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Market Role of the State and Possibilities to Control this Role at Public Enterprises

SUMMARY: This paper is intended to explore the role of the state in the economy, the controllability of this role and the ex-post control of the activities involved. The article focuses on the measurability of the efficiency of the state's participation and the Hungarian characteristics and current trends of the state's role; issues that are closely intertwined with the notion of transparent fiscal management and the requirement of accountability. The study presents the place and various forms of state participation from a theoretical perspective before it proceeds to discuss theoretical proposals, valuable methodologies and options regarding the performance measurement, controllability and control of the state's role. The paper sums up the relationship between theory and Hungarian practice, and confronts the findings of a survey[1] conducted among companies in majority state ownership with the theories. Finally, it draws practical conclusions from the findings of the author's survey and offers a number of critical remarks.

KEYWORDS: state tasks, state role, control of community expenditures, internal audit, internal control, performance measurement
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Re-interpretation of the state's role, investigation of its functions and, at the same time, criticism of its load-bearing capability and its excessive role or excessive standoffishness with regard to the distribution systems is an ever increasing trend in public administration and public service. This dispute has exacerbated since the 2008 crisis and the state's entry to the competitive market, in particular, has become a subject of intense scrutiny.

Who is responsible for executing a given task, who should finance, regulate and control its implementation and who should actually perform the task – these questions are often raised in the current Hungarian legislative process. Meanwhile, we talk about a strong country, the ideal of a cheap state, efficient and paperless public administration and new public service models; we search for efficient ways to utilise tax money, investigate and reveal corruption and compare Hungary to the public administration and public service systems of other countries based on various indicators.

In this article, I set out to investigate how the modern, 21st century public service role of the state can be harmonised with the economic challenges and problems of the use of public funds and to examine the direction taken by contemporary Hungary in this context. I seek to find an answer to the following question: what should be measured, examined, analysed and controlled with respect to the role of the state and how?

The study discusses three topics:

1. theoretical issues regarding the market role of the state;

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❷ performance assessment of the state's role and possibilities to control this role; and

❸ presentation of the findings of a questionnaire-based survey regarding certain specificities of Hungarian state-owned companies.

Since it is the state's objective in market participation that defines the performance criteria to be controlled, the article describes the criteria pertaining to the market presence of the state in detail, and proceeds to align the complex tasks of performance control to the criteria, including compliance regarding economy, regularity, effectiveness, efficiency, control, etc. In the second part of the article, the findings of a specific survey are presented, comparing theoretical assumptions and ideal-typical models to actual practice; i.e. the responses provided in the self-completion questionnaires of companies in majority state ownership are summarised and presented in the light of theoretical models and requirements.

THE PLACE AND ROLE OF THE STATE IN MODERN ECONOMY – THEORETICAL MODELS

Basic models in relevant literature

Hungarian professional literature – (Varga, 2011); (Verebélyi, 2009); (Muraközi, 2009); (Fekete & Szigeti, 2005); (Sárközy, 2006); (Báger & Kovács, 2007); (Bara & Szabó, 2000); (Hoós, 2002); (Bod Péter, 2002); (Veress, 2001); (Jenei, 2008); (Voszka, 2011); (Voszka, 2013); (Csaba, 2010); (Huff, 2011) – addresses in great detail the place and role of the state in the economy, examines the relevant historical and political aspects, analyses the methods, models and implementation of the state's role by country or, on occasion, by means of comparative-analytical methods. The same issues are discussed in the international literature from numerous additional angles, using a dozen different approaches. In her publication (Voszka, 2005) Éva Voszka collects and presents in detail the vast array of thoughts and trends produced by international experts on the subject that are not analysed in this article due to space limitations.

On the other hand, the large theoretical categories that comprise the various forms of state presence are, for the most part, uniform. For the purposes of this paper, the term "state" is used as a collective term that includes central administration, the social security system, dedicated state funds, local governments, public foundations, business associations owned by budgetary institutions, public bodies – in other words, all bodies, organisations and offices that manage and use budgetary funds ("tax forints") EU funds, contributions, duties, etc. for the benefit and interests of their own citizens, the members of the community.

Regarding the market role of these organisations, I present – as concepts, trends and models – a number of large collective categories; however, certain additional trends, such as the concept of the developmental state or the social market economy model, are not discussed in this paper.

This paper focuses on the following main types:

▌NIGHT-WATCH STATE: the state takes on a very limited role in the economy and in the regulation of society's life. It guarantees the legal framework, regulates the economy, and ensures purely public goods; i.e. the goods that cannot be privatised. It is intended to maintain the rule of law (legislature, and legislation), to perform the tasks of defence (home defence, law enforcement, civil protection, disaster prevention, etc.), to maintain macroeconomic functioning (banking system, issuance of money, governance of economic policy, fiscal measures, etc.) and to perform the duty of institutional protection for the protection of fundamental rights (including the judiciary, the operation of public prosecutors, etc.).

▌WELFARE STATE: the state's role in allocation and redistribution is significant; in other words, the purpose of the economic policy is to improve citizens' sense of comfort continuously while imposing relatively high taxes. Under this scenario, the state strives to achieve equality and full employment, to expand the social delivery system, to encourage solidarity, to implement an extensive and comprehensive education system, to facilitate citizens' access to housing in such a way that these activities are organised and governed by the state and financed from the tax revenues and other contributions collected from citizens.

▌SERVICE PROVIDER STATE: under this arrangement, the state adjusts to the needs and the culture of the nation, and provides certain services focused on citizens but ensuring broad access in such a manner that the relevant burdens (costs) are shared – along the lines of certain principles – between the population, the economy and the central budget (e.g. operation of e-administration system, government portals, etc.).

Each state defines the principles, decisions and directions it wishes to follow in its own economic policy, the structure of power and the interpretation of public policy. Defining the weight, scope and extent of its regulatory, welfare and service provision roles is also a part of this process (Hoós, 2002.), (Veress, 2001).

In defining the desired weight of the state's participation, the state must identify its inherent roles; i.e. those that cannot be delegated to anyone else (the term "inherent" is of Latin origin, and it literally means inseparable, may not be deprived of something, existing as an integral part of something) (Kovács, 2009). Inherent state tasks are activities that are performed by the state by virtue of its powers rather than provided by it as services. In this sense, this category primarily includes the tasks of public authorities and activities connected to legislature, legislation, defence, diplomacy and state representation. The state may not delegate these tasks to private agents and likewise, the tasks concerned cannot be outsourced, offered for concession or implemented in the context of PPP projects. In principle, all other services may be delegated; they may be entrusted to business associations, to a group of private individuals or to non-governmental organisations (NGOs are understood as the associations, foundations and grassroots organisations defined in Act CLXXV of 2011).

In this regard, it should be noted that the delegation of tasks does not exempt the state from the responsibility to ensure that the tasks concerned are executed professionally, cost-efficiently and effectively. Even though the service is provided by a third party, it is ordered by the state and as such, it is the responsibility of the state to control the subsidies granted from public funds, and to control the quality, legality, efficiency, etc. of the services provided on its behalf (Kovács, 2011).

Below we list a number of practical Hungarian examples from recent years.

▶ Warrants of payment were handled by courts until 31 May 2010 and are processed by notaries public from 1 June 2010. The notary public is a chamber member running its own office and paying taxes independently. While the state delegated the tasks involved in warrant of payment cases, it retained its right to regulate the legal institution itself. Consequently, the state continues to define the applicable rates and the manner in which the notary public handles warrant of payment cases.

▶ Auditors are responsible for auditing the annual reports of business associations exceeding the thresholds specified in the Accounting Act, and they attach audit opinions to the reports. Audits are not performed by government bodies (such as the National Tax and Customs Administration [NAV], the State Audit Office of Hungary [SAO] or the Government Audit Office [GAO], but by private individuals or legal entities which are members of the Chamber of Hungarian Auditors. The Chamber of Hungarian Auditors and the Hungarian Auditors' Public Oversight Committee are in charge of the coordination, quality assurance and supervision of their activities, as well as their training. However, by way of legislation, the state defines the detailed rules and procedures of auditing, the operation of the Chamber, the public control over the activities of Chamber members, etc. Thus, the state retains its regulatory tasks while delegating a part of its administrative duties to the Chamber of Hungarian Auditors as a public body.

In the area of higher education, by 2012 nearly 55 projects were implemented in the context of PPP projects which were not limited to simple infrastructural development activities but involved the transfer of some operational and operating services to a private entrepreneur operator. Thus, the state delegates the construction and subsequent operational tasks of dormitories, research sites, training facilities, etc., while it continues to render the services, and the university/college continues to establish the legal relationship with students. The state remains in charge of the quality, criteria and rules of service provision. Meanwhile, students pay, for example, a fee for the dormitory, thereby contributing to the bearing of public burdens.

Since 1 July 2014, the collection of public area parking fees paid via mobile phone has been a task of the state, performed exclusively by National Mobile Payment Plc., a fully state-owned joint stock company. The company is responsible for the execution of all tasks related to electronic payments. Meanwhile, several companies that had previously provided similar services (EME Zrt, Mastercard Mobil, Cellum, telecommunications service providers) were crowded out of the market. In this case, the state designed the regulations in such a format that the task of collection is undertaken exclusively by a state-owned company, while service providers (parking companies) and users of the service (motorists using parking services) are typically non-governmental players; in other words, the state inserted itself between market participants.

For the first time, in 2010 the state made a decision to enter the mobile phone market as a fourth operator. In the communications market, the consortium controlled by Hungarian Electricity Ltd. (MVB) won the license for using the required frequency band and the right to provide services to customers (Kis, 2014). The state has abandoned its ambition to enter the mobile phone market as a fourth operator. The First National Public Utility Holding – owned by the state-owned Hungarian Development Bank – started its operations as a similar public utility company. From May 2015, the company provides, under market conditions, universal natural gas, district heating and electricity services to households, and envisages to subsequently extend its activities to public waste removal services. In this context, the state enters the market not only as a regulator and as principal, but provides services to households with its own – state-owned – organisation.

The role of the state and market intervention can take many forms. It is evident that regulation, i.e. the performance of legislative and regulatory tasks, is the responsibility of the state. In practice, this means the drawing up of acts and decrees, in other words, legal regulations. Through domestic regulation, the state defines the possibilities of market players; it prescribes provisions with regard to their room for manoeuvre, conduct and legal transactions, and imposes sanctions (tax penalty, supervisory fine, withdrawal of licences, suspension of tax number and, in more severe cases, launching criminal procedure) when the provisions are violated.

At the same time, legislation is not the only form of state intervention and participation. The state can influence private sector participants through fiscal and monetary policy measures as well. It can influence them to change their original intentions, modify the value, scope and duration of legal deals, etc. It can do so, for instance, in the form of subsidies granted from the central budget (subvention, transfer), which could be a certain amount of money to subsidise an investment, a donation intended to support a local heritage association, a subsidy to cover farmers' losses ex-post, or tender funds granted to the operator of a hostel for young tourists, etc. (Jenei, 2008). Economic policy instruments also include the reform of the taxation system, the operation of the mandatory social security system, the interest policy and direct FX market interventions. The common feature of all these forms is that the state's decision or measure (or a lack thereof) benefits one or some of the economic agents by allowing them to save costs or gain additional profits in comparison to their original situation (see, for example, the situation of MALÉV and the state's continuous efforts to keep it viable since the regime change through capital injections, loan guarantees and repurchase transactions), while the situation or position of others deteriorates; for example, their product becomes too expensive, they lose a part of their income or they get crowded out from a certain market segment, etc. (Major & Szilágyi, 2007).

Besides legislation and shaping the economic policy, the state has additional tools at its disposal to intervene into the circulation of a given economy; namely, the foundation of direct companies backed by state ownership. Although the state seldom operates a business association for the purpose of gaining profits, several such for-profit, state-owned business associations exist in Hungary. This tool, however, must comply with international law, including European Union legislation. It is in conflict with community legislation to grant prohibited state aid, to support employment, transportation, the movie industry, etc. by way of direct subsidies restricting competition or violating the principles of the open market, or to provide subsidies disguised as low-value, *"de minimis"* aid (Hargita, 2003).

The public corporations operating in the pre-transition period were simultaneously the symbols and executors of the socialist planned economy. However, it is not alien from the nature of market economy that the state enters the market with its own business association and operates it in accordance with market rules, taking risks and even specifying a profit target. In this arrangement, the state performs a dual role:

INVESTOR: it establishes a company from public funds (typically from tax revenues or state property overtaken by the company as contribution in kind) and, by withholding any profit after tax in the form dividends, it collects surplus revenues over the long run (which can be used to finance other, loss-generating state tasks through the central budget). Essentially, this is an investment activity or, carrying it one step further, it may be the cross-financing of certain services provided by the state or a long-term guarantee for debt service, etc. The state can stabilise this position for a sustained period and over the long term if it manipulates the business environment by other means – typically via legislation – to ensure that the company concerned achieves a monopolistic position in the market, and its surplus profits generate dividends.

Operator: from its own annual budget the state provides a pre-determined amount to the company to cover operating costs (as a kind of posterior capital injection or additional payment when the state replenishes its capital – existent at the time of foundation but depleted in the meantime – to the minimum statutory level of the ratio of registered capital to own funds, otherwise the company would have to be restructured or, in the worst case, terminated). Another option is to conclude a public service agreement with the company and order services from it, and the revenues from the services are sufficient to cover the company's operating costs. In this case, instead of delegating ongoing operational tasks to a budgetary institution, the state assigns the tasks to its own business association and exercises control, supervisory and propriety rights over the company itself. The foundation and operation of the KINCSINFO Governmental Information-Technology Development Agency is a good example for this: KINCSINFO takes orders solely from, and provides IT development services exclusively to, the Hungarian State Treasury.

Objectives of state ownership in Hungary and its current situation

The objectives of state ownership are driven by the models and trends described above, and this is true for Hungary as well. Obviously, these aspects may coexist or, from time to time, they may be in conflict with each other (for instance, the tax return burden applied for regulatory reasons and control purposes is in conflict with the ideal of a streamlined and limited state apparatus).

The purposes of state ownership are defined in this paper along the lines of the driving forces described below, and are classified into four main categories depending on the state's main objective and strategy regarding the companies owned and the tasks performed.

❶ The state intends to execute a task within its own competence and through its own budgetary institution over the long run and, by definition, transfers and assigns assets serving these purposes (buildings, equipment, vehicles, budgetary subsidies). Besides managing the assets, the state's objective is to ensure the provision of high quality services to citizens and users. These objectives are classically related to inherent state tasks and are fulfilled with the participation of budgetary institutions. They include public and higher education (school or university buildings, machinery and equipment, budgetary normative reimbursement), and also such fields as healthcare, national defence or public education services. This category also comprises state-owned organisations (albeit not budgetary institutions) operating from non-negotiable shares, such as the National Bank of Hungary, the Government Debt Management Agency or the Hungarian National Asset Management Inc (HNAM).

❷ The state wishes to solve the tasks of maintaining public areas, managing the electricity system, public roads, passenger transport, public warehousing, water supply, etc. for purposes similar to those described above, although not in the form of budgetary institutions, but through business associations. For these purposes and tasks, companies owned 100% by the state have been set up or, as an alternative, local governments often acquire ownership in locally operating companies. The operation of these companies, however, involves business-like activities, and their expenses are not exclusively covered from government subsidies but also from the service fees paid by consumers and users of the respective services (waste management fee, transmission fee, road toll, transport ticket price, public warehousing fee, water consumption fee, etc.). These companies constitute a part of the state's stable assets, and are listed in Schedule 2 to Act CXCVI of 2011 on National Assets. Depending on the government policy, companies are removed or added back to the list from time to time, as was the case with regional Waterworks Companies or Volán (transportation) Companies.

❸ The state wishes to keep – temporarily or on a long-term basis – certain resources, tangible assets, items representing national advantages or organisations holding such items under its own supervision. By doing so, the state gains ownership over strategic resources that might be of key importance for the national economy in consideration of public debt, the stability of the financial system, etc. It was for such considerations that the Hungarian State acquired a majority stake in RÁBA Plc. in 2011, and that it previously became a majority shareholder in MOL Plc, MALÉV, Welt 2000 Ltd. and the former Postabank. It is a specific feature of these cases that outsiders are generally not familiar with the actual reasons for the acquisition decision; the underlying motivations do not become public and hence, justified, or explicitly suggest secret purposes or national defence considerations. Although media broadcasts, the interpellations of MPs and various investigation committees tend to dwell on ongoing transactions, the diplomatic agreements behind the scenes and national security interests usually remain hidden.

❹ Finally, the state purchases, with the intention to provide temporary assistance and without considerable intervention (in everyday terminology: rescues) companies by taking their business shares into state ownership. Similar to business shares, land can be taken into state ownership as well and the state may also take over the properties of vulnerable foreign-currency debtors. These assets are managed, admittedly on a temporary basis, by Hungarian National Asset Management Inc. (HNAM) and the National Asset Management Agency. To add another example: the Hungarian State purchased, likewise for a transitional period of 1 to 3 years, 99.9 per cent of the shares of MKB Bank. Thus, the state has no intention to own these companies and assets over the long term; after the required restructuring has been completed and once the economic environment becomes more favourable, it will sell (return) the business shares and the assets to the previous owner or a new owner. In this case, the sole purpose of asset management is the preservation of real assets and the organisation of their reasonable utilisation in order to cover the costs of ownership (reporting system, auditing, remuneration of Board members, operation of the Supervisory Board, etc.) and in order to prevent the deterioration of the assets and preserve their condition.

The reason why the state wishes to acquire ownership in an organisation is of decisive importance in terms of the objective of state ownership and in terms of its strategy, and therefore, it should be controlled and clarified. This issue is particularly important in evaluating the performance of the state-owned company. Consequently, it is important to clarify which category the specific legal transaction falls into, what is the specific purpose of state ownership, is there a return on the investment, what are the expectations of the state and how does the specific asset benefit a segment of the community or the community as a whole. The basis of the evaluation and control of performance, in turn, is the objective that prompted the state's acquisition or foundation decision.

Performance assessment of state (community) ownership and analysis of its effectiveness, efficiency and economy

Community property has numerous owners in contemporary Hungary. While so far this paper concentrated solely on the simplified category of the state, it should be seen that community properties are also managed by the state's central budgetary institutional system itself (ministries and background institutions along with their economic associations), the institutional system of local governments (local and county-level authorities and their associations), the social security sub-sector (National Health Insurance Fund, National Pension Insurance) and extra-budgetary funds (Labour Market Fund, National Cultural Fund, etc.).

In the case of these organisations – regardless of which sub-sector of public finances they belong to – the purpose of asset management is manifold. Their task is not purely the professional management of assets, but also the provision of community services associated with the utilisation of the assets for the benefit of citizens (or, as the case may be, migrants, refugees, etc.). It is not enough to ascertain that the property is still available in terms of assets and value relative to the status at the last investigation; i.e. to identify any property loss (or increase) and restructuring between the assets constituting the property, such as property sale/acquisition, sale/purchase of machinery, sale or leaseback thereof. It should be also examined whether the state, local government or social security fund offered and rendered adequate community services (education, healthcare, passenger transport, funeral services, public lighting, corporate procedures, etc.) through the use of the assets. In other words, not only the effectiveness, but also the efficiency of state asset management should be inspected continuously (Kovács, 2011).

We can state that asset management was effective if the real value of the assets remain the same after a certain review period has elapsed; namely, the assets retained – or, as the case may be, even increased – their value. According to its classical definition, effectiveness is defined as the relationship between the outputs and objectives of an organisation (Anthony – Govindarajan, 2009.); i.e. the relationship between the intended and actual impact of an activity. The term "efficiency" means that valuable (new, fast, useful, etc.) services are rendered by the state through the use of the utilised assets. According to its classical definition, efficiency can be expressed as the ratio of output to inputs, i.e. output per unit of input (Anthony – Govindarajan, 2009). It should be noted that the budgetary sector also uses references to the "third E" – "economy", in addition to the categories of efficiency and effectiveness – in the following sense: achieving the objective of minimising one unit of input while maintaining the adequate quality of the services provided. In the private sector, there is no notable difference between economy and efficiency. By definition, efficiency goes hand in hand with economy. Therefore, it is not enough for an organisation to operate effectively and efficiently: it must be also examined whether the quality of the service provided by the state reaches the minimum expected level (standard, legislation, requirement, etc.). It is by no coincidence that, in addition to the principle of the 3Es, some other criteria are also considered in the performance measurement and assessment of public administration (irrespective of authors and schools), such as fairness, productivity, organisational "flatness", a high degree of ethical sensitivity, a service provider attitude, integration into national traditions. As opposed to the mathematics-oriented approach of the 3Es, these factors tend to place emphasis on the high-quality of the work, performance features and characteristics of the public organisation, office or institution.

Consequently, an organisation managing state property and performing state tasks can be:

- more effective, achieving the objectives faster (i.e. completion of a building construction) than envisaged; i.e. it is put at the disposal of taxpayers ahead of time. Similarly, a school is more efficient when more students are accepted by the university from that school than from another (while in terms of all other characteristics, such as level of services, number of teachers, methods applied, etc., the two institutions are the same).

- more efficient if the organisation can offer more services by utilising the same amount of assets than before or relative to another organisation with similar assets. A good example is the motorway toll, which costs the same amount of money for users of the service in two consecutive years; however, the length of the motorway is longer in the second year (due to the completion of new sections) than in the previous year. Consequently, motorists may use a longer section of the motorway for the same price. Likewise, the motorway management company works more efficiently if it can maintain a longer section of the motorway than its foreign peers in comparison to the domestic price of the motorway toll.
- more economic if the organisation's expenditures during the review period were lower (fewer people, smaller space, smaller budgetary expenditures, etc.); in other words, it received or collected less subsidies, tax revenues or service fees while ensuring the same level of services. An example for this is the local government which, receiving less state assistance compared to the previous year, faces a shrinking budget but manages to provide local government services (school, kindergarten, cemetery, public lighting, general practitioner services, etc.) under the same conditions at the same level of quality as in the previous year.

When enforcing the principle of 3Es, organisations should strive to achieve equilibrium. Indeed, it may happen that the efforts to increase economy and efficiency are in conflict with each other, and one of them is achieved at the expense of the other. For example, in the case of state investment, deadline, costs and technical substance are in a closely related, but mutually exclusive and destructive relationship with each other; therefore, management must maintain an equilibrium between these three requirements in order to keep the spending of public funds in equilibrium as well *(see Figure 1).*

During the final – performance – audit of asset management/utilisation activities, we seek an answer to the question whether a given task or process achieved the intended impact and result, in consideration of the "value for money" expectation, which can be best expressed by the following formula (PM, 2009):

The three categories may be analysed both together and separately. During performance

Figure 1

FORMULA OF THE 3ES CRITERIA

$$\frac{\textit{Input}}{€} \times \frac{\textit{Output}}{\textit{Input}} \times \frac{\textit{Outcome}}{\textit{Output}} = \frac{\textit{Outcome}}{€}$$

3E: *economy* × *efficiency* × *effectiveness* = *„value for money"* audits, only the auditors can define, based on the information obtained during the preparation phase, which performance category offers the highest value added and can be best interpreted within the context of the given performance audit.

There are few areas in the public sector or in the use of public funds where performance audits and the enforcement of the "value for money" principle have directly measurable quantitative criteria; therefore, these evaluation criteria should be always defined in consideration of the given topic. One of the characteristics of budgetary systems in general is that no adequate criteria and indicators are assigned to the objectives to be achieved. For this reason, in audits aimed at the inspection of effectiveness it will only be possible to gauge whether the situation explored is consistent with the predefined objectives if the audit applies analytical, fact-finding and factual procedures adapted to the specific features of the issue at hand (PM, 2009).

Auditing aspects and issues of state role and asset management

Analysing and examining the six criteria presented below are essential during the performance audit of a company in order to determine whether the company's objectives and strategy have been achieved. Obviously, there are considerably more factors and operating elements that may be examined during a performance audit; the list below highlights only the six criteria that are closely related to the topic discussed above.

These issues and criteria are the following:

Market analysis. With regard to the role of the state, a number of questions should be clarified and examined: who are the buyers of the given service, who are the suppliers in the given market segment, and – in the case of state ownership – who pays the costs and whether there is any competition in the given market segment in the first place. As shown above, in the case of inherent state tasks, there is no possibility or justification for outsourcing the task and/or for ordering it under market conditions. At the same time, a part of the public goods are not produced by the state itself; they are ordered from the private sector, even though it is possible that another state-owned organisation would be equally suitable for performing the given task (Voszka, 2005.).

In general, the buyers of state services are the citizens as private individuals, or companies of the private sector, while it may also happen that the state provides internal services to other state agencies as well. Typically, the citizens and actors of the business sphere take recourse to these services in exchange for a service fee or procedural duty, a kind of monetary compensation or contribution. Examples include public transportation tickets, procedural duty at the land registry, court of registration duty, court fee, etc. The trend of new public management (NPM) (OECD, 2010.) strongly emphasises that in exchange for service fees, the state as a service provider, must bear in mind the interests of its customers and provide state services fast and in adequate quality; in other words, effectively, efficiently and economically. Although the trend of NPM has already been surpassed by a number of new models, the new public management programme was a pioneer in interpreting state tasks on a market basis, from the angle of transparency and economy.

On the supplier side, the cooperation of business organisations becomes necessary to perform the state tasks when the cooperation is not needed permanently and requires special skills (not available on the side of the state), or when it is less expensive to purchase the complex service than having it organised and performed by the state. Typically, supplier privileges can be obtained through public procurement procedures, for a fixed period of time, and under the terms and conditions specified in the tender notice. The essence of public procurement is that the state, as a safe buyer, wishes to receive the products/services in large quantities within the context of the procedure set forth by law. Regrettably, as frequently pointed out in critical comments, public procurement procedures take an unreasonably long time, and instead of making the desired goods cheaper, they in fact render them more expensive. The procedure lacks transparency and represents a hotbed of corruption in Hungary (Pollitt & Bouckaert, 2011).

The state seldom considers whether, under the new conditions, it is worthwhile to outsource a service or to order it from private enterprises, or whether it should deliver the service itself. If the outsourced state tasks are still provided by a single external economic agent – and as a result the service provider may become lazy, offering low-quality services to the buyers –, since the buyers cannot turn to another service provider, the advantages of outsourcing cannot be taken advantage of; moreover, the outsourced service may ultimately cost more than it would if rendered by the state directly through its own organisation. It is therefore the state's responsibility to create and maintain competitive conditions (if justified and reasonable) in the market of the given service when the state task is outsourced, as it is not necessarily possible to involve more service providers and have them compete for providing a given service for reasons of economies of scale (i.e. a limited number of users), substantial investment needs (e.g. hospital), or due to the small size of the geographical area (a small local government). Moreover, the state needs to stipulate adequate guarantees in the service contracts and to control compliance with them on a regular basis, along with the service level provided by its partners (Kovács, 2011).

Consequently, the fees paid by the customers/buyers, the selection process of suppliers and the reasonability of obtaining cooperation, products or services from external organisations should be inspected at the organisations delivering and/or ordering state tasks.

Business planning and reporting. In a well-organised company, business planning and reporting form part of the internal controlling system (Anthony – Govindarajan, 2009.). What and how is planned at the beginning of a period, how actual revenues and expenditures develop in comparison to the plans, how costs and income change in the balance sheets and what is the trend of the changes, and what kind of intervention is needed by the supervisory organ, owner, or asset manager, if at all – these issues are of vital importance for state-owned or state-operated companies and budgetary organisations as well. For this reason, the quality, structure and breakdown of the financial plan (budget, operative master plan, etc.), as well as the reasonability, economy, efficiency and effectiveness of the plans prepared by state-controlled asset managers managing state property are of crucial importance. It is another important criterion to have, in addition to annual, operative-level plans, a business development plan pertaining to a longer time-horizon, as well as a plan reflecting strategic objectives.

The implementation and realisation of annual, operative plans, the various development, investment and project plans and the multi-annual business plans is demonstrated for the owners and executive managers in interim reports, and standard reports. As these reports are capable of capturing any deviations and trends, the key actors should pay a great deal of attention to the internal reports of the state-owned companies managed by them. With that in mind, the following issues should be examined: is there a controlling system in place at the subordinated, managed companies; does the controlling organisation function properly; what is the quality, type and breakdown of the interim reports; who are the recipients of interim reports; what was the recipients' reaction to the contents of the reports; and what kind of decisions did they take based on such reports with regard to certain issues.

Remuneration of management and performance indicators. The objectives and the results will be found consistent if the operation complies with the criterion of effectiveness as described above; it is economically rational and uses tax funds efficiently. In such cases, senior executives may receive bonuses. In addition to regulations and Government Decision No. 1660/2015 (IX. 15.), the conditions and legal titles of payment may also be defined by detailed local agreements, bonus objectives specified with senior executives, annually changing ad hoc agreements, the resolution of owners/shareholders, or by an internal remuneration policy. However, the relevant information must be recorded in advance and in writing in order to ensure that the content is clear and interpreted consistently by all parties (Voszka, 2005).

While the media and the prevailing opposition parties often call into question the legality of premiums and bonuses paid to senior executives, this is a customary and regular form of incentive in management science (including public management and theories addressing organisations rendering public services). Literature on human resources discusses in detail the methods, elements and criteria of the remuneration of senior executives. Business associations operating from public funds are required to post, update and make available information about the relevant legal titles and amounts on their homepage, which ensures clarity and comparability.

It can be said, overall, that senior executives should be entitled to a certain amount of extra payment or benefits in case of successful property management or service provision, provided that the previously presented 3Es have been met. In this regard, however, the amount of the bonus, the objective criteria for payment and the party responsible for measuring performance (i.e. the person ascertaining the justifiability of payment) and approving the relevant decisions should be clarified. On the other hand, it should be also examined whether the predefined objectives and expected results fall into the competence of the executive in question, whether he/she can influence them, whether the objectives set for the given period are sufficiently challenging and realistic (e.g. they are not too easy to meet) and whether they are, indirectly, consistent with those of the organisation.

Internal audit. While the external audit of business associations is performed by state agencies, authorities and offices (e.g. the Hungarian Authority for Consumer Protection, the National Tax and Customs Administration, the National Bank of Hungary, the National Food Chain Safety Office, the Accountability Commissioner, the Hungarian Competition Authority, the Hungarian Equal Treatment Authority, the SAO and the GAO, just to name a few), internal audits and the operation of internal control systems have gained increasing importance and recognition. The functioning of an efficient internal audit system can make an important contribution to the successful operation of an organisation. By definition, internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations (IIA, 1998.) According to the definition of the Institute of Internal Auditors (IIA), the internal auditor evaluates and improves the efficiency of risk management, control and management processes by means of a systematic and regulated procedure, thereby facilitating the implementation of the organisation's objectives.

Internal audit promotes the maintenance of the organisation's efficient, effective and economic operation through the performance audits, regularity, financial, system and IT security audits conducted by internal auditors, and by exploring the most critical points in the operation of the organisation by way of risk assessment.

While the Act on Public Finances and its implementing regulation prescribes the mandatory operation of internal audit for budgetary institutions – save for a few exceptions (e.g. pursuant to Section 69/A of Act CXCV of 2011 on Public Finances, the internal audit systems of other organisations classified into the government sector must also be implemented in accordance with the provisions of the Act on Public Finances. The itemised list published in Volume 2013, No. 60 of the Official Journal includes 120 such organisations) –, this is only a recommendation for business associations (MNV, 2013). The Institute of Internal Auditors (IIA) has prepared detailed documentation and standards on how a business association should be audited internally. The chief executive in office is responsible for and tasked with the organisation of this activity and the utilisation of the reports. It is precisely for this reason that – in the case of organisations performing public functions and operating from public funds – there should be an inspection regarding the quality and systematic operation of internal audit, the utilisation of internal audit reports, the responses provided to the findings and proposals contained in these reports, and the implementation of the resultant management decisions.

Risk management. The risks posed by the operation of the organisation is an important issue for companies executing state tasks as well. The risks characterising the organisations and their internal operations should be examined along with the manner in which they are managed by the organisation. This is particularly important in view of the fact that, as opposed to private enterprises that make decisions at their own risk, state-owned companies – which rely on tax revenues and the fees and contributions collected from the participants of the national economy – put public funds at risk during their operation and upon making their decisions. It is precisely for this reason that Hungarian National Asset Management Inc. has prepared a risk management manual and case study for improving the governance practices of companies in majority state ownership in its portfolio, and published them on its homepage in the form of a recommendation (MNV, 2013).

Risk is generally understood as the combination of the probability of an undesired event and the (positive and) negative consequences of the event. Therefore, risk management should be a permanent activity aimed at identifying and analysing potentially harmful events and their consequences to the organisation, making decisions that are designed to thwart the risk and taking responsive steps. Based on the COSO model, INTOSAI has published detailed guidelines regarding the business-oriented identification of risks within the organisation, their analysis, as well as potential ways to ward them off (INTOSAI, 2004).

Even in the case of state-owned companies or business associations performing state tasks, there are operational, strategic, financial, market, management, regulatory, contractual, etc. risks with potential negative consequences, which may generate significant damages, additional burdens or payment obligations for the company. It is for this reason that the State Audit Office of Hungary inspects, as a priority, the exercise of propriety rights over state property at state-owned economic organisations and, in this context, the operation of internal risk management and the internal control system. For more detail, see the document entitled "REPORT 14236: Audit on the exercise of propriety rights over state assets" and the SAO's previous audit reports listed on pages 2–3 of the Report (ÁSZ, 2014).

A new element of the internal control system is an integrity management system that is intended to eliminate the risks of corruption. The system was implemented at the beginning of 2014 at Hungarian public administration bodies in order to detect abuses of power, bribery and irregularities and to prescribe ethical and moral requirements for government officials for their prevention. For more detail, see Government Decree No. 50/2013 (II. 25.) on this topic and the findings of the SAO's 2014 integrity survey.

Publicity and civil control. Access to data and information of public interest, the existence and publicity of up-to-date information about the budget, and NGOs ability to exercise control improve the assessment and judgement of public services and the state's role (Báger & Kovács, 2007), (Jenei, 2008), as local communities, associations and their alliances are independent stakeholders that perform their own analysis and control in the given professional area from a different angle, from the aspect of different interests and based on their own mission and professional commitment, presumably (as there are also negative examples), for the public good.

On the one hand, ensuring publicity regarding the operation of the companies may guarantee transparent, regular and efficient operation for state-owned business associations as well. Guaranteeing publicity includes notices and information posted on the website of the companies, but also involves responses to ad hoc questions from the media and reporters, and the internal investigation of announcements of public interest (including anonymous reports from employees – a process known as a whistleblowing procedure in Anglo-Saxon legislation. In Hungary, the procedures set forth in Articles 13–16 of Act of CLXV of 2013 and in Act CLXIII of 2009 serve as legal basis for conducting the relevant inspections, in compliance with requests for data of public interest [see Constitutional Court Resolution No. 21/2013 (VII. 19) on the subject]). At the same time, they also comply with the mandatory rules of publication and the provisions of the legislation on transparency regarding the use of public funds (Act XXIV of 2003; Annex No. 1 to Act CXII of 2011; Decree 18/2005 (XII. 27.) of the Ministry of Information Technology and Communications).

Civil control means promoting access to public data for the relevant parties and local communities. Moreover, civil control is an opportunity available to the local public to participate in decision-making via local NGOs and raising the awareness of citizens regarding the available legal and non-legal means through which they may utilise the basic institutions of democracy directly and, above all, to request information from – and make accountable – decision-makers with respect to the investments, development plans, actions and programmes directly affecting them.

At present, there are about 62,000 registered NGOs in Hungary, but few of them admit and undertake consciously and openly the need and intention to exercise civil control over local powers and the state. Despite the financial support, professional documentation and experts provided by a number of nationwide domestic organisations and previously, the National Civil Fund itself, exercising civil control is only in its infancy in Hungary.

For this reason, with respect to the state's role it should always be examined whether the decision-makers in charge involve NGOs or representatives of local social organisations in the decision-making process, including the decision-preparation phase and requests for their opinion, as well as the presentation of the decision's causes and consequences. Moreover, it should also be inspected whether the state body or organisation publishes information on its website about the use of public funds, whether it provides information to the general public (including the media), and/or answers the questions raised (Jenei & Kuti, 2010).

It should be noted that Hungarian civil society – as the third pillar – undertakes significant state tasks, for the performance of which it uses a substantial amount of private, corporate and foreign funding, while also relying on an extensive network of volunteers (Hoós, 2002). This study was not intended to address audit issues regarding the tasks assigned to or undertaken by civil organisations (NGOs), but it referred to the contribution of associations and foundations to the state's role through public benefit activities, and to the fact that, for this reason, their activities should be both supported and controlled.

RESEARCH QUESTIONS AND FINDINGS – PRESENTATION OF THE HUNGARIAN PRACTICE

Research objectives and hypotheses

The fundamental goal of this research was to juxtapose domestic practical trends with the theoretical models of state role and to examine the actual direction taken by Hungarian public corporations compared to the theoretical assumptions. Indeed, the models presented in the previous two chapters and specific Hungarian examples underpin that the Hungarian state and the business associations in its ownership are active participants in certain markets, providing – similarly to their competitors – products and services. With that in mind, it is a pressing matter to examine in practice the relationship between theory and Hungarian practice.

In defining the underlying hypotheses, the starting point was the logic of the study itself. The study presented the goals of state participation, followed by a general description of the controllability of the state's role and the measurement and assessment of its performance. Along these lines, 6 aspects were highlighted that should be specifically examined at state-owned companies. The hypotheses are based on and related to these 6 points.

Based on the theoretical models described and the Hungarian examples cited in this paper, the following hypotheses were established.

H1 At least 50 per cent of Hungarian public corporations operate in a competitive environment. For the purposes of this hypothesis, competitive environment means that the company has at least one competitor in the market or it has a market share exceeding at least 25 per cent in the market where it pursues its core activity.

H2 Most Hungarian public corporations have a long-term business concept and strategic objectives for at least a five-year time horizon. In defining this hypothesis, the starting point was the fact that the owners controlling the companies concerned (HNAM, sectoral ministries) provide long-term guidance to state-owned companies; in other cases, shareholders' decisions or, potentially, a government decree provide a framework for the objectives and tools of long-term market participation.

H3 In the case of at least half of Hungarian public corporations, there is a direct link – a positive correlation – between the remuneration of the company's senior executive and the implementation of the company's business plan/annual plan or its activities/projects. This means that achieving certain pre-defined indicators is at the core of performance measurement, and when the company's indicators are met, the highest-ranking executive and his/her deputy/deputies are entitled to bonuses or premiums.

H4 More than two thirds of Hungarian state-owned companies have a permanent internal control function in place. This hypothesis was determined in consideration of statutory requirements, the shareholder recommendation issued by HNAM, and the requirements of accountability and answerability.

H5 At least half of state-owned Hungarian companies comply with the minimum disclosure obligation prescribed by law and exceed requirements in informing the general public of their operations and results. They link the assumption of the hypothesis with the two statements and require the simultaneous fulfilment both conditions.

H6 More than half of state-owned Hungarian companies have a consciously designed risk management system in place. A consciously designed risk management system means that, over and above the usual risk estimation and risk analysis level, the company applies a unique, company-specific risk analysis and risk management methodology during its risk management activities.

Sampling method and principles

Data analysed in the research were accumulated as a result of a questionnaire survey. Upon request, the Asset Management Department of the Ministry of National Development (Hungarian acronym: NFM) issued a circular to business associations in majority state ownership on 30 April 2015, requesting the companies to complete, with identification attached, the online questionnaire compiled in the subject by the predefined deadline, thereby contributing to the success of the survey.

The circular was transmitted to state-owned companies over which ownership control is exercised either by Hungarian National Asset Management Inc. (HNAM) or its subsidiary, or directly by the NFM. As a result, the sample included 280 state-owned companies. The questionnaire was completed by 92 business associations, of which 86 companies provided responses suitable for analysis. Thus, with this correction considered, the response rate was 29 per cent. Although the sampling cannot be considered representative for several reasons (voluntary basis, exclusion of randomness, targeting a limited section of the population), it is still possible to draw conclusions regarding the operation of a segment of Hungarian state-owned companies based on the nearly 30 per cent completion rate and in view of the NFM's portfolio.

71 per cent of the respondents are companies in HNAM's portfolio, 20 per cent are controlled by the Ministry for National Economy (Hungarian acronym: NGM), and 9 per cent are subsidiaries of business associations controlled by the state through other channels. 67 per cent of the respondents are owned 100% by the state; state ownership exceeds 75 per cent in 26 per cent of the respondents, while the share of the state is between 50 per cent and 75 per cent in the case of 6 per cent of the respondents. Thus, 99 per cent of the respondents are companies where the ownership of the state exceeds 50 per cent, i.e. the state has majority control.

52 per cent of the respondents have registered seats in Central Hungary, while the rest of the companies are located in the remaining Hungarian regions except for Southern Transdanubia; no responses have been received to the questionnaire from this region. Based on the categories defined in consideration of revenue, balance sheet total and number of employees, respondent companies comprise micro enterprises (11%), small enterprises

(27%), medium-size enterprises (24%) and large corporations (30%). In the case of 8 per cent of the respondents, the classification was ambiguous. As a result, large corporations are clearly overrepresented in the sample; however, it should be borne in mind that, compared to market percentages, the percentage of large corporations within the group of state-owned companies is higher in any case. In terms of main revenue-generating activity, 52 per cent of the respondent companies are clearly service providers, 19 per cent perform production activities, 1 per cent pursue agricultural and trading activities, respectively, while regarding 27 per cent of the respondents, core activity and industry cannot be determined clearly.

Below we present the specific findings with respect to each hypothesis.

H1 – Market role

The market position of state-owned companies and the various aspects of their analysis were described in detail in the theoretical introduction. *Table 1* shows the distribution of respondents according to competitors and customer base. Based on point *a)* below, we found that nearly two thirds (62.8%) of the respondent companies operate in a competitive environment, with at least one competitor in the market. This demonstrates that hypothesis H1 is true: more than a half of state-owned companies pursue their main activity in a competitive market environment.

Regarding customer base, two thirds (67.4%) of the respondents provide services to corporations and households, while only around a quarter (23.3%) of the respondents indicated that their main customer base comprised other state bodies and state organisations.

Several conclusions can be drawn from the figures shown in the table below:

a) 62.8 per cent of state-owned companies clearly operate under market conditions, surrounded by competitors, with a real corporate or household consumer customer base. They require further analyses regarding the state's place and role, its market share and price-setting methods, and in order to explore why the

Table 1

DISTRIBUTION OF RESPONDENTS ACCORDING TO CUSTOMER BASE AND COMPETITORS

		Do you have any competitors?			
		Yes	We cannot say, we do not know	No	Total
Please specify the most important customer base of your company!	Companies, businesses, private sector	27	1	8	36
	Households, individual consumers	13	1	8	22
	Public, local government, administrative bodies	12	1	7	20
	Public enterprises, companies, households	1	0	0	1
	No response	1	2	4	7
Total		54	5	27	86

Source: own calculation

state should be a player in these markets in the first place. Only these analyses could confirm or refute the good stewardship of the state in the specific cases and pinpoint whether it protects community property and whether it satisfies a broad range of social needs.

b) the number of state-owned companies operating in a non-competitive environment is relatively high (31.4%). It should be subject to in-depth analysis whether this market situation resulted from an artificial measure (e.g. legal provision, concession agreement) or from a natural market process, and what performance and efficiency level has been demonstrated by the state in this environment. Such an analysis can determine whether there is a case of overpricing, or whether the state-owned company performing the activity has become lackadaisical due to its monopoly.

c) 23.3 per cent of the respondents provide services to and perform activities for other agents of public administration, administrative authorities and authorities as state-owned companies. In this sense, the state appoints one of its organisations to perform tasks for another state organisation. In their case, a more thorough examination is needed to determine whether the service or the activity indeed needs to be performed in the form of a business association – as a quasi-outsourced company –, or it would be more effective and/or efficient to have these tasks performed within a budgetary institution at actual prime cost.

H2 – Planning, forward-looking approach

The conscious forward-looking approach presented above is a cardinal issue in the operation of public enterprises; it also constitutes the basis for subsequent accountability. Indeed, planning, a written budget, budget plans, etc. provide a long-term framework and direction for a company's operation. *Table 2* reveals the following correlations.

a) Nearly all respondents (94%) had an approved annual business plan, which is a positive and commendable feature in itself, and it is also in line with the requirements presented on a theoretical basis (obviously, this positive picture may have to be revised in the light of the plans' quality and the level of compliance).

b) At the same time, more than a half of the companies (55.8%) do not have a multi-annual business development plan, and considering that an additional 31.4 per cent pre-

Table 2

EXISTENCE OF APPROVED BUSINESS DEVELOPMENT AND ANNUAL BUSINESS PLANS AT RESPONDENT COMPANIES BROKEN DOWN BY TIME HORIZON

		Did your company have an approved annual business plan for 2014?		
		Yes	No	Total
Does your company have a business development plan approved by your main body?	Yes, for a period of 1 to 3 years	27	0	27
	Yes, for a period of 3 to 5 years	6	0	6
	Yes, for a period of 5 to 10 years	3	1	4
	We cannot say, we do not know	0	1	1
	No	45	3	48
Total		81	5	86

Source: own calculation

pare development plans only for a 1–3 year horizon, we may conclude that state-owned companies are unable to predict their activities even for a medium-term horizon. This undermines the implementation of developments, investment projects and longer-term projects, as well as the companies' openness to such endeavours, and renders future-oriented, responsible operational attitudes impossible.

c) Only a negligible percentage (4.7%) of the respondents are capable of planning their operations over a strategic horizon with the owner determining forward-looking requirements for management and senior executives.

Unfortunately, based on points *b)* and *c)*, hypothesis H2 has to be rejected as it is certainly not characteristic of most state-owned companies that they have a business plan or strategic objectives covering at least a five-year horizon.

H3. – Key corporate performance indicators and the remuneration of management

The professional tasks and key performance indicators to be met by management and the company's highest-ranking executive play a key role in the implementation of the various plans and the development strategy of the company, along with the importance attached to the implementation of plans and objectives in remuneration decisions. Respondent organisations show a mixed picture in this regard. This is demonstrated by *Table 3* (in view of the fact that a company can set more than one requirement, yet the incidences do not even cover the sample size of 86 elements).

a) More than a half (51.2%) of the respondent companies indicated that they do not define any notable requirements in relation to the assessment and evaluation of the highest-ranking executive's work or professional performance and his/her remuneration. In other words, despite the – presumed – existence of annual plans, other business development documents or project plans (see H2), these companies do not link the implementation of the plans to the assessment and remuneration of the senior executive's performance.

b) In the case of nearly one fifth (19.8%) of the respondents, the pre-defined requirements were limited to the achievement of the result envisaged in the business plan, with no further indicators inspected. This despite the easy availability of a whole series of additional indicators, such as customer satisfaction, bal-

Table 3

CORRELATION BETWEEN VARIOUS PLANS, PERFORMANCE INDICATORS AND REMUNERATION

Nature and types of remuneration criteria	Number of affected companies	Share (n=86 pcs) %
Achievement of the result specified in the company's business plan	17	19.8
Implementation of a project or achievement of a project milestone	9	10.5
Achievement of another objective performance indicator	7	8.1
Achievement of desired market share	1	1.1
Criteria are in place but they do not influence remuneration	1	1.1
There are no such criteria	44	51.2

Source: own calculation

ance sheet total, various liquidity indicators, project indicators, relative market share or other professional and financial indicators (in fact, the organisations concerned routinely calculate most of these indicators). Indeed, if the companies took advantage of such indicators, they could develop complex and objective remuneration systems.

c) On the basis of both point *a)* and point *b)*, the expectations defined in hypothesis H3 can be clearly refuted and the hypothesis is therefore rejected. We found that instead of the desirable minimum 50 per cent, only 19.8 per cent of the respondents indicated that the implementation of the business plan was a criterion considered in the remuneration of the highest-ranking executive.

H4 – Internal audit

The advantages and objectives of the application of the independent internal audit function have been presented in detail above, in the section dedicated to the theoretical approaches. *Table 4* shows practice as compared to statutory requirements and the pros associated with the function. Evidently, there is no internal audit function in place at nearly a third (32.6%) of the companies, while two thirds (67.4%) reported to have this function. Consequently, given that more than two thirds of state-owned companies meet the criterion of having an internal audit function in place, hypothesis H4 is accepted.

Essentially, organisations perform the internal audit activity in three possible structures: it can be performed by internal employees (33.7%) or less frequently, by external agents (17.4%), while audits performed by the shareholder or a superior body proved to be the least likely practice (16.3%).

Although it is not possible to draw conclusions from the responses regarding the quality and effectiveness of the internal audit activity, provided that the companies comply with the IIA standards, we may presume the existence of an effective and efficient internal audit function, which is deemed to be a rewarding and useful activity for the highest-ranking executive, for the shareholder and, indirectly, for the taxpayers. However, the picture is somewhat less positive in view of the fact that only 36 of the 58 companies concerned discuss internal audit reports at Supervisory Board meetings.

H5 – Publicity and civil control

Publication of data and reports regarding the operation of the companies and ensuring the

Table 4

EXISTENCE OF AN INTERNAL AUDIT FUNCTION AND THE METHOD OF ITS PERFORMANCE

Does your company have an independent internal audit function?	Frequency	%
Yes, our owner, parent company, superior body performs these tasks	14	16.3
Yes, our internal organisational unit, employee(s) perform(s) these tasks	29	33.7
Yes, an external organisation, external agent performs these tasks	15	17.4
No, we do not have an internal audit organisation or position for this function	28	32.6
Total	86	100.0

Source: own calculation

publicity of operation promote transparency and accountability, as discussed in the theoretical approach above. Below, the practice of Hungarian state-owned companies is presented as follows:

▶The data and information published on the websites of public enterprises for information purposes vary, showing a mixed picture:

a) 15 companies (17.4%) have no website at all; 17 companies (19.8%) only post the information prescribed in the Transparency Act and their contact details. 8 companies (9.3%) post only one of the two: either their contact details or the disclosure obligation prescribed by law. These companies, taken together, account for nearly a half of the sample size (40–46.5%), and they either do not comply at all, or comply with only the minimum disclosure requirement.

b) More than half of respondents (53.5%) share additional information about their operation with the general public over and beyond the minimum requirement. 5 companies (5.8%) publish the long-term strategy and objectives of the company. Another 10 companies (11.6%) also post on their website the company's procurement tenders, the selection criteria of suppliers, its tender notices, standard contract terms and conditions and contract templates. Yet another 6 companies (6.97%) also post conflict of interest information regarding their senior executives. The remaining 25 companies (29.0%) post on their websites some or all of the details listed above.

These figures suggest that more than a half of state-owned companies go over and beyond the minimum disclosure requirements and share additional, useful information on their websites with the general public. Based on point *b)*, hypothesis H5 is accepted and its content is considered verified.

It would be important to achieve that as many companies as possible take advantage of this possibility. The survey did not include information about the frequency of data updates, the quality and comprehensiveness of disclosures and their level of clarity for outsiders.

▶15 companies indicated that they inform of their work – or include in their decision-making – local civil organisations, advocacy groups and professional associations. This is nearly a fifth of the respondents (17.4%); therefore, only one fifth of the respondent state-owned companies encourage civil control and engage in broad-based social consultation on a regular basis.

H6 – Risk management

The importance and necessity of identifying and managing corporate risks efficiently were demonstrated above in the section dedicated to the relevant theories. Below is a presentation of the responses regarding the general methodology of risk management and the conclusions drawn based on the replies.

The distribution of replies regarding the recognition of risks is the following:

- 30 respondents (34.9%) thought that their activities were typically surrounded by general operational, financial and market risks, and there were no other factors that implied any special risks in excess of those expected.
- 12 companies (13.9%) of the respondents provide public services and as such, they bear special risks arising from the organisation and provision of the supply, and these risks affect a wide range of consumers.
- In the case of 8 companies (9.3%), the technical nature of the activity represents the main risk factor (high risk materials, equipment, technology, etc.), which the affected companies attempt to ward off by special measures.

- 9 business associations (10.5%) could not assess the level, type and nature of the risk associated with their companies' activity.
- The remaining 27 companies (31.4%) are characterised by complicated, manifold and hence, complex risk portfolios. The risk factors include – beyond those listed above – the management of high-risk customers and the handling and storage of special data.

All this suggests that, overall, a sensitivity to risks may reflect a level of consciousness on the part of the participants of the survey. More than half of these companies (54.6%) have a deeper risk recognition attitude compared to the average, and the companies take steps to explore, recognise, classify and manage the risks, in line with their operation. On the whole, based on the above, hypothesis H6 can be considered verified and accepted, as more than a half of the respondent companies apply a systematic risk management system tailored to the unique features of their respective companies.

As regards the specific handling and management of risks, the respondents' replies point to a less positive and more complicated risk management practice.

- 27 business associations (31.4%) failed to reply altogether to the question about the methods applied to manage or mitigate risks. This question elicited the highest number of non-replies in the entire questionnaire among the respondents.
- 46 companies (53.5%) reported to apply unique, customised risk management methods, manifested in a special operational system component (e.g. ISO 9001, COSO framework system, risk management systems based on special standards, etc.).
- 17 business associations (19.8%) apply special data mining and analysis tools.
- Only 3 companies (3.5%) reported to apply a form of fraud detection (e.g. whistleblowing procedure, dedicated fraud managers, etc.) as a special risk management method.

No other risk management tools or methodologies were reported by participants of the survey. The replies indicate that the responses to recognised risks were rather limited and covered less than a handful of elements. State-owned companies certainly have room for improvement in this regard before they can take appropriate steps in response to their complex environmental risk exposure. In this context, as at 31 December 2014, the following statistical data are available for the respondents:

- At 34 companies, beyond financial risks, risk management principles and procedures cover management, investment and employee risks.
- 19 companies reported to have a Risk Management Manual or Policy in force.
- 17 respondents reported to have a risk map and/or a list of risky activities.
- In 2014, the risk procedures of only 12 companies were inspected by internal audit.

SUMMARY, CLOSING THOUGHTS AND CRITICAL COMMENTS

In the first half of the paper we presented the macro-political role of the state, and provided a detailed description of the state's role in the state economy and the methods and objectives of state intervention. We pointed out that the state may influence the economy in various ways, depending on the objectives and ideals driving its actions. This role of the state is fundamentally determined by politics; however, the decision defines the operational direction of state-owned companies – that constitute the national wealth of a country – for many years to come.

This statement provides the key to the interpretation of the second chapter of the paper, which presents an analysis of the performance criteria for the public services provided by public corporations and businesses from the aspects of economy, efficiency and effectiveness. In this part of the paper, we described a number of fundamental control elements and activities through which companies operating from public funds can contribute to the efficient and effective operation described in the first chapter. Moreover, we presented some theoretical proposals regarding the control of the companies concerned. Such tools and methods include comparative market analysis, internal audit, the operation of a planning and reporting system, risk management and the promotion of publicity and civil control with respect to the operation of the organisation.

In the third part of the study, we presented our own research findings about the way the topics at hand were addressed in day-to-day practice. The research included a sample of 86 state-owned companies interviewed in the form of a questionnaire survey. A total of 6 hypotheses were defined in advance, of which 4 were verified and 2 were rejected. Based on the hypotheses and the results received, we offered the following main critical remarks:

- The market role of state-owned companies shows a mixed picture in terms of their market participation and competitive position. Numerous firms operate under competitive conditions, while several companies are in a monopolistic position due to the nature of their operation. Both cases appear to justify the need for questioning the decision-makers of state property management about efficiency and necessity.
- Hungarian public enterprises do not have a long-term vision and their operational and development perspective is limited to a short horizon. They can only determine the directions and frameworks of their operation over the short term, looking ahead to one year or to a few years at best. Regrettably, this becomes an obstacle to the company's long-term development goals.
- The state-owned companies concerned need improvement in several areas with respect to objective, measurement and assurance-based audits and their findings. Performance measurement is incidental, risk management is limited, and internal audit and the involvement of the general public are seldom applied tools in the operation of the companies. Stepping up the application of each of these tools could contribute to a stronger and more conscious control of state-owned companies.

These factors have hopefully assisted in providing an insight into the driving forces behind the market role of the state, the phenomena that led to the elimination of the ideal of a service providing, streamlined, effective, welfare-promoting state, the modern conditions and enforcement of compliant asset management and the notion of accountability, based on processing the results of a questionnaire-based survey conducted in a segment of business associations owned by the Hungarian State. The paper also included various examples and own survey findings to support the proposed ideas.

Note

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