in 2008 there was a slight drop (16,8 billion Euros). In 2009, mainly because of the economic crisis, they decreased again to 13, 8 billion Euros. Not surprisingly, in 2010 they increased by 21, 3 %, which meant 16, 7 billion Euros. As for the German exports towards Hungary: between 2003 and 2008 an increase could be seen (from 11, 9 billion Euros to 17, 4 billion Euros). In 2009 there was a fallback by 30 % (11, 7 billion Euros), while in 2010 they started to increase again to 14, 3 billion Euros. The Hungarian share in Germany's imports was 2, 1% and in export the rate was 1, 5 %. According to these data, Hungary stood at the 16th place in terms of exports and imports in 2010.

As far as the tourism sector is concerned, in 2007 German tourists spent 953 million Euros in our country; while the Hungarian tourists spent 95 million Euros in Germany⁶⁸ It can be clearly seen that the tourism sector contributes substantially to the Hungarian economy and to the GDP growth.

⁶⁷ Hungary. Retrieved 22 September, 2012, from http://www.auswaertiges-amt.de/EN/Aussenpolitik/Laender/Laenderinfos/01-Nodes/Ungarn_node.html

⁶⁸ A magyar-német gazdasági kapcsolatok főbb jellemzői. Retrieved 13 August, 2012, from <http://www.ksh.hu/docs/hun/xftp/gyor/jel/jel309072.pdf>

m EUR

Table 3. The structure of merchandise in German-Hungarian trade

	Export		Import	
	2009	2010	2009	2010
All	15.113	17.981	13.740	16.806
Food, drink	527	516	707	736
Raw materials	321	332	136	170
Energy sources	189	274	374	391
Processed products	4,181	5,072	4,634	5,554
Machinery	9,894	11,786	7,889	9,953

Source: Foreign Trade Office

As far as the Hungarian exports are concerned the biggest share belongs to machinery and equipment (2/3). The other group which has a bigger share is processed products, food and drink. It can be said that export increased in most of the product groups.

In case of German imports into Hungary, the structure is almost the same. Import increased in all product groups, but export was higher value than import.

Foreign direct investments between Germany and Hungary

Since the beginning of the 1990s, Hungary has been one of the most important targets for foreign investors in Middle and Eastern Europe, especially for those from Germany. Today almost 30 per cent of all foreign direct investments in Hungary come from Germany. Last year this was 15 billion Euros in total. It can be said that Germany is Hungary's biggest capital investor with one third of the investments coming from this country. At present, there are approximately 7, 000 active companies with German interest in Hungary. They are providing almost 300, 000 workplaces in Hungary. The number of Hungarian companies operating in Germany is less significant. German companies have committed themselves very much in the Hungarian vehicle construction and in the chemical industry, as well as in mechanical engineering, trade, energy supply or in the domain of banks and insurances. The long-term strategy of German enterprises in Hungary is distinctive. The part of the profit that is not distributed to the parent company, but reinvested in new installations in Hungary, is unusually high with German enterprises. Since 1999,

approximately half of these “re-investments” in Hungary have been made by German companies.⁶⁹

German FDI’s have several impacts on the Hungarian economy which are the following:

- *Job creation* - The presence of German FDIs have resulted in the creation of jobs in Hungary especially in the automotive industry (e.g. Audi in Győr and Mercedes in Kecskemét with more than 2500 workplaces)
- *Contribution to GDP growth* – German FDIs (companies) also contribute to the growth of the Hungarian GDP.
- *Access to technologies and innovation*
- *Co-operation with Hungarian institutions for training and research* - The German companies invest a lot in IT and innovation by cooperating with Hungarian research Institutions and universities.
- *Continuous economic development*
- *Contribution to the tax income of the Hungarian government*
- *Commitment to environment protection and social purposes* - German companies are especially committed to environmental protection such as sustainability, renewable energy and waste management. Various companies contribute to schools, sports clubs or cultural projects on a local or regional level.
- *Support of culture and sports (e.g. E.ON and T-mobile)* E-ON supports e.g. the Hungarian Olympic committee and Hungarian Telekom subsidiary T-Mobile promotes the internationally known Budapest “Spring Festival”⁷⁰

Why do German companies invest here?

There are many reasons for this: the relatively low production costs, the high quality of manpower and the inventiveness of the people, the continuously improving infrastructure, a very open economy (since 1989), the central location in Europe (East-West bridge) – access to Eastern European markets.⁷¹

⁶⁹ Tamás Vahl: The economic relationship between Germany and Hungary. Retrieved 22 September, 2012, <http://ebn24.com/index.php?id=34803&type=98&L=1>

⁷⁰ Vahl Tamás: The economic relationship between Germany and Hungary. Retrieved 22 September, 2012, from <http://ebn24.com/index.php?id=34803&type=98&L=1>

⁷¹ Michael Gross et al : Economic perspectives on Hungary (2012) Retrieved 8 October, 2012, from http://www.slideshare.net/k_navita/economic-perspectives-on-hungary-ppt

The biggest German investors in Hungary are Mercedes-Benz, Audi, Knorr Bremse, Deutsche Telekom, Siemens, Bosch etc.

The Mercedes and Audi investments

The Stuttgart based company Mercedes Benz invested 800 million Euros in building a plant in Kecskemét in 2009. This is the biggest green field investment in Hungary.

The investment was quite useful for the Hungarian economy because the factory was realized by 80% through Hungarian construction companies and this increased their turnover. It created more than 2500 new workplaces and increased demand towards Hungarian suppliers' products. The Audi investment, is a 900 million Euros investment in Hungary until 2013. It was announced in 2012 and contains the development of the factory in Győr. The aim of this investment is to be able to do the complete car production process in Hungary, not just the assembly.

As German companies are thinking long-term and reinvest a lot, there is a high possibility that further companies will invest in Hungary. For this, we have to gain their trust and meet their expectations, which are e.g. a stable, predictable political and economical environment, an enterprise friendly environment and a well developed infrastructure. The Hungarian government has to take steps to realize these conditions.

4.3. Characteristics of Germany in an economic sense

Possible ways of an entry to the German market

One of the most important steps when entering the German market is to capacitate the Hungarian products and services to the German standards and requirements. Aspects may include the quality, quantity, price, wrapping, the service and delivery reliability and the EU certification. These traits can be especially important when a company wants to establish durable supplier relationships and reach fruitful market access. As for the distribution channels, they can be different according to the exporter's marketing strategy, financial opportunities and market experiences. As Hungary is also a member state within the EU, since the accession the process of establishing an own market organization (warehouse, premise or subsidiary) is much easier in Germany. The documentation of forwarding is regulated and worked out by the FIATA (International Forwarding Association). The two most important documents in connection with forwarding are the

FCR (Forwarders Certificate of Receipt) and the FCT (Forwarders Certificate of Transport).

Foreigners' employment

There are some regulations concerning foreigners who want to live and work in Germany. These people have to ask for work permit, except:

- if they are EU citizens
- if the residence doesn't exceed the three months period.

So in case of Hungarians, they can work in Germany without any restrictions, because of the EU membership and the principle of the free movement of persons.

Especially from 2011 May on, the direct employment of Hungarian workers became open in Germany and the work permit requirement also ceased. Thus, Hungarians can be employed without any work permits at the companies registered in Germany and according to the valid labour and employment conditions.⁷²

Corporate tax

Corporate tax is “a levy placed on the profit of a firm, with different rates used for different levels of profits.”⁷³ The subjects of this tax are those companies whose headquarters and management are located in Germany (these are responsible for all revenue coming from all over the world), and those firms which are considered non-residents on the German market (these are liable to taxation only after incomes which come from Germany). The extent of corporate tax is 25%, which is supplemented by a ‘solidarity contribution’ which aims at developing the Eastern German region.⁷⁴

Sales tax

This tax is levied on every sale of goods and services, generated in Germany. There are some exemptions from sales tax, such as bank, - or security services and export. The tax rate is 16%, but its reduced rate is 7%.⁷⁵

⁷² Németország- Országismertető. Retrieved 21 July, 2012, from

<http://www.hita.hu/Content.aspx?ContentID=b684f082-e3c3-4a66-9776-9bc47a0c1bfb>

⁷³ Definition of 'Corporate Tax. Retrieved 4 November, 2012, from

<http://www.investopedia.com/terms/c/corporatetax.asp#axzz2A4rYJ0ht>

⁷⁴ Bárdos Péter, Dr. Gabriel Lansky (2005): Cégalapítás, befektetés Az Európai Unióban, hvg orac kiadó, Budapest pp. 342-343.

⁷⁵ Bárdos Péter, Dr. Gabriel Lansky (2005) pp. 343.

Income tax

The taxpayers in this case are those natural persons who are considered to be German residents, and those non-residents who have to pay taxes after their incomes coming from Germany. Basically, there are six types of revenue which are taxable: agriculture, trade, independent professions (e.g. doctors, lawyers), application, investment, pensions, license and some other incomes. The tax rate is progressive, its lower limit is 19, 9% and the upper one is 48, 5%. As for dividends, they are taxed with deductions and the tax rate is 20 +5, 5%.⁷⁶

Local taxes

Those who are conducting business activities are obliged to pay the so called trading tax, independently from the legal form of the activity. The tax rate is more or less equal to the rate of the corporate tax, except for some modifications. In case of an activity conducted in non-capital company form, the revenue is free of tax until 24, 500 Euro, and above this amount the tax can be considered progressive which moves 1-5%.

Property tax

Included in this tax are those transactions which are quitclaims. The tax rate is 3,5%, which can be calculated after the tax rate of the property.

State subsidies and incentives

In Germany there are approximately 3000 incentive programs for investors. These are quite diverse there are e.g. EU, federal and even provincial levels. The target areas can also vary, such as investing incentives, research and development, etc. To be able to apply for such a grant, a registration at the local office is a must. It should be done before starting the activity.

Trade and technical information in connection with external trade

The basic aims and principles of trade between the two countries are laid down in the Europe Agreement, which is the base of their commerce. The licensing system of commerce is originally based on the community rules. The external licensing system in

⁷⁶Bárdos Péter, Dr. Gabriel Lansky (2005) pp. 344.

Germany makes a difference between imports, depending on whether they are licensed or unlicensed. In case of the unlicensed import process, the importer makes a statement of claim at the customs authorities to carry out the management of imports. In this situation the freight forwarder has the opportunity to represent the importer at the admission procedure. If the licensed goods are under importation, then an import license is also necessary to the import procedure. In Germany, the official authority which is responsible for the licensing is the Federal economic and export control agency.⁷⁷

Customs and customs tariffs

Customs are those taxes which are levied on the goods which are imported to a country. Since 1975 customs are revenues which belong to the European Community. As a result of Hungary's accession to the EU on 1 May 2004, the customs procedure between certain member countries was eliminated, thus in case of Germany and Hungary the customs procedure does not exist any longer. According to the regulations, for the public transport of goods it is not necessary to attach customs documents anymore, but some of them like the CMR (Contractor Management Review) and other tools such as the travelling warrant and the tachograph are essential.

The Hungarian exports should have certain accompanying documents according to the local requirements, such as commercial invoices, delivery notes, transporting and storing documents, insurance documents, securities and other documents such as the packing list, quality certificate, certificate of origin etc.⁷⁸

Methods of payment

In Germany, there are no restrictions concerning payment methods and conditions, they are the subject of free will and mutual agreement of the partners. The parties only specify certain terms such as the amount of money, currency, spreading of payments, place of fulfillment and naturally the methods of payment. The most common paying forms are remittance, collection, letter of credit and bank guarantee. The safest and most popular methods are the letter of credit and the bank guarantee. The problems resulting from the

⁷⁷ Németország- Országismertető. Retrieved 21 July, 2012, <http://www.hita.hu/Content.aspx?ContentID=b684f082-e3c3-4a66-9776-9bc47a0c1bfb>

⁷⁸ Németország- Országismertető Retrieved 21 July, 2012, from <http://www.hita.hu/Content.aspx?ContentID=b684f082-e3c3-4a66-9776-9bc47a0c1bfb>

unreliability of a German partner can be avoided by getting preliminary information about the prospective parties.

Advertising on the German market

In order to map and select the best advertising methods on the market, the company should be aware of the available options and look for those which are the most effective, both in terms of costs and results. Hungarian companies can ask for help from the Hungarian foreign trade organizations located in Germany. Besides the trade organizations, companies can also be provided with help by national professional organizations. Advertising is practical if it is done in the press, particularly when some Hungarian national annexes are included in newspapers. The most widespread papers are the Handelsblatt and the Frankfurter Allgemeine Zeitung. Other advertising methods can be ensured by different chambers, like the German-Hungarian Chamber of Commerce and Industry.

German business practices

In comparison with other European cultures, the German business culture can be described as normal, but there are a few characteristics which should be highlighted when someone decides to establish contacts and have everyday communication during negotiations.

German behavioral traits should be taken into consideration, as being aware of these attributes can help a lot and avoids conflicts whilst having a meeting. The first thing that can be observed is their keeping from any kind of familiarity in business life. Germans avoid private topics and fraternization and stick to those subjects which are closely connected to the business. They do not like partners who come to the meetings unprepared, as punctuality is important in their lives. So, they like planning and organizing things in advance, and try to avoid lateness and sudden changes in the agenda. It is important for them, to do only one thing at a same time and to concentrate on the urgent problems.⁷⁹

There are other formalities which should be kept minimal, such as not to use the personal and informal “du” at the first meeting and to skip any forms of touch except for the handshake. They like keeping a certain distance zone between themselves, which means that they do not sit or stand too close next to each other. Both in private and business lives

⁷⁹ Németország- Országismertető. Retrieved 21 July, 2012, from <http://www.hita.hu/Content.aspx?ContentID=b684f082-e3c3-4a66-9776-9bc47a0c1bfb>

they pay attention to their appearance and usually wear formal, elegant clothes. In case of written communication (letters, e-mails and faxes), the addressing should be done with 'Herr' and 'Frau' prefixes, and this also applicable to oral communication. When having a business conversation with a German, it is important to know that they do not mix their private lives with their business and strictly concentrate on tasks. As to the problems, they talk about them more directly. When negotiating with Germans, there can also be specific differences for the various regions and areas of the country, so it is worth reading books which deal with this topic.⁸⁰

Investment opportunities

Agreements

When taking into consideration the investment conditions in Germany, two very important agreements should be emphasized, the investment protection and the double taxation agreements. According to the community tax rules, every member state citizen should pay taxes after the earned revenues, in the country in which he/she lives. Thus, the double taxation avoiding treaty ensures that one person only has to pay taxes in one member state. People living in Germany have to pay taxes only in Germany, no matter if their incomes stem from another country. As for those who do not live in Germany, they have to pay taxes after the revenue which they generated in Germany.⁸¹

Business tax

As far as the local business tax is concerned in Germany, it can be said that the freedom of local business prevails. So, there is no need for any kind of official permission to conduct business in Germany, it is enough if the business activity is announced to the authorities.⁸²

General conditions towards foreign investments in Germany

When dividends are paid to the foreign investor (or to the parent company), they are free from deductions if the foreign investor's share in the German company is at least 25% throughout the year. But this amount can be 10% as well, in case of mutuality.⁸³

⁸⁰Joachim Graff & Gretchen Schaupp: More than manners, Tips for business professionals visiting Germany Retrieved 31 October 2012, from <http://www.german-business-etiquette.com/>

⁸¹ Németország- Országismertető <http://www.hita.hu/Content.aspx?ContentID=b684f082-e3c3-4a66-9776-9bc47a0c1bfb>

⁸² Németország- Országismertető. Retrieved 21 July, 2012, <http://www.hita.hu/Content.aspx?ContentID=b684f082-e3c3-4a66-9776-9bc47a0c1bfb>

⁸³ Dr. Bárdos Péter, Dr. Gabriel Lansky (2005) p. 334.

According to the above examined aspects, the German economy is very outstanding and provides favourable conditions for foreign investors.

4.4 Steps of establishing a business in Germany

In the following I am going to introduce the steps of establishing a business in Germany with special regard to the situation of a logistics company like BI-KA.

In order to establish a business in Germany there are some preliminary which the company should be considered. A predetermined list of goals and activities should be drawn up to be able to start a business in the given field. The time-frame is very important, as it will help during the initial period and to see which objectives should be reached by the given date.

The 5 basic steps are the following:

- Idea
- Preparations
- Founding
- Start
- Growth⁸⁴

During the '*Idea*' period, a feasibility study (or benefit analysis) should be conducted in order to get a clear picture about whether the venture is technically achievable or can be profitable (at the planned cost) on the long run. The basic activity during this time should be the collection of information about the market and the legal framework. Market research is necessary to be able to localize 'the project' on the market, therefore it is necessary to keep in contact e.g. with chambers of commerce or different trade organizations. The identification of possible partners is also essential as the chambers of commerce can provide help or share the risk of the company. As far as the legal framework is concerned, the company should enquire about the legal regulations or different safety standards, but as we talk about a logistics company here, there are no restrictions concerning 'products'. The identification of possible locations should also be undertaken with regard to good infrastructural facilities. In case of a logistics company the road network is especially important. The '*Idea*' period can also include the protection of intellectual property, which means whether the given company name is acceptable in the chosen area.

⁸⁴ Investor's basics: Setting up a business in Germany. Retrieved 7 October, 2012, http://www.gtai.de/GTAI/Content/EN/Invest/_SharedDocs/Downloads/GTAI/Brochures/Germany/facts-figures-investors-basics-2012.pdf

In the next phase '*Preparations*', the company should make a business plan which should contain financial and marketing plans, as well as the operation objectives with necessary background information. The financial planning should include the financial data about the parent company (if adaptable). The procurement of the necessary documents is also a prerequisite at this stage. These include the papers of the foreign parent company (articles of association and authorization of founders) in order to establish whether to set up a subsidiary or a branch office in the region. The documents should be notarized and the translation should be certified.

In the '*Founding*' stage, the objective is to decide which legal entity should be chosen (GmbH, branch office etc.) and why. Besides considering the company form, the activities should include e.g. the notarization of the company documents, the opening of a bank account and entering into the commercial register.

When choosing between the legal forms, the company has to decide which is more worthwhile on the long run and why.⁸⁵

The steps of founding are the following:

1. Articles of association should be notarized and signed by the founders
2. Opening of a bank account
3. Registration into Commercial Register
4. Registration with the Local Trade Office
5. Applying for incentives (if available for the company at the given location and kind of investment)
6. Registration with the Tax Office⁸⁶

During the '*Start*' period, initial steps should be done in order to begin the operation of the business such as finding suitable premises and employees. After starting the business in Germany, the first step is the registration of residency at the registration office.

Then, the official place or premises selection comes. In order to get the most suitable real estate, the local newspapers and the Internet can provide information.

The next step is the search for employees which could be done easily with the help of headhunters or with human resources incentives. If the employees are contracted already,

⁸⁵ Investor's Basics: Setting Up Business in Germany (2012) Retrieved: 7 October 2012

⁸⁶ Investor's basics: Setting up a business in Germany (2012) Retrieved: 7 October 2012

then the determination of the standard number of the workforce and a payroll accounting is necessary.

In the last phase '*Growth*', the main objective is to stabilize and find new costumers (besides the already existing ones) through good marketing.

In order to have a good marketing campaign, the company should know the demand on the German market, thus the needs of the German customers. To strengthen the presence on the German market, the company should take part in different events such as trade fairs, and keep in touch with business communities, like the chamber of commerce or various associations of trade.⁸⁷

4.5 Legal forms

In Germany there are two major ways to establish a foreign-based company: it can be done by unincorporated or by legally independent. Within the unincorporated method, the company has the opportunity to establish a branch. It is one of the easiest ways to gain market presence on the German market.⁸⁸

Branch offices (Zweigniederlassungen)

Any foreign company with a parent company in another country can establish a branch office in Germany in order to conduct business and to keep in contact with business partners. A 'possible disadvantage' is that this form is legally not separate from the parent company, thus it is under the control of the laws of the parent company. It has the advantage that it can conduct business without restrictions or independently (from the headquarters) and should be listed also at the commercial register. The name of the business should be also the same as the one in the case of its parent establishment. By the branch establishment, the company is registered through the branch manager via the higher court. The documents of the parent company should also be attached the same goes for the documents about the branch establishment.⁸⁹ Concerning the German market we can differentiate two kinds of branches: the autonomous and the dependant ones. The autonomous branch office can be said to be independent from the parent company, it has

⁸⁷ Investor's basics: Setting up a business in Germany(2012) Retrieved: 7 October 2012

⁸⁸ Branch offices http://europa.eu/youreurope/business/expanding-business/opening-branch/germany/index_en.htm Retrieved: 7 October 2012

⁸⁹ Branches – Germany. Retrieved: 7 October, 2012, from http://europa.eu/youreurope/business/expanding-business/opening-branch/germany/index_en.htm

its own bank account and own business assets. In terms of the dependant branch office, its activity is rather restricted and totally dependent on the head office. In both cases, these branches have to pay taxes as they prove to be a permanent establishment in Germany. Registration to the commercial register is only required in case of the autonomous branch office, but the trade office registration is an obligation in both cases.⁹⁰ It is very important to know that in case of taxation, it can be recognized also as the headquarters. The local branch is the owner of the property and is also responsible for all the obligations stemming from the activity, but this doesn't mean the elimination of the liability of the foreign investor.

Subsidiaries

If the legal form is legally independent, then we can speak of a subsidiary. The main difference, compared to the unincorporated forms, is that with this form the company is legally independent from the parent company and has an own business personality.⁹¹

In connection with subsidiaries we can also distinguish between corporations and partnerships. When setting up a corporation in Germany the main feature which should be mentioned is the contribution of capital by shareholders. As it is a legal entity, the holder of rights and liabilities is the company itself. The corporations has the right of signing contracts and holding assets. "Corporations are liable for corporate income tax, trade tax and the solidarity surcharge while shareholders have limited personal liability."⁹²

Another trait of this form is the requirement of a minimum share capital which can be established by one or two shareholders. The main types of the legally independent forms are: the limited liability company (Gesellschaft mit beschränkter Haftung – GmbH), Limited Liability Entrepreneurial Company (mini GmbH), Stock Corporation (AG) and Partnership Limited by Shares (KGaA). In all cases, the registration into the commercial register and with the local trade office is necessary and the minimal capital should be stated.

⁹⁰ Investor's basics: Setting up a business in Germany (2012)

⁹¹ Branches – Germany. Retrieved: 7 October, 2012, from http://europa.eu/youreurope/business/expanding-business/opening-branch/germany/index_en.htm

⁹² Investor's basics: Setting up a business in Germany (2012)

Limited Liability Company (GmbH)

The GmbH is the most widespread and popular legal form in Germany, because its structure is quite flexible and it is also easy to set up. At least one person is necessary to start such a company and its members can be both foreign natural and legal persons. The minimum share capital is 25, 000 Euros. It can be established quite easily and there are only a few obligations concerning its operation. This form of corporation is only liable for corporate income tax. The process of establishment is not too difficult and the necessary documents can be procured relatively quickly. The formation procedure usually takes two or three weeks.

According to given data, in Germany the easiest way to establish a limited liability company happens when the company which wants to enter the market “buys” an already existing registered company. Thus such a company can start conducting its business immediately. The documents of the parent company should be notarized, and can then be modified accordingly to the new company’s data (scope of activity, owners, and premises). The cost of the lawyer who is handling the papers is approximately 2, 500 Euros.

The articles of association can be adjusted easily to the needs of the members and can control those persons who are responsible for the management issues. Besides, the registered main branch office, the parent company has also the right to maintain one or two branch offices in Germany. But the main branch office must be the place where the official business activity takes place and it must also be located in Germany. The extent of the primary stakes can vary in companies and it is not compulsory to register a “share-book”. The owners of the primary stakes are included in the deed of foundation the stakes can be submitted both in monetary and non-monetary forms. The value of this non-monetary contribution should be equal with the value of the given primary stake ⁹³

During the time between the signing of the partnership agreement and the registry to the business register the company does not have a legal status, but is entitled to conduct its business activity. The main body of the company is the meeting of its members, which is generally convened by the manager director. According to law at least one director has to

93 Bárdos Péter, Gabriel Lansky (2005) p. 336.

be chosen. Thus, choosing a manager is obligatory as this person must be responsible for the management and the legal representation of the company. This person must be a natural person, but it's not an obligation that he/she is German.

Besides its members, a supervisory board can be set up, but this is not compulsory. In case of a possible establishment of such a board, its tasks should be determined in the deed of association.

“Mini GmbH” (Limited Liability Entrepreneurial Company)

A “Mini GmbH” is not a separate legal form and can be even established with only 1 Euro. Later, when the company becomes profitable, a part of its annual profit should be reimbursed to the shareholder capital, until the amount reaches the establishing cost of a normal GmbH which is 25, 000 Euros. After that, the mini GmbH can be converted into a normal one.⁹⁴

Partnerships

In case of partnerships, the holders have unlimited personal liability at least two partners are required in comparison with corporations, but a minimum share capital is not a requirement. The major types are: Civil Law Partnership (GbR), General Commercial Partnership (oHG), Limited Partnership (KG) and Corporate Partnership (GmbH & Co. KG).⁹⁵

Public Limited Company (Aktiengesellschaft – AG)

The AG is one of the popular legal forms in Germany used by the largest firms. It is also quite preferred because it has a good reputation on the market and the shareholders' decisions don't influence the management. The structure and establishment procedure of the German AG is very similar to the Hungarian RT. Its main advantage is that its capital can be increased easily by the assignment of shares and with entering the stock exchange. As far as its directorate is concerned, its members are appointed by the supervisory board and during their mandate they depend neither on the shareholders nor on the board. A trustee can be only a person who is a natural person and his mandate cannot be longer than

⁹⁴ Investment guide to North Rhine-Westphalia: Retrieved: 7 October 2012 from http://www.nrwinvest.com/Publications/Investment_Guide_to_North_Rhine-Westphalia_.pdf

⁹⁵ Investor's basics: Setting up a business in Germany (2012) Retrieved: 7 October 2012

5 years. The nominal value of its shares is 1 Euro or they can be issued without it as well. The shares cannot be divided, but one shareholder has the right to have more shares at the same time. Decisions are made by the shareholders with simple majority, usually at the general meeting. In case of AGs, it is compulsory to set up a supervisory board, and its members are chosen for 5 years at the most.

The main tasks of the supervisory board are:

- “The appointment and recall of the management
- The control of the activities of the management
- The representation of the company against cases with the management
- Entrust the auditor to supervise and to approve the annual financial report”⁹⁶

Association of persons (Personengesellschaften)

The two major forms of this kind of association are the general partnership (offene Handelsgesellschaft – oHG) and the limited partnership (Kommanditgesellschaft – KG). In terms of their liability, the members of the general partnership have unlimited responsibility, but the silent partner of the limited partnership is only responsible for the extent of his/her contribution. That’s the main reason why many foreign investors choose this type of legal form. To establish such an association, at least two persons are necessary, and the members can be both German and foreign natural persons or companies. Concerning the limited partnership, it should have at least one member with unlimited liability (a full partner), and one or two silent partners whose liability is only valid to their contribution. When establishing such a company, the essential initial step is the signing of the articles of association. The company must be registered at the local registry court. According to the rules mentioned in the contract, the members have disposal of their rights and responsibilities, although this is not valid for the silent partners who are not permitted to take part in the management of the company. They can make decisions only, if there is a unique accreditation which allows them to represent the company. The full partners have all the responsibilities in connection with the management. One of the most popular forms

⁹⁶ Bárdos Péter, Gabriel Lansky (2005) pp. 336

of the association is the GmbH & Co. KG. In this case, the full partner is a limited liability company, which can have many advantages.⁹⁷

European Public Limited- Liability Company

The European Public Limited-Liability Company, or in other words, SE or ‘Societas Europaea’ is one of the newest forms among the legal forms. The legislation in connection with it has entered into force in 2004. There are three different ways of establishing such a company:

- merger
- incorporation of a holding S.E.
- incorporation of a subsidiary S.E.

The minimum subscribed capital which is necessary for the establishment is 120,000 Euro. The seat of the company should be in that member state in which it really operates and where its centre is located in.⁹⁸

Table 4. **Comparison of the different legal forms**

Legal form	Minimum Share Capital	Legal Liability	Number of partners
<i>Branch Offices</i>	-	No separate legal entity	One person minimum
<i>GmbH (Ltd.)</i>	25,000 Euros	Limited to share capital	One person minimum
<i>Mini GmbH</i>	1 Euro	Limited to share capital	One person
<i>AG (Stock Corporation)</i>	50,000 Euros	Limited to share capital	One person
<i>KG (Limited Partnership)</i>	-	General partner: unlimited liability Limited partner: limited share liability	2 persons: general partner and limited partner
<i>European PLC</i>	120,000 Euros	Limited to share capital	shareholders

source: Own compilation based on Investment Guide to North Rhine-Westphalia

⁹⁷ Bárdos Péter, Gabriel Lansky (2005) pp. 337-340

⁹⁸ Az európai részvénytársaság statútuma. Retrieved 11 November, 2012 from http://europa.eu/legislation_summaries/employment_and_social_policy/social_dialogue/126016_hu.htm

5. POSSIBLE LOCATIONS FOR ESTABLISHING A BRANCH IN GERMANY

Harsewinkel

In the following, I am going to examine the characteristics of the region and the town.

Harsewinkel can be found in the North Rhine-Westphalia (NRW) region. NRW was established in 1946 with the unification of the previous provinces of Rhineland and Westphalia, and is in the Western part of Germany. In the region the number of total inhabitants is 17.8 million, which means 523 residents per sq. km. The total area is 34,092 sq. km. The region is famous for its four world heritage sites according to UNESCO. NRW has rivers such as the Rhine, Maas, Ems or Ruhr. The most significant urban areas are the Ruhr region and the Rhineland. The bigger cities include Cologne, Dortmund, Essen and Duisburg.

North Rhine Westphalia is considered to be one of the most developed and investment attracting regions in Germany. The share of direct investments is 27.1% (189.8 billion Euros), which can be stated as the highest among the German states. In numbers, 14,300 foreign firms (e.g. LG, Renault, Toyota or Vodafone) have a plant or centre in the region and approximately provide jobs to almost 730,000 people. This might be due to the fact that the region has a good proximity to the markets, and its transport infrastructure is also very preferential. NRW can be described as competitive in terms of labour costs. Office rents and commercial site prices are also lower in comparison with other European regions. As for the rate of its company taxation, it is also favourable, as the corporate tax rate is about 29.8 %.⁹⁹

As far as the economic data of the region is concerned, the GDP was 543 billion Euros in 2010. Exports meant 176.2 billion Euros, while the value of imports was 204.0 billion Euros in 2011. 21.7 % of the GDP is generated in the region.¹⁰⁰

⁹⁹ Investment guide to North Rhine-Westphalia. Retrieved 7 October 2012 from http://www.nrwinvest.com/Publications/Investment_Guide_to_North_Rhine-Westphalia_.pdf pp. 8-9

¹⁰⁰ Investment guide to North Rhine-Westphalia: http://www.nrwinvest.com/Publications/Investment_Guide_to_North_Rhine-Westphalia_.pdf pp. 8-11

Concerning the infrastructure, it can be said that it is really excellent. It includes airports, roads, rails and waterways. There are two main airports which have international flights: the Düsseldorf International and the Cologne Bonn Airport. The Düsseldorf airport is the third largest after the Frankfurt and Munich airports. Cologne Bonn provides a 24 hour operation and flexibility among the airports. Both of them have unique road and rail links and quite fast rail connections. The roads are highly developed, the motorways are 2,200 kilometres long and all the parts of the region can be approached by and have connection to the main European trunk roads. The region also has an outstanding density concerning the rail network, consisting of a track length of 6, 000 km. Besides, there are many other rail companies in the region whose main activity concentrates on the goods traffic.

As to the waterways, the Rhine plays an important role in the region as the place of a substantial shipping activity. The region is connected to the Rotterdam seaport by the river, and the seaport is also the biggest site concerning the inland ports. According to statistics, 125 million tons of goods are handled at the public and private ports ever year.¹⁰¹

As far as logistics is concerned, NRW is in a central position as transportation is very well developed and the logistics system is very modern. NRW is also famous for its logistics sector which plays a leading role. The number of logistics companies is approximately 21,600, and the number of employees who work for these firms is 274,000. In the region there are many logistics companies who are leaders in the industry and already operate abroad; they include Post DHL, FedEx, Schenker and UPS.¹⁰²

Harsewinkel is in the district of Gütersloh, in the state North-Rhine-Westphalia. The city lies on the river Ems and can be found near to Greffen and Marienfeld. It is preferably placed as its regional centre is Bielefeld, and Münster and Osnabrück are also easily approachable from there. Harsewinkel has approximately 24,000 inhabitants. Its total area is 100.12 km². For the last decades, the population has increased significantly from year to year. According to demographic data, people between 30 and 50 have the biggest share among the residents. High urbanization, vivid economic life and high level of infrastructure (schools, health care and shopping) can be observed in the varied city. Apart

¹⁰¹ Investment guide to North Rhine-Westphalia:

http://www.nrwinvest.com/Publications/Investment_Guide_to_North_Rhine-Westphalia_.pdf pp. 8-9

¹⁰² Investment guide to North Rhine-Westphalia

http://www.nrwinvest.com/Publications/Investment_Guide_to_North_Rhine-Westphalia_.pdf pp. 14-15

from the municipal areas like the town centre and schools, it also has a rural trait. As far as commerce is concerned, the city is in a good position, as it disposes of optimal conditions for the economic and commerce activity, and the transportation system is highly developed. In case of taxes, it can be said that this is an advantageous place as taxes are comparatively low. Another advantage of Harsewinkel is the attractive industrial environment. As for the economic life of the city, it has an agricultural emphasis, as one of the biggest combine manufacturing companies, the aforementioned Claas, operates here.¹⁰³ Besides Claas, the city is also well-known for its metal construction industry and medium size enterprises. In today's Harsewinkel, approximately 500 industrial companies provide 8,500 jobs for people. According to statistical data, out of the 9,570 working people, 0.4 % work in the agriculture and fishing industries, while 64.5% constitute those working in the production industry.

Hamburg –the “Gateway to the World”¹⁰⁴

Hamburg can be found in Northern Germany and is the second largest city in the country. Hamburg is also one of the 16 federal states in the Federal Republic. The city has a central role in terms of culture, trade and shopping activities. The number of inhabitants is 1.5 million.¹⁰⁵ Hamburg has very good endowments, besides its harbour its commercial and industrial sectors are flourishing. It is abundant in natural endowments and its educational life is also remarkable.

Its historic significance has formed today's Hamburg very much. The port was founded more than 1000 years ago and since the 14th century (when it joined to the Hanseatic League) its importance as a trade centre has been.

As far as its trade is concerned, Hamburg is the second largest container harbour in Europe and the seventh in the world. Thanks to its location (near to the North Sea and the Baltic Sea), it can deal with the largest container ships from all over the world. The city is also a central hub concerning the trade with Eastern and Northern Europe. Its trade with the Baltic Sea region constitutes 25% of the turnover of the port. Hamburg has 90 consulates

¹⁰³ Stadt an der Ems mit vielen Gesichtern. Retrieved 11 September 2012,

<http://www.harsewinkel.de/010/112090100000001106.php>

¹⁰⁴ Welcome to Hamburg. Retrieved 22 November 2012 from

<http://english.hamburg.de/contentblob/2831986/data/brochure-welcome-to-hamburg.pdf> p. 6

¹⁰⁵ Hamburg at a glance. Retrieved 22 November 2012 from

<http://english.hamburg.de/nofl/1700416/hamburg-at-a-glance-english.html>

and many Asian or European companies have their subsidiaries or branch offices in the town.¹⁰⁶ Thanks to its role as a trade centre, its relations with East Asia are outstanding and there are approximately 400 Chinese companies located in the city.

As for its industries, they are highly developed and specified, such as the medical technology and biotechnology. The city is also famous for its aircraft construction (third largest aviation centre in the world). There are many popular and well-known companies located there like Otto-Versand, Helm AG or Nivea.¹⁰⁷ Besides, the tourism sector also contributes to the continuous growth of the city. Hamburg is above all a leader in the services sector. This sector is the most significant and dynamically growing industry in the city with a number of 120,000 companies, and the number of people who work in services is about 500,000. For export-oriented services, Hamburg can be a suitable option as a location.¹⁰⁸

Logistics is an especially significant sector in Hamburg, particularly port logistics.

In the metropolitan region of Hamburg, both the developed infrastructure and the wide range of logistical services made the region popular among investors. As a result of globalization and the openness of Eastern Europe, it became soon the ‘logistics hub’ for Northern and Eastern Europe. Today, the Hamburg metropolitan region gives home to many international logistics companies. In the future the region will expand even more and develop its logistical infrastructure with the expansion of the port.¹⁰⁹

Port of Hamburg mainly operates as a transshipment centre, but it is also the main logistics location in Northern Europe. There are approximately 1,000 companies in the region dealing with logistics and storage facilities. Among the wide range of services which are offered by the port one can find customs clearance, commissioning, distribution and quality control services.¹¹⁰

¹⁰⁶ The economy and the harbor. Retrieved 22 November 2012, from <http://english.hamburg.de/nofl/1700444/economy-harbour-hamburg.html>

¹⁰⁷ The economy and the harbor. Retrieved 22 November 2012, from <http://english.hamburg.de/nofl/1700444/economy-harbour-hamburg.html>

¹⁰⁸ Hamburg and the Metropolitan Region. Retrieved 22 November 2012, from <http://english.hamburg.de/contentblob/2831984/data/brochure-hamburg-and-the-metropolitan-region-%E2%80%93-hotspot-in-the-north.pdf> pp. 12-13

¹⁰⁹ Hamburg and the Metropolitan Region. Retrieved 22 November 2012, from <http://english.hamburg.de/contentblob/2831984/data/brochure-hamburg-and-the-metropolitan-region-%E2%80%93-hotspot-in-the-north.pdf> pp. 14-17

¹¹⁰ Warehouse & Depots. Retrieved 22 November 2012, from <http://www.hafen-hamburg.de/en/list/warehouse-depots>

Hamburg is also a very attractive location for expanding businesses and for investments, as its economic life is lively. The city has a ‘central-gate’ role to Europe, because almost all the larger European cities (e.g. Berlin, London, Prague, Brussels and Paris) can be approached easily from Hamburg thanks to the highly developed infrastructure. Its economic growth is prominent. Its GDP is the highest among the German cities with 50,000 Euros per capita, and the employment rate is also outstanding with 88 % of the working age population.¹¹¹

For investors, especially the Metropolitan Region and Hafencity are recommended as a place for premises. These areas are growing dynamically and more and more companies plan investing there in the future.¹¹²

There are special Central Services Points (CSP) which help companies and give recommendations in connection with business life.

In Hamburg, the Points of Single Contacts (PSC) also provide help and information on business life and assist SMEs (Small and- Medium sized Enterprises) in the further investments. The PSCs main objective is to facilitate the administrative procedures with authorities.

The basic tasks of PSCs are

- “to inform providers and recipients of services about procedures and competent administrative bodies, about access to registers, available remedies and supporting organizations and
- to act as ‘procedural intermediary’. It is through the PSC that procedures and formalities required for setting up and rendering services will be handled if so desired by the applicant.”¹¹³

¹¹¹ Hamburg and the Metropolitan Region. Retrieved 22 November 2012, from <http://english.hamburg.de/contentblob/2831984/data/brochure-hamburg-and-the-metropolitan-region-%E2%80%93-hotspot-in-the-north.pdf> pp. 4-7

¹¹² StandOrt. Retrieved 22 November 2012, from <http://english.hamburg.de/contentblob/2668302/data/messemagazin-2012.pdf> pp. 14-28

¹¹³ Hamburg Point of Single Contact. Retrieved 22 November 2012 from <http://www.hamburg.de/hamburg-psc/>

These contact points are in a close connection with the Hamburg Chamber of Commerce and they charge a fee for their services.

5.1 Comparison of Harsewinkel and Hamburg

Table 5. **Comparison of Harsewinkel and Hamburg**

Aspects	Harsewinkel	Hamburg
<i>Location</i>	Western part of Germany, NRW region	Northern Germany, exceptional location towards Europe
<i>Infrastructure</i>	Highly developed roads, waterways, airports and rails	Harbour, leading logistical infrastructure, international airports, metros, rails and trams
<i>Leading sectors</i>	Agricultural industry and logistics	Trade, services and logistics
<i>Logistics sector</i>	Highly developed logistics sector	Logistics hub, significant port logistics (Port of Hamburg)
<i>Corporate Taxes</i>	Lower: 29.8%	Higher: 30% - 33%.
<i>Competitiveness</i>	In labour costs, office rents and in commercial sites	‘Gateway to Europe’, proximity of bigger European cities
<i>Investment opportunities</i>	Favourable investment location	Outstanding business location (Metropolitan region and Hafencity)
<i>BI-KA relations</i>	CLAAS KGaA mbH	-
<i>Export to and imports from the region (number of orders)</i>	very high	moderate

Competitors	In the region: Schenker, UPS, DHL etc.	Strong logistics companies, Eurosped Zrt. as a Hungarian competitor
Business costs	Renting an office €3.50-6.00 /square metre Storage 1.50- 4.00 Salaries 30,952- 33,119 Euros/year	\$36.72/square foot/annum 4,00-7, 00 30-40,000 Euros/year

source: Own compilation based on Hamburg and the Metropolitan Region¹¹⁴

In order to get a clear picture about the possible locations, I made a table which examines the opportunities in both towns (Table 4). Analyzing the table, it can be said that both cities have good locations and their infrastructures are highly developed. In both cases, they are suitable for logistics activities, as the logistics sector is one of their important sectors. Concerning the corporate taxes in the two places, in Harsewinkel the taxes are lower (29.8%) compared to Hamburg (30% - 33%). Taking into account their competitive factors, the advantage of Harsewinkel is its low costs in connection with the labour costs and renting expenses. In Hamburg these costs can be higher, although the city is unique because of its location in the centre of Europe and its harbour type. Both towns are good locations for investments, especially Hamburg as a centre of trade, commerce and logistics. As far as the relations with BI-KA are concerned, Harsewinkel the premises of CLAAS KGaA mbH are to be found. In contrast, Hamburg doesn't offer a bigger partner for the company yet. As CLAAS gives the majority of orders to BI-KA, it is evident that the high ratio of exports and imports tend towards to NRW region. The number of exports to and imports from Hamburg are minimal compared to Harsewinkel. As for the competitors, in both places the logistics sector is very well developed and the competition is quite strong on the German market. I also examined the business costs according to different aspects like rental and storage fees and the salaries in the region. I came to the conclusion that in case of these business costs, Harsewinkel is much more advantageous, as in all cases Hamburg can be considered more expensive.

¹¹⁴ Der Stepstone. Retrieved 23 November, 2012, http://www.stepstone.de/gehaltsreport/pdf/gehaltsreport2012.pdf?cid=mailing_gehaltsreport_download p. 55, Costs of setting up a business in Germany, Retrieved 24 November, 2012 from <http://www.nzte.govt.nz/explore-export-markets/Europe/Doing-business-in-Germany/Documents/Costs-of-setting-up-an-office-in-Hamburg.pdf>

6. CONCLUSIONS AND RECOMMENDATIONS

Taking into consideration all the legal forms in case of entering the German market I managed to restrict the forms to two specific ones: to the branch office and to the limited liability company. When choosing among the legal forms I considered the following criteria: timeframe, costs, risks and opportunities.

- Legal forms

Branch office

In case of a branch office, the company can easily establish one as it is one of the easiest ways to gain market presence in Germany. Although it is not legally independent from the parent company, in case of BI-KA it could be recommended as in the beginning it would be cost-effective and not as risky as a GmbH (high capital investment). As we can distinguish dependant and autonomous branch offices on the German market, in my opinion an autonomous branch office would be the best option to start the business activity. This kind of branch office has the advantage that it has its own management, bank account and accounting. If BI-KA established an autonomous branch office, it should have the name of BI-KA Logistik Zweigstelle, name of the location (BI-KA Logistics Ltd. branch office, name of the location). The administration processes are almost the same as in case of a subsidiary. The company should be registered with the commercial register and then with the local trade office. Before starting the business activity, it should have registered with the trade office as well. As far as time and costs are concerned, the process of establishing a branch office is shorter, cheaper and less difficult compared to the GmbH.

Taking into consideration the risks in the beginning - when the company has to face many problems like new country, cultural differences, different customer needs etc. - establishing a branch office would be also the better option. Founding a branch can also be seen as a more cautious step if the business activity is not initially as successful as hoped, because BI-KA would not have to invest that much (compared to the GmbH) and could map the market in advance. Of course, in Szolnok the company is outstanding and strong, but on the German logistics sector, the company might have to face problems. The German market poses threats like competitive German logistics companies such as Schenker. The biggest threat could be the question of liability. If the branch office ran into financial

difficulties, it would be liable to the whole share capital of the parent company (in contrast to the GmbH, where liability is limited to the subsidiary).

As far as opportunities are concerned, the branch office could later be converted to a GmbH or any other type of subsidiary when the established foreign branch office is stable enough and has gained a positive reputation on the market. There are also successful examples for existing branch offices such as Eurosped, which has a branch office in Hamburg and has been operating there successfully for a long time.

Limited liability company

Considering the collected information, for BI-KA the second option could be to establish a GmbH in Germany. As mentioned above, the GmbH is a very popular and well-known legal form in Germany and the steps of establishment are easier compared to other legal forms. In my opinion, BI-KA has two possibilities if it decides to establish this kind of company. The first is to establish it right at the beginning. This means that the minimum share capital would be 25,000 Euros and after registering with the authorities, it could start the business activity immediately. As far as the timeframe is concerned, the GmbH can be established within two or three weeks. Compared to a branch office, it is legally independent from the parent company, thus it could conduct its business activity after registration with the authorities.

The other possibility would be for BI-KA to establish a branch office initially and then to convert it to a GmbH when the office and the business activity become profitable enough to establish a subsidiary. If we look at the history of the company, this cautious approach could be more preferable, as the company itself started as a limited partnership and only later became a limited liability company.

Based on the company's final decision, an initial business plan can be put together in order to get a clearer picture about the foreseeable costs and the basic requirements. The business plan should contain the basic costs for establishing and other factors such as

- premises
- legal form
- number of workers
- necessary equipments

- costs (e.g. renting an office) etc.

In case of trust, both the branch office and the GmbH would be suitable options. In the beginning a branch office could be present on the German market and once it could gain enough partners then it could be transformed into a GmbH. If the company chose the GmbH right away, people would 'trust' in it immediately because of its popular reputation in Germany.

As far as the staff members are concerned, 1-2 Hungarian employees should be sent out to the German office or subsidiary. That would mean that besides the Hungarian members, some German colleagues would be needed as well. Besides the expertise, the German staff could handle problems easier as they know the culture and are familiar with the German market conditions. The mixture of workers would not only be important because of the avoidance of cultural differences, but also because of the trust aspect. As BI-KA puts a large emphasis on trust-based relations, it would be important to employ Germans as well.

The choice of the legal form would be also dependant on the tasks of the new venture. A premise near to CLAAS, Harsewinkel could be important, if BI-KA would decide to have the trucks stationed there and the trucks should not have to come back to Hungary empty.

- Locations

During my research I compared Harsewinkel and Hamburg to each other and came to the following conclusions. In case of a possible branch establishment, I would suggest Harsewinkel as location. Because of the proximity of CLAAS and the number of imports to and exports from Harsewinkel in my opinion this would be a wiser and more rational decision than Hamburg. Besides the presence of the biggest partner of BI-KA, Harsewinkel also has much lower costs in case of corporate tax, rental, storage fees and salaries compared to the Hanseatic city. Of course, Hamburg provides one of the biggest trading and logistics markets in Europe, but in my opinion for BI-KA a smaller town and a more cost-effective location would be more important in the beginning. In case of competitors, the Hamburg market could be also be more difficult to get a hold on.

SUMMARY

Globalization is one of the most important issues nowadays and companies are affected by the changes which it brings about. The constant competitiveness and changing customer needs affected the plans and objectives of BI-KA Logistics Ltd. by giving it the idea of being more international and to expand abroad.

In my thesis, I analyzed the opportunities of BI-KA Logistics Ltd. for entering the German market and tried to give an overview about the current market conditions.

As the result of my research it became clear that the major partner of BI-KA in Germany is CLAAS in Harsewinkel, in the North-Rhine-Westphalia region. In case of logistics companies it often happens that the expanding company is looking for premises near to the headquarters of its main partner as this is an expedient and wise decision.

I also examined Hamburg as another possible location for establishing a branch or subsidiary in Germany. It became clear that besides its central role as a trading, commercial and logistics citadel, the costs compared to Harsewinkel are also higher. The threat of other strong logistics companies also made me decide that for BI-KA a smaller and less expensive location would be more suitable in the beginning. Of course, this does not rule out the possibility that later the company could move to Hamburg as well, because it offers unique opportunities in the field of business, especially in logistics. As a gate to Europe and to the biggest European cities, Hamburg could also give BI-KA the chance to open up to other countries like the Baltic States. That is why I made the recommendation to establish a foreign base in Harsewinkel.

As a part of my own research, I kept contact with the German-Hungarian Chamber of Commerce and Industry and asked for information on the investment opportunities in the given region. Furthermore, I asked for information about the types and methods of establishing businesses from the German Trade and Invest Office and from the Hungarian Investment and Trade Agency.

According to the received information and to my own research, I analyzed the situation in Germany and especially in the North-Rhine-Westphalia region: the general conditions towards investments and the opportunities for a foreign company there. I also highlighted the basic steps of establishing a subsidiary in the region and examined all the legal forms in Germany comparing them according to their advantages and disadvantages.

By examining the legal forms, I came to the conclusion that BI-KA Logistics should either establish a branch office or a limited liability company (GmbH) in Harsewinkel. I suggested establishing a branch office, as it can be more cost-effective in the long run and involves less risk than the GmbH. In case of a branch office, I recommended the autonomous branch office as a suitable option because it is more independent than the dependant one.

As a second option I recommended the establishment of a limited liability company (GmbH) in Harsewinkel, which can be done immediately or after a few years with a conversion from the branch office.

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Company documents

1. Cégismertető BI-KA Logisztika Kft. 2012.
2. Elégedettségmérés összesítése – 2011 TOP 50 cég esetében BI-KA Logisztika Kft.
(Summary of the satisfaction survey - 2011 in case of TOP 50 companies BI-KA Logistics Ltd.)

Annex I.

Revenues data of BI-KA Logistics Ltd. in 2012 (in million HUF)

	January	February	March	April	May	June	July	August	September
Claas Hungária Kft.	101	96	103	103	163	170	198	65	44
Firm 2	15	12	14	14	16	15	15	11	14
Firm 3	14	12	14	13	14	11	9	10	9
Firm 4	12	11	13	11	13	7	8	7	9
Firm 5	11	9	7	8	11	7	8	7	9
Firm 6	7	7	7	6	8	7	7	7	8
Firm 7	6	7	7	6	8	7	7	6	6
Firm 8	5	6	5	6	5	6	7	4	4
Firm 9	5	5	4	4	5	6	5	4	4
Firm 10	4	4	4	3	5	5	5	4	3

source: own compilation based on company documents

Annex II.

Number of orders of BI-KA Logistics Ltd. in 2012

	January	February	March	April	May	June	July	August	September
Claas Hungária Kft.	603	552	593	596	753	781	714	199	225
Firm 2	88	58	72	63	73	69	92	56	75
Firm 3	63	82	96	30	92	55	75	81	66
Firm 4	55	57	63	42	50	83	30	16	49
Firm 5	36	34	30	30	40	25	29	24	30
Firm 6	29	23	24	19	27	24	39	21	43
Firm 7	24	22	26	35	29	20	139	18	15
Firm 8	18	30	11	28	16	27	28	19	20
Firm 9	7	20	24	16	18	112	89	30	17
Firm 10	17	19	6	10	18	17	14	22	11

source: own compilation based on company documents