

Corporate social responsibility development – Challenges for Hungarians small and medium-sized enterprises in the pandemic

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ABSTRACT

Small and medium-sized enterprises (SMEs) can be considered as the backbone of Europe's economy, which represent 99% of all businesses in the EU. They employ around 100 million people, account for more than half of Europe's GDP and play a key role in adding value in every sector of the economy. Hungary is also a place where SMEs are popular and important to the whole economy. They provide various job opportunities, create innovation and boost competitiveness annually. To maintain the position in the long term, it is crucial for SMEs to develop their Corporate Social Responsibility (CSR) effectively and assess their performance annually. However, they have to face various difficulties in CSR development. And now in the time of Covid-19, there are a lot of bigger problems for them to solve: adapting to new situations, updating the national regulations, changing and adjusting their rules and their strategies, etc. This paper describes the situation of SMEs in Hungary, the main challenges in CSR development that they have suffered before and in the time of the pandemic, and also giving potential solutions to alleviate those challenges.

Information and statistics in the paper are taken from online sources, as well as from scientific articles, which are all listed at the end of this paper. The aim of the paper is to raise awareness of the challenges in Hungarian SMEs and to come up with the ideas to adjust and develop their CSR in the pandemic. Therefore, it may change the perspectives of managers about the attitudes needed in order to survive in the crises.

Keyword: Covid-19, Small and medium-sized enterprises, Corporate Social Responsibility, potential solutions, main challenges.

1. Introduction

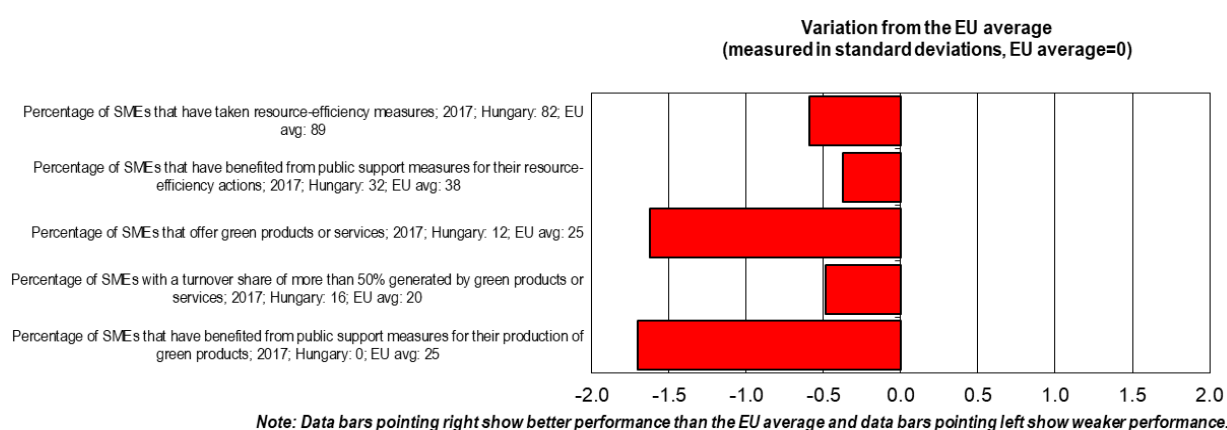
According to the definition given by Fernando (2021), Corporate Social Responsibility (CSR) is “a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public”. By practicing CSR, companies can be aware of their impacts on all different aspects of society, including economic, social, and environmental dimensions. Companies have the opportunities to devote themselves to useful social activities and contribute to alleviate social problems. Moreover, through CSR activities, companies and customers, or their stakeholders in general, can become better connected, which is necessary in building trusts and creating a good reputation for the success of the companies. In other words, a company, which implements CSR

activities, is operating in ways that enhance society and the environment, instead of contributing negatively to them.

However, Covid-19 coming in 2020 has brought several effects for shareholders, businesses, consumers and markets. The specific features of Covid-19 are unique and its impact leads to a rethinking of strategies for the SMEs in developed and emerging market economies. As can be seen, the pandemic has represented a big environmental change in the world economy and society as a whole, which has definitely impacted on CSR activities. Since no one knows when the pandemic will end or be completely controlled, there is still an uncertainty about the strategies that SMEs are implementing in terms of their long run and sustainability. And even when the pandemic ends, economic, social and cultural impacts will still remain. What are the issues of CSR activities in Hungarian SMEs before and during the Covid-19 pandemic? How can they improve their performance and avoid negative impacts of the pandemic on their CSR activities? These are two main questions that should be identified clearly. In this paper, the CSR situation of SMEs in Hungary before the pandemic and the impacts of Covid-19 on Hungarian SMEs are discussed. Through the findings, this paper recommends some solutions to minimize the negative effects of the pandemic to the CSR development.

2. Findings

Hungarian SMEs have faced a lot of challenges in their CSR activities even before the pandemic. In terms of Environment SBA (Small Business Act) principle, performance of Hungary is the worst among the Member States and far below the EU average point. Since 2015, Hungarian SMEs have experienced negative results. For example, from 2015 to 2017, there was a decrease in the percentage of Hungarian SMEs which produced green and environmentally-friendly products (18% to 12%). Especially, in 2017, there is no Hungarian SME benefiting from public support to produce those products (Hungary SBA Fact Sheet, 2019), which made them not consider green production, efficient consumption and other CSR activities as important.



Source: Hungary SBA Fact Sheet 2019

While Hungary has realised that eco-innovation and green technologies are important for the future of the Hungarian economy, more efforts must be made in this area. “Green Economy Development

Programme” implemented in 2011 is one of the most significant measures to increase resource efficiency and support environmentally-friendly businesses. The Environmental and Energy Efficiency Operational Programme adopted in 2012 is also a measure to help SMEs adapt their businesses to a low-carbon economy. In the case of agricultural suppliers and forestry companies, there were some measures adopted to develop their efficiency in resources used. In 2017, a new Hungarian support system for electricity production from renewable energy sources (METÁR) was introduced along with the EU Renewable Energy Directive. As a result, Hungary has become more cost-efficient in electricity production from renewable energy sources, mostly from solar energy.

During the period 2017-2018, there were four measures adopted in order to support the CSR activities of Hungarian SMEs. Firstly, the measure “Deduction of the cost of a recharging point from the CIT (Corporate Income Tax) base” allowed firms to remove the installation costs of recharging points for electric cars. This helped encourage the use of electric cars in Hungarian SMEs that can reduce environmental issues. Secondly, with METÁR - the new Hungarian support system for electricity production from renewable energy sources, producers of renewable energy can sell their electricity on the free market and apply for operational support. The system is supported with 145 million Euros annually. Thirdly, with a budget of over 76 million Euros, the “Tenders for entrepreneurs in forestry” granted for forestry-related SMEs in terms of environmental management methods, innovative tools, access to finance, biodiversity and sustainability. The “Improvements of Hungarian National Climate Protection Authority” was also an effective scheme. It focused on a greenhouse gas database, training for SMEs that have greenhouse gases activities, and holding useful workshops to raise awareness of greenhouse gas reduction methods. The scheme had a budget of 1.275 million Euros.

Another measure implemented after that should be also considered. It is “Supporting building energy developments through the use of renewable energy”. This measure had a total budget of 164 million Euros. With this measure, Hungarian SMEs can register for support to improve the energy efficiency of their company buildings, for instance, setting up solar panels. In general, it is an effective measure to reduce greenhouse gas emissions through reducing primary energy consumption and encouraging renewable energy sources used in buildings among Hungarian SMEs. The amount of grants is between 4687 Euros and 312500 Euros, which has supported 800-1750 applications to improve the energy efficiency of buildings.

In general, the measures adopted for Hungarian SMEs have been working quite effectively. They have also contributed to making progress on the environment and other interests of customers. However, SMEs still cannot obtain EMAS (Eco-Management and Audit Scheme) certificates, which is crucial for Hungarian SMEs to prove their efficiency in environmental business. Green public procurement is still not effective enough, and Hungarian SMEs should also be given more incentives in order to encourage them to invest in environmental activities and campaigns.

Moreover, it is remarkable that the rate of companies whose customers support their CSR performance by training or educational programmes is very low. Expectations of large companies are very important factors for their SME business partners to encourage them in their CSR activities. However, multinational corporations basically do not support their SME suppliers in improving their CSR performances (Nagypal, 2014), which makes the CSR situation in Hungarian SMEs more difficult. Sustainability and CSR activities are still seen as an afterthought for many corporations in Hungary. They focus more on profits, revenue and business growth. CSR is considered as a long-term investment

lacking short term returns. Therefore, corporations feel less attractive investing in CSR activities. Additionally, many traditional entrepreneurship education programs do not mention CSR in the agenda, or leave it as an elective one. It means that many companies do not understand well enough about the value of CSR for long-term success and tend to neglect it.

In 2020, with the appearance of Covid-19, the overall economy has experienced a big recession. From small to big enterprises, many of them have experienced their losses in terms of sales, employment rate and strategy implementation. In the case of SMEs, the pandemic really negatively affects their commercial property, such as inventory and equipment. The ability to fulfill orders and future sales of Hungarian SMEs are also impacted, which can lead to their insolvency. Another important factor which prevents the recovery of SMEs is the decreasing employment rate and customers. Moreover, the uncertainty of Covid-19 has made it harder for SMEs to manage their strategy in the long run. The number of cases in developed economies in Europe has increased. Therefore, the global supply and industrial chains have been blocked. The uncertainty in operations of Hungarian SMEs has also increased. The decrease in risk tolerance of investors has led to some financial issues for Hungarian SMEs, increasing their liquidity and debt default risks, and strengthening the fluctuation in economic operation. Due to the widespread of the pandemic, the governments of Eastern Europe countries, including Hungary, have strictly restricted the flow of people. As a result, there have been delays in labor supply, which has broken the smooth transmission of the industrial supply chains. In brief, Covid-19 and its prevention measures such as lockdowns and social distancing regulations have significantly impacted the SMEs so that they must face the challenges and find potential solutions to survive this crisis. Thus, CSR activities of Hungarian SMEs have been somehow restricted in both the amount of money invested and how the operation can be implemented.

Under the present pandemic situation, when everyone is going online, SMEs focus on saving themselves by attracting consumers, moving to digital marketing and quickly converting their products into cash flow. Therefore, the process of SMEs fulfilling their CSR to gain consumer recognition and favor in order to overcome this crisis is a challenge that all SMEs must tackle urgently.

3. Conclusion and recommendations

In European countries, Covid-19 has shown the weaknesses of many SMEs, with over 90% of SMEs reporting a decrease in turnover since the beginning of the pandemic (Whiteman, 2020). The situation now is different from before. SMEs not only try to maintain and implement their CSR strategy but also adapt the new situation of the pandemic by being resilient. To be resilient means preparing and managing for every challenge, as well as making decisions quickly. In times of the pandemic, investing in sustainability in the long-term can impede flexibility of response to challenge in the short term due to the uncertainty of Covid-19.

Placing CSR activities and the environment at the forefront of social and economic recovery of SMEs is very necessary. Currently, there is a disconnection between the environmental and social issues and businesses, because they are considered as the responsibility of governments to prioritise. However, as Covid-19 has shown us, intervention from SMEs can have many positive impacts, and be even more effective than government intervention.

When SMEs now are going online, they should give their employees as much flexibility as possible to finish their tasks. With the Covid's negative impacts on health, child care and elder care has become the priority for every employee and they have to take responsibility for it. Forcing them to work without caring about their responsibility or their own health just makes the situation worse. Otherwise, they can easily become depressed and stressed due to the heavy tasks, pressures and fears about the widespread of the pandemic. Therefore, it is necessary to listen to the staff and understand what they really need. Communicating openly with employees is important to maintain a relaxed atmosphere and a comfortable work space. Moreover, SMEs could encourage their staff to do volunteer work in their communities. For instance, during this pandemic, staff members could contribute to social activities such as food distribution or masks donation. That is also an opportunity to gain trust from the community to the firms. SMEs can support their staff by assigning a few hours every week towards a social responsibility of choice.

During this pandemic, SMEs can help each other by introducing them to new potential customers. By promoting small businesses on social media platforms, SMEs can get access to a larger number of customers and have opportunities to advertise about their CSR activities. They should update reliable Covid-19 information, rules/regulations and their CSR activities to their website more regularly in order to build trust from customers. Expanding their audience reach will help them gain extra business during the hard time of Covid-19. This giving-back activity can be carried on even after the pandemic as long as it does not affect the bottom line of SMEs

In the time of pandemic, holding mentoring programs making use of online platforms is becoming popular and effective. Everybody is now staying at home and has more free time to learn something new. SMEs can take this opportunity to offer free mentorship sessions, which brings a lot of educational values to the customers. This could be done through webinars or online meetings. Mentoring online is convenient, easier to manage time and can even make records if needed. Customers can feel free to express their ideas with the companies. Employees of the SMEs can improve their online and public speaking skills through all these programs. In addition, managers of SMEs will be contributing to growing and shaping the future workforce.

In the long term, EU policy needs to focus on entrepreneurship education policy to encourage the implementation of CSR activities in SMEs. Entrepreneurs are made through years of experience, education and skills development. Youngsters nowadays are becoming more interested in entrepreneurship, training programs and schemes. Therefore, it is necessary to make them understand the value of CSR activities to the business success. Providing them with a framework to get good CSR performance not only encourages them to consider CSR as important in their strategy, but also helps them identify what should be done to overcome business challenges, especially during the time like the pandemic nowadays.

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