

## „We need guidance independent rule-making thinking”

*Interview with dr. Ádám Balog, Vice President of BKIK*

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World Politics and Economics interviewed Dr. Ádám Balog on the role of compliance awareness among SMEs, why rule-making is important for both internal company operations and inter-company cooperation, and what the chamber system can do to raise awareness.

**Global Policy:** *Together with the BCE's Youth Business Stimulation Association, BCCI has launched a major research project on SME compliance awareness. Why is it important for an SME to be a rule follower and rule maker? Why do regulations help efficiency and effectiveness?*

**Ádám Balog:** I think that first of all we need to clarify an important fundamental issue. Words such as compliance, transparency, sustainability have a certain connotation in Hungary, which may not reflect what the connotation should be in the life of a company. If we say, for example, transparency, then typically a large part of people immediately form a kind of political opinion, positive or negative, but they have a political attitude to this word rather than thinking about the transparency of the internal and external information sharing of an organisation. Or, when we talk about compliance, we think of not being able to open a bank account because of complicated questionnaires, having to fill in a lot of paperwork, having to comply with some bureaucratic process. Why this has come about is a separate issue that is worth talking about, but first of all it is very important to note that this creates a lot of distortion in the way an entrepreneur approaches these issues. Because, in fact, these rules have been developed so that the business can function well as a (legal) entity, even separate from the entrepreneur and the owners. And if that is the goal, and I think for many entrepreneurs it is, then it is much more understandable why rules are needed. We can operate by custom, by hearsay, as one of our ancestors said, or what the village judge has proclaimed, but if there is a written rule that is really ours, that we believe in, then we can operate much more easily. These rules have been developed so that the business can be more viable, better able to function, and so that the entrepreneur can better achieve the purpose of the business, which can be varied, of course.

With rule-making, whether it is an entrepreneur, an association, a country or a region, the law rules. This is called, in the case of a country, the rule of law. The rule of law is not a uniform concept in the sense that all countries should have the same laws. A state governed by law is a state in which a community votes in favour of a set of rules - of course, respecting internationally agreed common rules - and builds the institutional system to support it. Beyond this, however, many different models are possible. In Europe, too, the rule of law is very, very different from Norway to Spain. The point is that it is their rule of law, which they have adopted and want to run one way or another. Many people may not even like the word anymore, but they still have a legal system that they adopt and frames their decisions. Sometimes it is more person-centred, more dependent on a single decision-maker, and sometimes it is more rule-based, and interestingly, even if the rules remain the same, this can change over time. The peculiarity of Hungary is that

many concepts of the rule of law are in collision with each other. There is a small European Union-type rule of law, a small American-type rule of law, a little more German, and we cannot forget the Eastern influences in our rule-making, all of which have different traditions. It is very difficult to say which of these is really ours, since Werbőczy, no extensive legal work has been able to emerge from the bottom up, from the true nature, functioning and customary law of the community. Let me note here that the doctrine of the Holy Crown, written by Werbőczy, was a significant step towards the rule of law, a step that was beyond its time, since it was the first to make statehood independent of the person of the king in our country.

Returning to the world of business, the important thing is that the small "rule of law" of a company reflects what its creators want it to reflect. If you look at how large business systems have been able to survive well and pass the field on to their successors, whether it's family succession or professional succession, it's been possible because there was a good set of rules about how the business could operate independently of the particular leader. This is why Microsoft and Apple have been able to survive the departure of their founder, but in the case of Facebook-META, for example, it is not yet clear.

**Global Policy:** *What is your experience, how much are SMEs in Hungary and Budapest aware in this respect? Do you see any sectoral, age or size differences in this awareness? What is the main limit to the growth of awareness: lack of knowledge, lack of interest, or simply no time for such problems?*

**Ádám Balog:** As I mentioned before, we are affected by a lot of influences, so there are many different kinds of corporate governance and ownership cultures, and there is a very mixed picture of how businesses, especially SMEs, operate. This also makes generally accepted corporate governance principles uncertain. To quote Pomade, this is why it is generally "the rule is that there are no rules". But when there is no rule, the nature of the operation is that decisions slide upwards to the owner, the ultimate decision-maker. Like in an ancient culture, everything is decided by the chief, the leader, in a company, if there is no rule of operation and no system that is accepted, enforced and adhered to by all, then all decisions are made by the leader. It's not efficient. Many Hungarian entrepreneurs struggle with the fact that they have to take responsibility for everything in one person because they have not been able to develop a decision-making mechanism. Unfortunately, even those employees who grow up in such cultures, even if they change companies occasionally, are used to having to push decisions upwards, so they carry this culture over to their new workplace. Having said that, I can see exceptions where the owners and management have been able to create a set of rules that they are comfortable with, that reflect their values, their beliefs, their vision, and they have been able to pass that on to the business as a person independent of them.

In terms of patterns, typically those who have seen some level of foreign company operation from the inside are more inclined to try to create a set of rules of this kind in their own operation. Personally, I also believe that some organisational culture "trickles down" from multinational companies. There are more and more managers who have spent 10, 15 years or more in

multinationals and then decide to leave and start a new business or work in a domestic SME. This obviously shapes the rule-making process for the domestic company. I have seen many examples of this, where Hungarian entrepreneurs and multinational executives have tried to get together, all with good intentions. In some cases the cooperation was successful, in many cases unfortunately not. The reason for this was not only the 'Hungarian entrepreneur' who did not accept the model brought from the multinational, but also the fact that the model from the multinational did not take into account the specificities of the domestic companies. So the point of the small "corporate rule of law" is not to do it the way a multinational corporation does it, but to learn the process of rule-making and, armed with that knowledge, to develop your own set of rules. It is a different kind of knowledge to enforce rules and to make rules, where the management model is often flawed. This is of course coupled with the increasing number of external rules that need to be taken into account in internal operations. Learning and implementing ESG rule systems, for example, is a major new challenge for companies, with the explicit aim of getting the company to take a serious look at its own governance system.

***Global Policy:** How can the Chamber of Commerce, academia or other public actors help to strengthen compliance? How effective are financial incentives in this area? What role can the Chamber play in education?*

**Ádám Balog:** So one of the pillars is education. Every educational opportunity should be taken. However, it should not necessarily be "over-organised", but rather given the opportunity so that those who want to share such knowledge or pick up such knowledge have somewhere to go, quickly, easily, with digital support. In the life of every entrepreneur, the question arises: "so how should we do it?" What kind of process system should we develop? Today, in the online space, you can see a myriad of management systems advertised, so there are tools that can be put in the hands of entrepreneurs. The other thing I believe in very much, but unfortunately I still rarely see any trace of it, is good examples, models. Let's not just talk about compliance in general, and about having an internal constitution and regulations, but let's help with specific decision points. We should help with specific issues such as how to separate sales from marketing. How to set up your finance department? How industry-dependent are the rules, what is the difference between an asset-intensive industry and a service-based or intangible capital-based industry? Sampling could be industry specific and quite specific policies could be created as a result. It has to be recognised that when we talk about governance or compliance systems, we are trying to explain to entrepreneurs something that they do not have a map for, in many cases no structure in their minds. The chamber system, including the Budapest Chamber of Commerce and Industry, could help this process by showing patterns, for example, on data protection in the workplace, conflicts of interest in the workplace, transactions with owners and affiliates, or even accounting for "capital". The Chamber could help with a kind of rule-making know-how, which also gives entrepreneurs room for independent thinking.

Thank you very much.

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