



Baseline Study on Corporate Social Responsibility Practices In Hungary 2007



EXECUTIVE SUMMARY

Corporate Social Responsibility (CSR) is a relatively new phenomenon in Hungary. Its history – like that of every economic phenomenon – has been strongly influenced by the socialist system between 1948 and 1989 and the years following the transition in 1989. During the socialist period, the state and large state-owned companies together provided social services out of state revenue.

Since the 1989 transition, the country has learned a lot about the market economy. In the early days, companies had no experience of corporate governance with a 'triple bottom line', and so there was a lack of knowledge, instruments and tools. Privatization and the new economic agenda resulted in 'wild capitalism', and the profit motive assumed excessive importance in Hungary.

There is little trust in company leaders; this naturally hampers the spread and dissemination of CSR. Since the transition, Hungarian society has become too individualistic, civil society is underdeveloped and the scope for cooperation is at a very low level.

Fundamentally, business and social actors in Hungary are typically not sufficiently aware of the role companies could play in achieving environmental and social goals, while at the same time remaining profitable. CSR is not an integral part of business strategy, appearing instead merely as a PR tool. Possibly that is why Hungarian stakeholders are suspicious of companies that communicate positive things about themselves. Sponsorship is still the main CSR tool in Hungary today.

Nevertheless, we can say that talking about CSR is quite the fashion in Hungary today: medium-sized and large companies know the concept and understand the advantages. In 2006, there were some 14 conferences on the topic – a record for Hungary. One outcome is, for example, that recently consumer awareness has risen. Consumer consciousness appears to be on the rise, and price is no longer the only factor governing consumer choice. This could prove very important in spreading the CSR issue in Hungary.

We examine the special position of small and medium-sized enterprises (SMEs) as it relates to CSR, as well as the crucial role of multinational companies. They lead when it comes to providing sponsorship, organizing voluntary activities or communicating CSR reports, but their motivation is dubious. Hungarian CSR experts generally applaud their actions at conferences and in the press, but some of them are suspicious of the companies' credibility.

In Hungary, improving a company's image and reputation is still the main incentive for demonstrating responsibility. This should not impugn, however, the motives behind some good practices that we mention in this paper. In the case of environmental protection, cost saving is another important motivation. The acceptance of other incentives would provide fresh impetus to CSR in Hungary.

We have reviewed the main actors involved in promoting CSR and their contributions – namely trade unions, employees, the government, the media, some significant NGOs, the local offices of international organizations and consultancy firms.

The promotion of ethical business practices and CSR is the joint responsibility of companies and their stakeholders. The involvement of Hungarian enterprises in CSR can be fostered through training and assistance from business

associations. From policy makers, companies would welcome not only financial support, but also awareness-raising activities.

The media, NGOs and the government have a particular role to play in this field: to raise the awareness of consumers and society. Although other motivations should not be discounted, companies only become responsible if that is what their stakeholders want. A stronger environment for the promotion of CSR requires several interconnected activities and partnerships. Achieving results will necessitate a process of learning, dialogue and agreement on incremental improvements, rather than just legal or legislative measures.

There is no consensus as to the necessary degree of state intervention. Some respondents would like tax breaks and other direct means; others only want an indirect, mediator role. Some actors propose that the state should provide more assistance to NGOs – in both the financial and the legal sense. That is because, in the opinion of society, NGOs are the most credible actors: if stakeholders are to be convinced of its genuineness, the development of CSR should be driven by NGOs. A tripartite and continuous dialogue and cooperation among the state, the market actors and the NGOs would be credible and would be strong enough to develop CSR practices in Hungary.

In order to ascertain the present state of CSR issues in Hungary, we interviewed the representatives of 40 companies (nine of them as examples of good practice) and 15 governmental and non-governmental organizations. The best-practice companies and the organizations were selected based on expert opinion; the remaining 31 companies were part of a random sample selection process that took account of regional and sectoral specialities in the Hungarian economy.

We have made case studies of four of the best-practice companies. They share some common

features. Employee participation and/or openness to stakeholder dialogue are indispensable parts of CSR in practice. Professional institutionalization, the creation of ethical codes, reports and the establishment of committees are also necessary. These ensure accountability, transparency and credibility, even though some of our companies that had the best practices do not believe much in the importance of assurance and strict formalization of CSR.

The CSR strategy should be complex, manifest in every action that relates to every important stakeholder. The convergence of core competences and CSR tools ensures that CSR becomes an integral element of business strategy. That is why using core competences for responsible activities ensures credibility. This is true even if the avowed principal goal is to boost the company's reputation through CSR.

Opinions are divided on the problems that are the most burning in Hungary. Some companies and organizations emphasize the environment; other social issues such as discrimination. Nevertheless, they all agree that the formation of a civil society and democratic dialogue among business and social actors is important in tackling all the problems.

This, however, is possible only if there is an increase in the overall quality of conferences and other discussion forums. Most of our respondents complained that, regrettably, CSR conferences tend to get stuck on the basic issues of CSR, with lecturers constantly harping on the importance of ethical institutions and the difference between PR, cause-related marketing and CSR. There is a lack of more profound discourse, and nobody explains how CSR tools could be used in the Hungarian context. Most of the people we interviewed from NGOs emphasized that CSR communication is sometimes more important than CSR activities themselves. Because the CSR movement in Hungary was

started by companies – not, as in Western countries, by consumers – the PR aspects of it seem to have undue significance.

Everybody believes that the relatively bad economic environment and the lack of financial resources are the main factors constraining the spread of CSR. This highlights the widespread misapprehension that CSR is against profit and is costly for companies (since business actors often mistake it for sponsorship or PR). Though the awareness of stakeholders is improving, the Hungarian market still does not fully appreciate the fact that CSR is not something rather remote from everyday operation: it should be at the very heart of strategy and operations. The motto of this paper suggests the same. CSR is not about additional costs; it is more about self-examination, humanity, attention and respect for others (stakeholders).

