THESIS SUMMARY

to the Ph.D. dissertation of

Bence Kucsera

titled

Corporatization in Budapest:
Explanations for the dynamics of municipal public service provision by companies in Hungary between 1990 and 2022

Supervisor:

Dr. György Hajnal, Ph.D.
professor

Budapest, 2023
Department of Public Policy

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1. Research Background and Justification of the Topic

The dissertation deals with the practice of using municipally owned enterprises in public service provision and the corporatisation of public service provision. The purpose of my work is to contribute to a better understanding of the efficiency of the institutional framework for public service provision by corporations.

The historical background to my work, which partly predestined the choice of topic, was a research project led by my thesis supervisor. His project was fundamentally concerned with the structural dynamics of Hungarian central public administration: describing and explaining the creation of and changes to central public administration organisations (state agencies) in Hungary. The research took place from 2012 to 2016,¹ and I was able to join between 2014 and its completion in 2016. My contribution to the project consisted of producing an empirical database (capturing primary data) on state-owned enterprises (SOEs). However, this work also gave me a deeper insight into the theoretical background of the project, which then formed the basis of my interest for learning more about the broader issue in this topic. It should be noted that at that time research on the structural dynamics of SOEs in Hungary was still in its infancy (see Hajnal et al. 2016a, 2016b, 2016c). Despite this ample opportunity for further insight, I did

¹ See research project OTKA 106333: The structural dynamics of Hungarian central government agencies.
not choose to continue any aspect of this SOE-focused topic. Instead, I wanted to focus on municipally owned enterprises (MOEs), which in Hungary have only been studied on a qualitative/ case-by-case basis, but not yet in a systematic, quantitative, objective, and non-perceptual way (see for example Horváth M. and Péteri 2013, Hegedűs and Péteri 2015, Horváth M. 2015, Horváth M. 2016a, 2016b, 2016c, Horváth M. and Bartha 2018, Horváth M. 2020). My explicit motivation was to be among the first to break new ground on this theoretical and empirical gap.

As far as MOEs in general are concerned, it is fair to say that they – together with the broader municipal organisations (agencies) – have a permanent place in the academic discourse.

Some studies argue that some organisations (or types of organisations) are useful for effective public service delivery, while others are not, or not sufficiently so. In this context, there is an optimistic view of the use of MOEs in public service delivery, which sees them as capable of increasing the efficiency of public service delivery (cf. Shleifer 1998, Stiglitz 2000, Bourdeaux 2008, Bel and Fageda 2010, Wettenhall 2001, Voorn et al. 2017). However, there is also a pessimistic approach. According to this, MOEs are a breeding ground for rent-seeking, principal-agent problems, corruption, and market failures (cf. Majone 2001, Van Thiel 2004, Van Thiel et al. 2012, Bergh et al. 2019 and 2021). From this simple reasoning, it can be concluded that if the optimistic approach is
correct, there should be more MOEs to increase efficiency, or if the pessimistic one is correct, there should be fewer. Of course, the overall picture is more complex.

In my work, as I indicated above, I focus on corporatised public service delivery through MOEs. Although the corporatisation trend has been growing markedly in recent decades, – while it should be noted that corporatised public service provision is not a recent phenomenon (see for example Voorn et al. 2018, Andrews 2023) – there is a distinct lack of academic work on it. It is typically only studied by a few leading researchers and mainly in a Western European context (see for example Van Genugten et al. 2020, Andrews et al. 2020, Bergh et al. 2021). Based on the available literature, it can be concluded that there is little attention given to the Central and Eastern European region, and almost none to the Hungarian specifics.

The ambition of my work is twofold. On the one hand, by examining the Hungarian context, I would like to contribute, at a theoretical level, to a better understanding of the driving forces behind the use of MOEs in public service provision, which are typically based on Western European examples and are still evolving. On the other hand, besides theoretically contributing to the international academic discourse, I also aim to make an empirically contribution by exploring the data not yet available in Hungary (thus reducing the data gap mentioned above).
In generally, we do not have enough information on the changes that have taken place in the number and composition of MOEs over the last three decades, therefore, we have no information about the reasons of changes either. In other words, it is not evident how the municipalities have performed the public service obligations entrusted to them over the last thirty years and the driving forces behind any changes. It is not known, for example, how many state companies (‘tanácsi vállalat’) established before the regime change were transferred to private market players during the privatisation period, and how many were inherited in other ways (e.g. in the form of a SOE/ MOE or a budgetary body), nor how many were terminated without legal successor. It is also not known how reform doctrines such as New Public Management (NPM) or post-New Public Management (PNPM) have influenced changes in the institutional patterns of public service delivery. There are also questions about the changes in organisational systems generated by the policies taken in response to certain the global economic events of recent years (e.g. 2008). A further aspect is how the liberalisation that spread across Europe – and the subsequent liberal-illiberal transition (cf. Horváth M. 2015) – has been reflected in the practice of public service provision. In addition to these systemic circumstance and events, the use of municipal enterprises in public service delivery may have been influenced by additional financial, socio-economic and political forces at the local level (cf. Andrews 2020).
A related empirical problem (as I partially mentioned) is that there are no data sources on which organisations (and enterprises) in Hungary have been owned by individual local governments throughout the last thirty years. Accordingly, there are no long-term data on the types of organisations through which municipalities have typically provided their public service responsibilities. Finally, there is no information available either on the types of organisations used by each individual municipality to provide public services, their relative weight, and their characteristics.

At this point, I would like to emphasize more strongly that the study presented in this dissertation is the first work in Hungary to investigate the transformation processes of the institutional framework of municipal enterprises over a longer period and with quantitative tools. For these reasons, it was an empirical ambition to create a unique database (i) that could answer the research questions and (ii) contribute to filling the overall information gap in the Hungarian local government system. The focus of the contribution is on the municipal-owned entities, specifically MOEs. More narrowly, MOEs that were majority-owned by the Municipality of Budapest and district municipalities between 1990 and 2022. In conclusion, the dissertation makes a valuable contribution to the international academic discourse on the corporatisation of the public sector by examining the changes in the public service provision of Hungarian local governments over the past thirty years. The contribution is both theoretical and empirical.
2. Methodology

I proceeded as follows in the dissertation. In the introduction I explained the relevance of the topic and the research ambitions. In the following chapter, terminology and conceptual framework were discussed. In the third chapter, I reviewed the literature relevant to MOEs and corporatisation, which was necessary to answer the research questions of the dissertation and to formulate and test the hypotheses. In the fourth part, I wrote about the history of the Hungarian local government system and the last thirty years of government-owned enterprises (GOEs), including MOEs. In the fifth, I presented the research questions and hypotheses reflecting on the theories and empirical evidence. The sixth chapter presented the methodology, while the seventh chapter dealt with the analyses, results and findings based on the methodology. I concluded the thesis with my conclusions in chapter eight.

In this section of the thesis summary, I briefly discuss the methods used to develop the dissertation, with a greater emphasis on quantitative workflows.

As outlined above, the dissertation consists of seven separate major chapters following the introductory section. These chapters are methodologically structured as follows:

- In the second chapter, I discuss the main terms used in the thesis. I distinguish between state- and municipally owned enterprises and present a typology of state and municipal agencies (cf. James and Van Thiel 2010, Van
Thiel 2012, Torsteinsen 2016, Van Genugten et al. 2020). I point out that the type of organization my work focuses on (municipal enterprises) is the intersection of GOEs and organizations of Type 3 of local application of Van Thiel's agency typology. Finally, since the focus of my dissertation is on the numerical and compositional changes in municipal enterprises, I will also describe the transformation types of municipal organisations.

- In the literature review (chapter three), I draw predominantly, but not exclusively, on three states of the art literatures (Van Genugten et al. 2020, Andrews et al. 2020, Bergh et al. 2021) to present explanations for the creation of municipal organisations – with a separate chapter devoted to explanations for the creation of municipal enterprises – and the driving forces behind the creation (/corporatisation) of municipal enterprises. In separate sub-chapters, I address the financial, socio-economic, and political contexts of corporatisation, which also form the basis of my hypothesis interpreted at the local government level.

- In the fourth chapter, I present the changes in the Hungarian local government system, as well as the role of local government enterprises in public service provision in the three decades following the regime change by reviewing a number of Hungarian works (see e.g. T. Horváth M., Cs. Lentner, P. Mihályi, I. Pálné Kovács, G. Péteri and T. Sárközy), complemented by evidence from interviews conducted in a co-authored publication (see Hajnal and Kucsera 2023a).
In chapter five, I present my two research questions\(^2\) – one descriptive and one explanatory – and my hypotheses: six main hypotheses and two sub-hypotheses. The research questions are basically concerned with describing and explaining the numerical change in municipal enterprises. The hypotheses set up to answer the explanatory research question have been grouped into two main categories. The hypotheses in the first group (H1-H3) were related driving forces affecting changes in the number of municipal enterprises at the local level, while the hypotheses in the second group (H4, H5.1-5.2, H6 and H6.a-b) were related to the systemic driving forces, which similarly affect to each municipality. The hypotheses are based on the assumptions of Andrews (2020), Hajnal and Hajnal (2022) and Hajnal and Kucsera (2023b), and partly follow their logics.

The methodological section presents a structured description of the case selection, the method of qualitative data collection, the data design and the methods used in the analysis:

- Case selection: At this point in the thesis summary, it should be noted that while the qualitative overview of Hungarian institutional public policies discussed in chapter four had a national scope, the section based on quantitative data described in this paragraph was Budapest-focused, which

\(^2\) (RQ1) How did the number of business organizations majority-owned by the capital and district municipalities change between 1990 and 2022? (RQ2) What driving forces impacted the change in the number of business organizations majority-owned by the capital and district municipalities in what ways?
nevertheless may still reflect the wider domestic reality. Thus, the empirical focus of this dissertation is the Hungarian local government system after the post-communist transition: the description and examination of the changes in the number of municipal enterprises established by the municipalities of Budapest (in this case the Municipality of Budapest and twelve of its district municipalities) between 1990 and 2022 – the high level of abstraction of the data, which is also reflected in the research questions and hypotheses, can be used to describe and explain changes in municipal enterprises even under these limitations. Firstly, as the changes and the driving forces can be interpreted in the Western democratic context, in relation to which Hungary has undergone two radical transitions: the democratisation after the 1989 collapse of the communist regime, and the illiberal turn after 2010 (see e.g. Horváth M. 2015: 165–208). Secondly: because the Municipality of Budapest did not suffer the extent of loss of functions after the 2010s as county municipalities (see e.g. again Horváth M. 2015) due to its special two-tiered administrative status; which also means that the capital has a much larger number of companies. This phenomenon has favoured the search for generally hard-to-get data in Hungary. Another reason of capital-based sampling was that I found the political situation in Budapest to be more favourable for data collection,
with the political power relations proving to be more balanced, throughout the entire thirty-year period.

- Data collection and variables: To create the empirical base for this work, I tried to obtain the relevant data for two different periods – the first half of 2017 and the first half of 2022. Data requests concerned (1) majority-owned municipal enterprises in Budapest between 1990 and 2022 and (2) data about the financial, socio-economic, and political characteristics of municipalities (e.g., local government budget revenue and expenditure, population, age composition, local government election results). Data on municipal enterprises were obtained through informal and formal (public interest) data requests. I requested information from the Municipality of Budapest and twenty-three district municipalities, and received data from thirteen municipalities, which have been supplemented using an online business information system. The result of this process was a database with sufficient reliability and validity to describe the number of municipal enterprises between 1990 and 2022, accounting for 883 enterprises (412 in the capital and 471 in the thirteen districts). The initial data on the financial, socio-economic, and political contexts of local governments were obtained from the public databases of the Hungarian Central Statistical Office, the Municipality of Budapest, and the National Election Office. Data on municipal enterprises were used as the dependent variables, while data
describing municipalities were used as the independent variables. The construction of the dependent and independent variables used in the testing of hypotheses H1-H3 will not be discussed in detail here (see above and in chapter 6.3 of this thesis). However, the independent variables used in the analyses related to hypotheses H4-H6 are worth mentioning upon here. These were: the NPM-PNPM transition, the global economic crisis, the Hungarian municipal debt consolidation, and the consecutive periods of right-wing, left-wing and liberal central governments (for details on these, see also chapter 6.3b of this thesis).

· Methods: To test my hypotheses H1-H3 – at the local-level –, I examined the samples of the capital and the districts separately. For H1-H2, I ran Bivariate Correlation analysis to test the relationships between the dependent and independent variables and I also plotted the results in the case of significant correlation coefficients. In the case of H1, I also performed a Two-Way ANOVA for settlement size to identify non-linear effects that are common in analyses by settlement type. For H3, I used a different method for the samples of districts and the capital. In the case of districts, I used One-Way ANOVA to test for differences between group averages, while in the case of the capital I used descriptive statistics and presented the results in graphical form. In this case the dataset did not allow hypothesis testing. As far as my system-level hypotheses (H4-H6) are
concerned, I have prepared a comprehensive analysis for all municipalities, showing the changes in the dependent variables graphically over the whole period; the data were not appropriate for hypothesis testing in this case either. Finally, in addition to the changes in the number of municipal enterprises, I have also pointed out other features of the municipal enterprises, such as legal forms or sectoral changes, and changes between non-profit and for-profit corporate forms.

- The last two chapters present the results of the analyses and the conclusions of the thesis. These are presented in the next chapter.
3. **THE FINDINGS OF THE DISSERTATION**

One finding of the analyses is that Hungary differs in several respects from what could be assumed from the theoretical evidence of the thesis, as well as international trends. As a preliminary remark, it is worth pointing out: in Hungary, it is mostly political will that influences changes in the use of municipal enterprises, and that empirical evidence of non-political-will-related driving forces is only partially conclusive. Below I outline the main findings:

- The test of the financial hypothesis (H1) shows that, as hypothesized, the number of municipal enterprises increases when the municipal budget worsens, while it decreases when the municipal budget improves. However, the results do not support that the worsening fiscal situation is more pronounced in smaller municipalities and is mainly manifested in the creation of for-profit municipal enterprises.

- Markedly weak relationships between the variables identified in the testing of the socio-economic hypothesis (H2) do not confirm that increasing population density and increasing dependency rate are associated with an increase in the number of municipal enterprises. Thus, the hypothesis that the increase in the rates is mainly reflected in the creation of non-profit municipal enterprises is not supported.

- The test of the political hypothesis (H3) showed that when left-wing political leadership is replaced by right-wing political leadership, the number of
municipal enterprises increases, and when right-wing political leadership is replaced by left-wing political leadership, the number of municipal enterprises decreases. The number of non-profit enterprises decreases in the case of a from-right-to-left shift and increases in the case of a from-left-to-right shift, while the reverse of this is true for for-profit companies.

- The hypothesis I formulated regarding the NPM-PNPM transition (H4) was not confirmed, as the analysis showed no strong evidence of a change in the trend of municipal enterprise numbers. A similar growth rate was observed in the period before and after the assumed earliest turning point date, the first half of 2004. Seeing as there was no change in the trend of the number of enterprises in the one-, two- and four-year periods before and after 2004, the results would have shown a similar picture if the turning point had been defined between 2005-2007.

- Similarly, the hypothesis related to the global economic crisis (H5.1) is also contradictory: although the number of municipal enterprises decreased immediately after the second half of 2008, the aggregate result of changes in the number of municipal enterprises during the one-and-a-half-year period of the crisis demonstrated growth, as it did in the previous period. In other words, the global crisis did not cause a significant change in the trend of growth in the number of municipal enterprises.

- Concerning the assumption on municipal debt consolidation (H5.2), it was confirmed that during the Hungarian consolidation period (2012-2014), the
number of companies started to decline sharply – in accordance with my hypotheses on central government policy –, ending a 22-year steady increase in the number of municipal enterprises.

- Finally, as far as my hypotheses H6 and H6.a-b are concerned, the following statements can be made in support:

  - In the early years (1990-1998) of the privatization period after the regime change, regardless of the ideology of the ruling political power, the number of municipal enterprises in the capital and the districts increased sharply.

  - The slowdown in the growth rate started at the end of the first half of the privatization period (1997-1998 round): between 1998 and 2002 growth was slow, in line with the anti-privatization rhetoric of the first Orbán government.

  - The first Orbán government was followed by a period of left wing and liberal governments, whose privatization policies have led to a further increase in the number of municipal companies.

  - The turning point was the new Orbán government of 2010, because the Orbán governments’ centralization policy has resulted in a steady and long-term decline in the number of municipal companies after 2010.

The results of my doctoral thesis provide innovative evidence that changes in the institutional framework of municipal public service provision are partly
independent of local-level factors such as financial and socio-economic circumstances. The type of organization that local governments choose to provide public services depends crucially on political changes. However, it has to be emphasized that these organizational choices are not solely dependent on local, but also on national political changes.

In conclusion, the findings for Hungarian municipal enterprises contribute to the academic discourse on the different types of public service delivery organization by suggesting that political ideologies have a strong impact on the changes of the number of municipal enterprises, both at the local and government level. However, a more comprehensive examination of the claims made in my doctoral thesis remains necessary, for my work, as stated, was the first attempt to understand the practice of corporatization in the Hungarian municipal context.
4. MAIN REFERENCES


5. **List of Authors Publications Related to the Topic**

**Journal articles**


**Book chapters**


**Conference papers**

In Hungarian


In English
