

# THE DOUBLE-DEPENDENT MARKET ECONOMY AND CORPORATE SOCIAL RESPONSIBILITY IN HUNGARY

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**ABSTRACT** *In the different varieties of capitalism (VoC) different types of corporate social responsibility (CSR) exist (Matten – Moon 2008). In order to identify what CSR is like in Hungary, all the five institutions that are relevant to the variety of capitalism in this country are analyzed and a new concept is introduced by the author: the double-dependent market economy (DDME). This new concept allows for further exploration of the general type of CSR in Hungary and answers the question whether it is similar to the CSR of the European coordinated economies or the liberal Anglo-Saxon market economies, or is something completely different. The results of quantitative and qualitative research show that CSR in Hungary has some similarities with the CSR types of both the liberal and coordinated economies, but on the whole it is fundamentally different from them, due to the dissimilar institutional setting of capitalism in this country.*

**KEYWORDS:** *corporate social responsibility (CSR), varieties of capitalism (VoC), double-dependent market economy (DDME), implicit CSR, explicit CSR*

For a better understanding of the peculiarities of corporate social responsibility (CSR) in Hungary, it is necessary to compare the institutions in which CSR is embedded with those of some other countries. Matten–Moon (2008) addressed the question of how and why corporate social responsibility (CSR) differs among countries and found that the institutional context determined by the different varieties of capitalism has a great influence on the actual CSR of the given country. In the first part of this paper I supplement theoretical considerations about the varieties of capitalism (VoC) with some determinants typical of the

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Hungarian market economy in order to identify the institutional setting of CSR. In the second part, the results of quantitative and qualitative research are presented and the general type of CSR in Hungary is identified within the conceptual framework of the Hungarian variety of capitalism.

## CSR IN THE VARIETIES OF CAPITALISM

In the 1990s some comparative economic analyses entered the limelight (e.g. Albert 1993, Whitley 1999) that compared the institutions of different countries or groups of countries. In this respect, the authors most often referred to are Hall and Soskice (2001) who analyzed the institutional settings of comparative advantages in different market economies. These authors found that the institutions of capitalism differ systematically in the individual countries. In the theory of varieties of capitalism, Hall and Soskice identified two main types: the liberal market economy (LME), most typical of the USA, and the coordinated market economy (CME), best corresponding to the European type of economy.<sup>2</sup> In the LME the most important coordination mechanisms include market competition and formal contracts, whereas in the CME non-market-oriented market coordination prevails. In this latter case, networks of companies, different unions and coalitions, (stakeholder) representation and extensive regulation play the main role. Just as the market economy in Europe differs from that inherent to the USA, CSR is also different in these economies.<sup>3</sup>

According to Matten – Moon (2008), in liberal market economies it is mainly ‘explicit’ CSR that prevails, whereas in coordinated market economies, CSR is predominantly ‘implicit’. The explicit CSR most typical in the USA is based on voluntary activities initiated by companies, on programs that go beyond legal regulation, and on the commitments made according to the identified or perceived expectations of stakeholders. CSR is usually also an important part of business strategy. The implicit CSR typical of Europe is based on meeting legal requirements and on formal and informal institutions. In this case, socially responsible business activities are shaped by legitimate and institutional expectations based on social consensus. For implicit CSR, well-founded, unambiguous and predictable

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2 According to Hall and Soskice (2001), the CME is most typical of Western Europe, the best example being Germany.

3 In Europe, patterns of CSR differ fundamentally from those of the United States due to different institutional legacies and cultural peculiarities embedded in their typical types of capitalism (e.g. Campbell 2007; Gjolberg 2009; Jamali – Neville 2011; Witt – Redding 2012; Carson et al. 2015).

regulations and norms are needed that contain mandatory collective expectations towards companies. Not living up to these expectations usually results in unfavorable repercussions, and efforts to avoid these negative effects can be considered the main motivation for CSR activities. In the case of implicit CSR, national institutions support collectivism, solidarity and partnerships through coordinated, compulsory and program-based incentives, whereas in the case of explicit CSR, institutions lay emphasis on individualism, liberalism, and discretionary programs, and on insulated or network-based coordination (Matten – Moon 2008: 410-411).

Due to the different varieties of capitalisms and institutions in Europe, different types of CSR can be identified. Authors have examined the types of CSR formed by the specific institutional background in France (Kang – Moon 2012), Germany (Witt – Redding 2012, Hiss 2009), and the Scandinavian countries (Carson et al. 2015). It is particularly relevant to examine the specific types of CSR in the CEE region where significant differences exist in the institutional settings compared to those of Western Europe or overseas countries because of the specific historical features and heritage. However, there has so far been no research that defined the type of CSR in Hungary (and in CEE) in the context of the variety of capitalism.<sup>4</sup> In the next section of the paper the main characteristics of VoC in Hungary are presented through an analysis of the relevant institutions.

## THE INSTITUTIONAL SETTING OF THE ECONOMY IN HUNGARY

According to Nölke and Vliegenthart (2009), CEE countries cannot be described well using LME or CME models since their institutions are fundamentally different to the dimensions defined by the liberal and the coordinated type of capitalisms. The major reason for this is the considerable amount of foreign direct investment (FDI) by multinational companies. Nölke and Vliegenthart (2009) maintain the view that in Central and Eastern Europe the international corporate governance culture of multinational companies pervades the relevant institutions and meanwhile constructs a dependent linkage between the economy of the country and the FDI of these companies. Nölke and Vliegenthart (2009) have defined these economies as dependent market

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<sup>4</sup> Earlier relevant work includes research by Bluhm and Trapmann (2014) who examined CSR in CEE using the cognitive concepts of business leaders, Lengyel and Bank (2014) who explored the institutional settings that determine the Hungarian economy, and Géring (2015) who analyzed the explicit and implicit dimensions of the online communication of CSR in Hungary.

economies (DME) and claimed that this type of capitalism can be considered a new variety, according to the institutions analyzed by Hall and Soskice (2001).

After the transition from socialism to a market economy, strong competition emerged among the countries of the region to attract more FDI (and thus reduce state debt) that gave foreign investors the opportunity to exert their interests in the institutions of these countries by influencing important local decision-makers (cf. Drahokoupil 2009, King 2007; Morgan – Whitley 2003). After having avoided increasing gross government debt to unsustainable levels, the need for the stronger engagement of the state in these economies increasingly came to the forefront with a view to reducing the risk of depending on FDI to a large extent. Regarding the post-socialist countries, the economies of the CEE countries are most similar to coordinated market economies, but the role of the state in Central Europe is both more extensive and intensive than in Western Europe (Lane 2007). Furthermore, the heritage of state socialism can still be identified (Knell – Shorlec 2007). However, the role of the state is not included in the DME model as it only focuses on the dominant role of multinational companies. The market economy typical of Central Europe can be defined more precisely by the term ‘double dependence’ (Lengyel – Bank 2014; Lengyel 2016). This concept does not reject the assumptions of the dependent market economy, but it amends them with findings related to the role and the influence of the state after the post-socialist transition.<sup>5</sup>

Nölke and Vliengenthart (2009) analyzed the role of multinational companies in the CEE economies in detail, which analysis was the basis of the framework of their DME model. Since these findings hold true for Hungary as well (cf. Lengyel – Bank 2014), these aspects will not be touched upon in this paper. In the next section, however, the other elements of double dependence are discussed; namely, the influence of the state on the institutions that are most relevant to the economy.

The determining role of the Hungarian state in the economy rests on four pillars. These include the position of state-owned enterprises, the allocation of resources, regulations affecting the market economy, and the preferences and sanctions addressed to the different economic groups. These roles affect all five dimensions relevant to the varieties of capitalism – namely, sources of investment, corporate governance, industrial relations, educational and training systems, and the transfer of innovations. In this section, these institutions are analyzed from the point of view of the above-mentioned roles of the state. The conclusion is that, besides multinational companies, the actual variety of capitalism also depends to a large extent on the state in Hungary.

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<sup>5</sup> Besides a post-socialist legacy, dependence also involves the international requirements (of the EU or other international agreements) followed by the state that the government has implemented through legislation after the transition, or any other activities at the national level.

## *Sources of investment*

In terms of ownership in enterprises, the role of the state was not significant in Hungary, since 57 per cent of GDP was produced by companies owned by foreigners (including multinational companies), whereas this proportion was only 7 per cent regarding state-owned companies in 2014.<sup>6</sup> Nevertheless, a gradual increase in state ownership has been recorded in recent years, and state ownership reached more than 20 per cent in nine sectors (from a total of 74). The role of state-owned enterprises in investment is spectacular only in some specific sectors (e.g. the energy sector). However, in terms of the sources of investment the distributive role of the state is much more significant than with ownership.

The role of the Hungarian state in income and expenditure is greater at the level of the national economy than in Western Europe (OECD 2015). In 2012, general government revenue totaled 47 per cent of GDP, whereas general government expenditures were 49 per cent.<sup>7</sup> Sixty-two per cent of government investments were centrally coordinated (the remaining part was allocated by local governments and authorities) – a figure significantly higher than the 25 per cent of Germany or the 33 per cent of Austria (OECD 2015). However, the distributive role of the Hungarian state does not only involve the reallocation of tax revenues. A great proportion of investments in Hungary are financed using EU funds that are allocated by the government and its institutions and agencies. Nearly half of all government investment has come from EU funds since 2010, and 7 per cent of all private investment (Boldizsár et al. 2016). The proportion of EU funds in public and private investment was as high as 27 per cent in 2015 because of payments cumulated at the end of the EU budgetary period.<sup>8</sup>

The amount of EU funds arriving to Hungary is also significant compared to FDI, since in the budgetary cycle from 2007 to 2013 some EUR 35 billion were transferred by the EU to Hungary, whereas the total inflow of FDI amounted to only EUR 28 billion in the same period.<sup>9</sup> As a result, EU funding contributed to the development of the Hungarian economy more than FDI, thus the distributive role of the state is at least as determinant as the role of the multinational companies that account for the major part of FDI inflow.

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6 Calculation of the author using the database of the National Tax and Customs Administration of Hungary (NTCAH).

7 From an institutional perspective, a government is a part of the state-representing executorial power.

8 Calculation by the author using the database of the National Bank of Hungary (NBH) and the Hungarian Central Statistical Office (HCSO).

9 Calculation by the author using the database of Eurostat, NBH, NTCAH and the State Audit Office of Hungary (SAOH). FDI data do not include the capital flows of so-called special purpose companies designed for tax optimization.

The Hungarian government plays an important role in allocating EU funds by channeling funding into specific industries and activities. The allocation of general government expenditures and EU funds is frequently carried out according to political or personal preferences rather than rational economic considerations.<sup>10</sup> In addition, the Hungarian government allocates available funds so as to favor selected social groups and entrepreneurs with the aim of creating a loyal clientele (Lengyel 2016; Jancsics 2016). According to Dávid-Barett and Fazekas (2016), political influence is widespread, legal, and systematic, and as a consequence of this, companies favored by the government account for 50-60 per cent of the orders obtained through public procurement. This proportion is significantly higher than (for example) the 10 per cent share calculated for the United Kingdom. Furthermore, state-owned banks assume a major role in the financing of sectors and firms that are considered to be important by the government.

### *Corporate governance*

The government has a central, direct and dominant influence on the corporate governance of state-owned enterprises. According to formal and informal regulations, a significant proportion of the contracts of these firms need to be confirmed by government institutions, irrespective of the order of magnitude. However, the influence of the government on corporate governance is not limited to state-owned enterprises but concerns all other companies due to the presence of regulation, allocation, subsidization and different sanctions.

The government can fundamentally change the operational environment of companies through regulations and distributive mechanisms. The Hungarian government intervenes in the business environment of selected sectors by imposing special taxes on them, offering special tax benefits to others, applying sector-specific positive or negative discrimination and providing different economic participants with selective advantages and disadvantages (Lengyel 2016). In Hungary, important changes have occurred in the taxation and regulation of many sectors such as banks, retail trade, energy distribution, tobacco, private utilities etc. that affected their operations and thus restructured

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<sup>10</sup> Both the personal and institutional embeddedness of corruption related to the allocation of EU funds is present in Hungary (Szántó et al. 2011). The strong presence of corruption can be found in the fields of capital and workforce too, and due to the institutional setting, among CEE countries it was only Hungary in which the extent of corruption did not decrease between 2002 and 2013 (Gamberoni et al. 2016).

the market. In many cases, this made big multinational companies leave the Hungarian market because of the financially unsustainable business conditions they created, and related government pressure, although some left voluntarily (when the government made a generous offer for their shares). In the private sphere, corporate governance was required to establish direct or indirect institutionalized relationships with the government in order to obtain allowances (even EU funds), to avoid unfavorable market intervention, or to remain informed about forthcoming changes in regulations well in advance.

### ***Industrial relations***

Every third active citizen works at an institution that is linked to the general government in Hungary; a significantly higher fraction than in Western European countries. In general, according to the OECD (2015), employment in the public sphere is typically higher in CEE countries compared to other EU member states, or the average of the OECD countries. Furthermore, the significant role of the government in industrial relations does not originate only in the high proportion of public sphere employment, but also in the fact that public employment is very much centralized in Hungary, leading to greater and more direct dependence on the government.

Furthermore, legislation also has a notable effect on employment in both the public and private sphere in Hungary. The labor law in Hungary (law No. I/2012) has influenced the working conditions and bargaining power of employees according to both the codified text and actual practices (Laki et al. 2013), and has also reduced the opportunity for the reconciliation of employee and employer interests and affected trade unions with weak bargaining positions the most (Neumann 2014). These provisions can be regarded as favorable for employers in general and companies with foreign participation in particular, while they also indicate the significant role of government regulation in employment.

### ***Educational and training systems***

In Hungary, average expenditure on education per capita has been lower than both the EU and CEE average since 2000. Disbursement of money on public education dropped most between 2008 and 2011 due to budgetary restrictions, whereas it increased continuously in almost all neighboring countries (OECD

2015). As part of the reform of the educational system, decision-making and other competencies have been merged since 2010 in order to increase efficiency. These provisions focused not only on financing and controlling, but on areas such as the centralized textbook market and the single teacher career-path model as well. Meanwhile, private education systems are still marginal in Hungary compared to Western European countries. Besides public education, the role of the government has been notable in external training too. Since 2007, much of this training was supported by EU funds and thus the government had a major role in determining the scope and targets of these events. The traditionally dominant role of the Hungarian government in education has grown even more prevalent despite reductions in the related budgetary expenditure, and lately has spread to areas such as training, too.

### *Transfer of innovation*

In Hungary, direct government funding of research and development (i.e. the most important components of innovation) was 36 per cent of the total for all such expenditure in 2013. This amount is just 1 per cent less than the average of the CEE countries, but 15 per more than the average of the non-CEE EU member countries.<sup>11</sup> In Hungary (and in nearly all CEE countries), the role of the state in R&D expenditure is significantly higher than in most Western European countries. Furthermore, the share of government resources in Hungary has been significantly higher for R&D compared to foreign resources since foreign R&D-related investment covered only 18 per cent of all such expenditures<sup>12</sup> (i.e. about half of the government funding).

Besides expenditure, the incumbent Hungarian government has a significant role in the coordination and transfer of innovation activities, especially in terms of defining the R&D areas that are considered to be a priority. The National Research, Development and Innovation Office of Hungary plays an important role in the transfer of innovation, and besides sharing information also supports and coordinates innovative activities.<sup>13</sup> Considering the above, the government

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11 Calculation by the author based on the dataset of 'Gross domestic expenditure on R-D by sector of performance and source of funds' published by OECD (available at stats.oecd.org).

12 Furthermore, one-fifth of foreign R&D expenditure that was allocated by the government was actually funded by the EU.

13 For example, the Jedlik Ányos Cluster that identifies companies with electric mobility innovations was funded under the supervision of the National Research, Development and Innovation Office of Hungary.



plays an important role in both providing resources and establishing a platform for the transfer of innovation activities.

As a result of the aforementioned institutional settings, it can be stated that, besides multinational companies, the government also assumes an important role in defining the variety of capitalism in Hungary. This means that the term ‘double-dependent market economy’ (DDME), which can also be interpreted as an extension of the DME concept of Nölke and Vliegenthart (2009), is more appropriate for describing the Hungarian variety of capitalism. In the table below, the DDME concept constructed by the author is presented. It contains the elements of dependence both relating to multinational companies (as described in the DME concept) and the state in general and the government in particular on different institutional levels.

**Table 1.** *Institutional setting of the double-dependent market economy (DDME)*

Institution	Dependence on multinational companies*	Dependence on the state**
Distinctive coordination mechanism	dependence on intra-firm hierarchies within transnational enterprises	dependence on relationship with government
Primary means of raising investment	foreign direct investment and foreign-owned banks	resources of central government and EU funds allocated by government; state-owned banks
Corporate governance	control by headquarters of transnational enterprises	necessity for direct or indirect attachment to government; centralized control over state-owned companies
Industrial relations	appeasement of skilled labor; company-level collective agreements	strong influence of government regulation; high and centralized employment in the public sphere
Education and training system	limited expenditure on further qualification, adult education	dominant role of state
Transfer of innovation	intra-firm transfers within transnational enterprises	government resources, coordination and transfer
Comparative advantages	assembly platforms for semi-standardized industrial goods	easier to implement economic policies and political priorities; better environment for sectors and companies favored by government

\*According to the DME concept of Nölke – Vliegenthart (2009: 680).

\*\* Findings of the author.

The most important coordination mechanisms in a DDME country are the hierarchies inside the multinational companies and the dependent nature of relationships with the government. The comparative advantages of the double-dependent market economies compared to other varieties of capitalism can be witnessed mainly in the manufacturing sector because of the relatively well-trained and cheap workforce, and in the sectors that are favored by the government. Furthermore, some bigger enterprises benefit from a more favorable market environment or better market positions in these market economies as a result of effective bargaining with the state.

The DDME model introduced above is not designed to describe all the trends of the Hungarian market economy but rather to reveal the most important institutional settings of the dependence typical to Hungary.<sup>14</sup> The DDME concept was introduced to create better understanding of the Hungarian variety of capitalism; however, it may also be valid for many other countries in the CEE region, though further research is needed to verify this assumption.

Double dependence not only affects the economy, but also the areas that are related to it, like corporate social responsibility. In the next section, the main features of CSR in Hungary are discussed in the context of the double-dependent market economy.

## CSR IN THE HUNGARIAN DDME

The institutional system of a DDME country differs significantly from those of coordinated or liberal market economies. Therefore, it is reasonable to examine which combination of explicit CSR (typical of LMEs) and implicit CSR (typical of CMEs) exists in a DDME country, and which specific type of CSR can be identified in Hungary. For this purpose, both quantitative and qualitative research was conducted among Hungarian companies. The reason for using mixed methodology was that quantitative research facilitates the identification of the main aspects of CSR in Hungary, whereas qualitative techniques provide an opportunity to learn more about the factors affecting the decisions and attitudes of business leaders.

The Hungarian database used in this research was part of the outcome of an international survey conducted in 2009 and 2010. The quantitative research

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14 For example, informal institutions also play an important role in the economy of Hungary and other CEE countries, and even if they may be considered responses to formal institutions, their analysis may be considered relevant – but this proposition requires further research and investigation.

was coordinated by the German Friedrich-Schiller University (FSU Jena) whose partners were the Polish Academy of Sciences (PAS) and Corvinus University of Budapest (CUB). The research project focused on examining economic elites and institutional changes, while the survey also contained a number of questions about CSR. In Hungary, 285 companies responded to the questionnaire. During the qualitative research phase in September 2016, I undertook 21 face-to-face interviews with business leaders. To learn more about the double-dependence feature of CSR, I completed interviews with managers of seven multinational companies, seven Hungarian state-owned enterprises and seven Hungarian private firms operating (also) in Hungary. The interview questions were composed with regard to the results of the quantitative survey so that the decisive factors behind the figures could be identified.

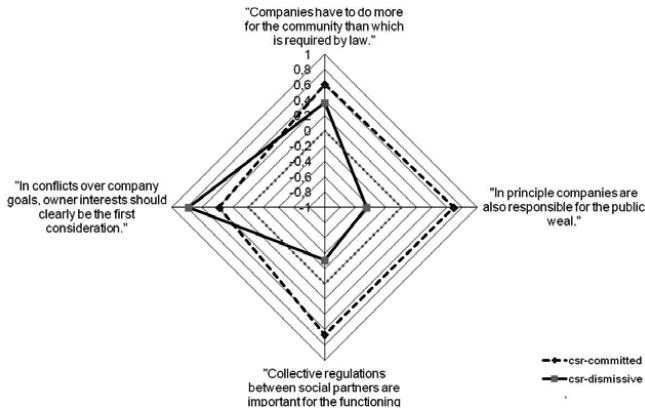
### *Results of quantitative research*

According to the material presented above, one can presume that in a DDME country business leaders will have a different conceptual idea about CSR than in countries with other varieties of capitalism. In this respect, CSR commitments and attitudes in Hungary and the eastern part of Germany were analyzed. East Germany has a coordinated market economy (CME) and can be considered a relatively newly integrated part of Western Europe and is thus ideal for inclusion in a comparative analysis of the effect of the different market economies. Using principal component matrix analysis, two groups were constructed. The first was named ‘CSR-committed companies’, and the other ‘CSR-dismissive companies’. I analyzed the attitudes of these groups in terms of the four different statements that were included in the survey concerning CSR on a normalized scale: from -1 (completely disagree) to +1 (completely agree) (the exact statements are indicated on the axis of Figure 1). Analysis of the responses to the statements allows us to compare cognitive conceptions about CSR in a CME and in a DDME country in terms of voluntary CSR, collective regulation, interest priorities in conflict situations, and the company’s public responsibilities.

In Hungary, CSR-committed and CSR-dismissive companies agree with the statement that “companies have to do more for the community than required by law”, and “in conflicts over company goals, owner interest should clearly be the first consideration” to a similar extent. CSR-committed companies agree with the statements that “in principle, companies are also responsible for the public weal”, and “collective regulations between social partners are important for the

functioning of the economy”, whereas CSR-dismissive companies thought the opposite (see Figure 1).

**Figure 1.** CSR-committed and CSR-dismissive companies in Hungary



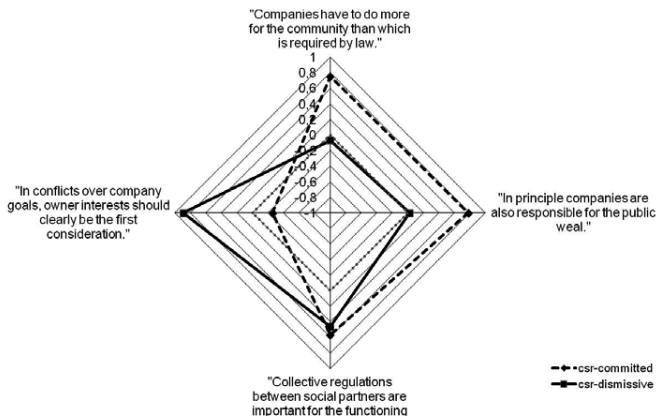
Source of data: FSU Jena – PAS – CUB, N=285

I also analyzed the answers of the companies from East Germany with the same methodology so they could be compared with the Hungarian results. In East Germany, CSR-committed and CSR-dismissive companies agreed only with the opinion “collective regulations between social partners are important for the functioning of the economy”. CSR-dismissive companies were neutral regarding the statements “in principle, companies are also responsible for the public weal”, and “companies have to do more for the community than required by law”, whereas these statements were strongly supported by the CSR-committed companies. CSR-committed companies slightly disagreed with the statement “in conflicts over company goals, owner interest should clearly be the first consideration”, whereas CSR-dismissive ones totally agreed with it (see Figure 2).

One of the main differences between the above-described results of the two countries was that not only CSR-dismissive firms but also CSR-committed companies agreed with the statement “in conflicts over company goals, satisfying the interest of owners should clearly be the first consideration” in Hungary, which was not the case in Germany. The other main difference was that CSR-dismissive companies disagreed with the opinion that “collective regulations between social partners are important for the functioning of the

economy” in Hungary, whereas in East Germany both groups strongly agreed with it. In three out of four dimensions, companies from East Germany seemed to be more CSR conscious, but regarding the question of public weal, Hungarian companies were more positive regardless of whether they were CSR committed or dismissive. Considering the above, it can be stated that the implicit CSR of Germany (with its coordinated market economy) and the CSR of Hungary (with a double-dependent market economy) are fundamentally different according to the cognitive perspectives of business leaders.

**Figure 2.** CSR-committed and CSR-dismissive companies in Eastern Germany



Source of data: FSU Jena – PAS – CUB, N=285

I analyzed the results of the quantitative survey to learn whether the CSR in Hungary is explicit or implicit, a mixture of these, or something different from these ideal types. According to Matten and Moon (2008), explicit CSR involves mostly voluntary and strategic socially responsible corporate activities, whereas implicit CSR basically refers to legal compliance. According to this research, the ‘explicit CSR’ category may be applied to firms from our survey that have both a dedicated budget and a strategy for CSR activities. Some companies claimed to do CSR, but did not have a budget or a strategy for this purpose and were not engaged in voluntary activity, thus these companies could be categorized as practicing implicit CSR. However, in Hungary legal compliance is not generally

guaranteed among companies<sup>15</sup> (cf. Transparency International 2016; Lengyel 2016; Janicsics 2016) and thus I employ the term ‘basically implicit CSR’ rather than the term ‘implicit CSR’ in the analysis. As a consequence of the results of the quantitative analysis, it was necessary to introduce a third category since there were also companies<sup>16</sup> that had a dedicated budget for CSR, but CSR was not present at the strategic level. I use the term “tends to be explicit CSR” for this group as they also do CSR on a voluntary basis, but this CSR can be considered rather ad hoc than strategic.

The CSR categories used in this research are thus the following:<sup>17</sup>

- ‘basically implicit CSR’: the company has CSR activities but no dedicated budget or strategy for these,
- ‘tends to be explicit CSR’: the company has CSR activities and a dedicated budget for them, but no CSR strategy,
- ‘explicit CSR’: the company has CSR activities, a dedicated budget, and a strategy for CSR.

As described above, it was necessary to supplement Matten and Moon’s (2008) distinction between implicit-explicit types of CSR to describe the CSR in Hungary in two ways (using ‘basically implicit’ in place of ‘implicit’, and adding the category ‘tends to be explicit’) to reflect the special institutional setting in Hungary. The CSR typical to Hungary cannot be categorized simply into explicit or implicit ideal types, but is in many respects fundamentally different. Below, I present some of the main differences between the CSR in a DDME country and the implicit CSR of the European CME countries and the explicit CSR of the Anglo-Saxon LME countries.

The results of the quantitative survey show that 95 per cent of the companies in Hungary engage in CSR activities (including legal compliance, as well as voluntary CSR). 73 per cent of these companies have ‘basically implicit CSR’, 12 per cent of them practice ‘explicit CSR’ and the remainder (15 per cent) can be located between the two types; i.e. in the ‘tends to be explicit’ category.

Results indicate that CSR in Hungary is not only a mixture of implicit and explicit types because the two most frequent forms of CSR (namely, ‘basically implicit CSR’ and ‘tends to be explicit CSR’) are not included in the CSR typology

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15 This was also verified in the qualitative research phase when many companies – mostly private Hungarian ones – stated that they did not strive to meet all legal requirements because this would affect their operations unfavorably.

16 As described later in the analysis, 15% per cent of companies fit the criteria for this group.

17 In the questionnaire, whether the company had CSR activity, and whether it had a budget and/or strategy for CSR were identified using ‘yes or no’ questions.

of Matten and Moon (2008) based on the liberal and the coordinated varieties of capitalism. Since in the double-dependent market economy both multinational companies and the state have a significant influence on the relevant institutions, I also analyzed CSR practices in Hungary with regard to the owners of the companies to identify whether distinctive patterns could be identified in terms of ownership: multinational, state-owned or private (Table 2).

I found that 84 per cent of the Hungarian private companies that have CSR activities belong to the ‘basically implicit CSR’ group. According to the survey, explicit CSR is most frequently practiced at Hungarian state enterprises and multinational companies in Hungary. One-third of all state enterprises practiced explicit CSR: a level even higher than that of foreign companies (27 per cent); however, survey results do not show the intensity or the extensiveness of these activities which may well tell another story. Eighteen per cent of foreign companies and seventeen per cent of (Hungarian) state-owned enterprises in Hungary had a dedicated budget for CSR but no CSR strategy, and thus fell into the ‘tends to be explicit CSR’ category.

**Table 2.** Frequency of CSR types in terms of the different forms of company ownership among companies that are active with CSR in Hungary

	Ownership			Total
	Foreign enterprise	Hungarian state enterprise	Hungarian private company	
Basically implicit CSR	55.2%	50.2%	83.7%	73.0%
Tends to be explicit CSR	17.6%	16.6%	13.5%	14.9%
Explicit CSR	27.2%	33.2%	2.8%	12.1%
Total	100%	100%	100%	100%

Source of data: FSU Jena – PAS – CUB, N=285, Cramer's V: 0.278, Sig.: 0.000

Company ownership has a significant but not very strong effect (Cramer's V: 0.278, Sig.: 0.000) on whether a company practices ‘explicit’, ‘tends to be explicit’ or ‘basically implicit’ CSR. According to the results, the most typical type of CSR among Hungarian private companies is ‘basically implicit CSR’. Explicit CSR is more typical among the Hungarian state-owned enterprises and foreign-owned companies than among the Hungarian private companies in Hungary, but even at these enterprises explicit CSR remains a minority compared to the

other CSR types. In Hungary, 55 per cent of foreign companies and a little more than half of state-owned companies carry out ‘basically implicit CSR’.

There were at least two unexpected results of the analysis. First, even foreign companies did not generally have a dedicated budget or strategy for CSR activities in Hungary. One reason for this may be that the owners of such companies (typically parent companies) did not require their Hungarian subsidiaries to be active in this respect, implying that global CSR trends that mainly spread through the intra-firm hierarchies of multinational companies are still not as prevalent in Hungary as they are in liberal or coordinated market economies. This assumption will be further elaborated on in the next section. Second, Hungarian state-owned enterprises were most active with the explicit type of CSR. One explanation for this (besides the unexpectedly low level of explicit CSR among foreign companies in Hungary) may be that the current government is trying to develop a favorable image of these companies among voters.<sup>18</sup>

The results of the quantitative research revealed that foreign companies and Hungarian state-owned enterprises were most active with explicit CSR (and also with ‘tends to be explicit CSR’), implying that state-owned enterprises and foreign companies play an important role in the actual patterns of CSR in Hungary. This finding is in line with the concept of the double-dependent market economy that claims that the Hungarian economy is dependent on the government/state and multinational companies. However, the analysis also indicated that the CSR type typical of Hungary cannot be described well solely using Matten and Moon’s (2008) terms ‘explicit’ and ‘implicit’ CSR, as most companies in Hungary did not match these ideal types.

## ***Results of qualitative research***

The qualitative research was designed to identify some of the features of the above-outlined specific CSR type in Hungary from the perspective of business leaders. In the following I describe what differences exist in terms of multinational companies, Hungarian state enterprises and private Hungarian companies in Hungary.

Leaders of multinational companies said that legal compliance (thus mainly implicit CSR) is important for their company because they consider avoiding

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<sup>18</sup> Another interpretation is that Hungarian state enterprises are generally bigger, and state-owned financial institutions were slightly over-represented in this sample too. Concerning this issue, more detailed analysis is included in the PhD dissertation of the author (Bank 2017).



scandals to be very important. Many of the multinational companies taking part in this research had already experienced what it meant to have such an issue (i.e. non-fulfillment of legal requirements) appear in the media, not only affecting the subsidiary company but the whole international company group, causing significant harm to their business.<sup>19</sup> Such issues make investors more careful and conscious about maintaining legal compliance on an international level due to the risk of a possible decrease in the value of their shares. This means that owners and investors compel even subsidiary companies to fulfill all related legal requirements, leading to socially more responsible multinational companies. Accordingly, this results in an implicit type of CSR among these companies in Hungary due to the presence of European-type legislation. However, many voluntary CSR or sustainability activities were also present at the companies which were investigated, and some even had related strategies that show signs of explicit CSR too.

Among state-owned enterprises, legal compliance is considered to be fundamental because of the requirements of the owner. Interviewees said that the owner was the legislator as well, so it is not a question whether the company should fulfill legal requirements. However, corruption can be detected both with tendering and at state-owned enterprises (cf. Dávid-Barett – Fazekas 2016; Gamberoni et al. 2016) which means that state-owned enterprises do not fulfill all legal requirements in reality. One may admit though, that in most areas, especially with taxation and labor, state-owned enterprises intend to meet all the legal requirements.

Fulfilling all legal requirements was not considered to be as important among the Hungarian private companies I interviewed as it was among the multinational companies or the Hungarian state-owned enterprises. Answers suggest that business reality in Hungary means a focus not on legal compliance but rather market gains, reducing the effects of excessive regulation and fighting for survival above all. Some respondents said that not meeting legal requirements could even be considered fair in some cases, especially when they affected the continuing existence of the company (i.e. as concerns the wellbeing of employees and their families). Others said that being the least unfair among competitors can be considered socially responsible business behavior. This reflects a difficult market situation for Hungarian private companies and also shows that their approach towards CSR does not fit any of the categories defined in the typology of Matten and Moon (2008).

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19 Many such scandals have been reported in international media concerning issues such as Shell and environmental protection in Africa, Nike and child labor in Asia, and Volkswagen and the falsified reporting of harmful emissions.

In line with the quantitative research, explicit CSR was most present among multinational companies according to the interviewees, but only a few had dedicated budgets or strategies for CSR. Some said that it had just appeared in the global strategy of the parent company, but still had not become an issue at the Hungarian subsidiary in practice. One reason for the spread of CSR among multinational companies is a desire to follow industry leaders which stimulates companies to tackle the issue at the level of corporate culture and strategy. The motivation for this may be, on the one hand, that managers and owners recognize the direct and indirect benefits of CSR for their companies and, on the other, that they are afraid of losing their market position if they lag behind in this respect. This kind of replication (cf. ‘isomorphism’; DiMaggio – Powell 1983) of industry-leading practices can result in the wider diffusion of CSR, but according to the interviewees, embedding CSR into corporate culture would be a rather time-consuming process.

The tendency to explicit CSR was mixed among the representatives of state-owned enterprises that were interviewed, as there were companies that acted like multinational companies in terms of CSR, and others that focused mainly on legal compliance. Profit-oriented Hungarian state-owned enterprises are much more likely to have explicit CSR than public service operators, for whom the biggest emphasis appeared to be placed on legal compliance, especially concerning labor regulations.

The CSR at Hungarian private companies involved in the qualitative research did not match either the explicit or the implicit CSR of Matten and Moon (2008), although some components of them could be identified according to respondents’ answers. Many Hungarian private companies engage in voluntary CSR activities (mostly in the areas of labor care and donations), but these occur rather occasionally or in an ad hoc manner, depending on the situation, and are shaped predominantly by the personal attitudes and decisions of the leaders of companies.

## CONCLUSION

In this paper I have demonstrated that, besides multinational companies, the state/government plays a significant role in all of the five institutions that are relevant in terms of the variety of capitalism in Hungary. For this reason, I introduced a term for a new variety of capitalism, the double-dependent market economy (DDME), to expand on Nölke and Vliegenthart’s (2009) concept of the dependent market economy (DME). Hungary as a DDME country has a

fundamentally different institutional setting compared to the liberal (LME) or coordinated (CME) market economies. It is probable that the DDME model is valid for other CEE countries (especially the V4 countries), but verification of this would need further research.

In the different varieties of capitalism there are different types of CSR (Matten and Moon 2008) thus I analyzed what combination of explicit (typical of LMEs) and implicit (typical of CMEs) CSR was present in Hungary. Findings indicate that some patterns of both implicit and explicit CSR are present in Hungary due to the significant role of the state and multinational companies in the formulation of institutions. However, in the double-dependent market economy of Hungary, CSR is distinct from that of Western European countries. Implicit CSR does not prevail as a general rule, mainly because of the private Hungarian companies that are the most numerous in the country and that fulfill legal requirements selectively. Explicit CSR can be found among some big global multinational companies in Hungary, but there are also many big subsidiary companies that have no explicit CSR at all. Many of these multinational companies can be identified as 'tends to be explicit'; a situation that cannot be defined as implicit or explicit CSR, but rather lies between the two.

In Hungary, many formal institutions that are of great importance to both the economy and society are rooted in the strong conceptual heritage of socialism. After accession to the European Union, Hungary began to harmonize its law to the *acquis communautaire*, so its legislation is basically identical to that of the other EU member states in most areas (for example, in competition law, environmental law, and employment law). The so-constructed strong regulatory background and the relatively coordinated market economy could give space for implicit CSR in Hungary, as it does in most Western European countries according to Matten and Moon (2008). However, informal institutions (for example, the presence of NGOs) are much weaker in Hungary than in Western Europe and their role in society is marginal, thus they cannot contribute to the spread of implicit CSR. Furthermore, fulfilling and enforcing formal requirements is not as common as it is in Western Europe, which also leads to the more moderate presence of implicit CSR practices. On the one hand, this can also be regarded as Hungary's communist-era heritage (when informal institutions contributed to the presence of the shadow economy and the flexible use of the resources of state-owned enterprises). On the other hand, frequently changing and thus unpredictable legislation and a challenging business environment (especially for private Hungarian firms) may also contribute to a greater willingness to ignore legal requirements. All these factors result in the existence of a rather different form of implicit-like CSR in Hungary than that of Western European countries.

Considering the above, the general outcome of CSR practices in Hungary eventuate in a type of CSR that is distinct from the ideal types of Matten and Moon (2008). It is not possible to assess using the results of the current research whether this Hungarian type of CSR will develop in the direction of the ideal types of implicit or explicit CSR in the future, and if yes, in which direction. This issue remains for future research. However, it can be stated that such a development would require fundamental changes in the institutions of the Hungarian double-dependent market economy.

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