

# Hungarian Family Enterprises and Family Farms in the Frame of Corporate Social Responsibility<sup>1</sup>

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## Abstract

*This study attempts to describe the legislative trends in the European Union and Hungary aimed at forcing enterprises to achieve social and green goals, among other things. From this viewpoint Corporate Social Responsibility (CSR), Environmental Social Governance (ESG), Corporate Governance (CG), Sustainable Finance (SF) and Corporate Purpose (CP) play important roles in the operation of enterprises, especially those of a family nature. These instruments may involve a major change in approach, whereby market participants have to consider not only profit, but also other aspects that they might not otherwise have taken into account. Our focus is on family enterprises, as they are inherently more sensitive to social objectives, and we examine them as a concept and their relationship with CSR at the European Union and national (Hungary) levels. We also deal with agricultural issues, in particular succession difficulties, which are mainly linked to family farms. Throughout this paper, we examine the extent to which the provisions of EU regulations are enforced in Hungary, and how Hungarian law seeks to facilitate the realisation of CSR objectives.*

**Keywords:** Corporate Social Responsibility (CSR), Environmental Social Governance (ESG), Corporate Governance (CG), Sustainable Finance (SF), Corporate Purpose (CP), family enterprises and family farms in Hungary.

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## 1. Introduction

Increasingly today, there are market failures that the market cannot solve itself. This is because the market economy does not appear to be a suitable instrument for promoting sustainability and environmental objectives aimed at avoiding climate catastrophe and addressing various social problems. It seems necessary to involve market players in meeting social objectives, a view now shared by EU and national decision-makers.

Corporate Social Responsibility (CSR), Environmental Social Governance (ESG), Corporate Governance (CG), Sustainable Finance (SF) and Corporate Purpose (CP) are not only fashionable trends. They are also tendencies that incorporate basic principles to help business entities operating in the market to focus on their potential role within their immediate and wider environments and society, and to conduct their economic activities with a view to all stakeholders, not simply to the profit they generate.

Enterprises are seen as both economic agents and social actors with social responsibilities.<sup>5</sup> The European Union has recognised the importance of this topic and several of its institutions have expressed the importance of corporate social responsibility in legally binding and non-binding documents, some of which will be presented later in this paper.<sup>6</sup> Family enterprises are also considered to be important because of the roles they play in local relationships and across a greater area; we therefore describe their place in connection with CSR and related trends with a particular focus on Hungary.

The members of family enterprises are concerned about their reputations in their local communities, so they pay much more attention to the emissions their enterprises make. One study showed that the environmental performance of family enterprises was better than that of non-family enterprises. This was also influenced by the geographical location of family enterprises, which increases the emphasis on their reputation and social connections within the local community. For non-family enterprises, this is less of a determining factor.<sup>7</sup>

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<sup>5</sup> Chalkasra, Lolita S. P. S., John Paolo R. Rivera, Dynah Avigail T. Basuil. "A Review of Theoretical Perspectives on CSR among Family Enterprises." *Vision* 23, no. 3 (2019): 225-33. 225. <https://doi.org/10.1177/0972262919860966>

<sup>6</sup> Besides the detailed instruments: Opinion of the European Committee of the Regions—The CAP after 2020 (2017/C 342/02).

<sup>7</sup> Baros-Tóth, Ágnes. "A szocio-emocionális vagyoni (SEW) jelentősége a családi vállalkozások kutatásában." [The importance of socio-emotional wealth (SEW) in family enterprise research] *Tudásmenedzsment* 24, no. 2 (2023): 73-84. 76. <https://doi.org/10.15170/TM.2023.24.2.7>; Berrone, Pascual, Cristina Cruz, Luis R. Gomez-Mejia, et al. "Socioemotional Wealth and Corporate Responses to Institutional Pressures: Do Family-Controlled Firms Pollute Less?" *Administrative Science Quarterly* 55, no. 1 (2010): 82-113. <https://doi.org/10.2189/asqu.2010.55.1.82>; Odom, Dustin L., Erick P. C. Chang, James J. Chrisman, et al. "The Most Influential Family Business Articles from 2006 to 2013 Using Five Theoretical Perspectives." In *The Palgrave Handbook of Heterogeneity among Family Firms* edited by Esra Memili and Clay Dibrell. Palgrave Macmillan, 2019. [https://doi.org/10.1007/978-3-319-77676-7\\_3](https://doi.org/10.1007/978-3-319-77676-7_3); Kárpáti, Daniel, Luc Rennebog and Jeroen Verbouw. "The Family Firm. A Synthesis, Stylized Facts, and Future Research Directions." ECGI Working Paper Series in Finance Working Paper, no. 908 (2023). 8-9.

## 2. Corporate social responsibility and related trends

*CSR goes beyond earning money for shareholders. It's concerned with protecting the interests of all stakeholders, such as employees, customers, suppliers, and the communities in which businesses operate. Examples of CSR include adopting humane employee practices, caring for the environment, and engaging in philanthropic endeavors (Ethics Unwrapped).*

In addition to the examination of the diverging, converging and conflicting interests of the enterprises that form, or are associated with them, the interests of the enterprise as an entity are also important: the theory and practice based on this is Corporate Social Responsibility,<sup>8</sup> based on which an enterprise operates in accordance with ethical standards, meeting the requirements of responsible business and investment.<sup>9</sup>

CSR is a term used by enterprises to describe their interactions with society and the environment. Its use is widespread<sup>10</sup> and generally refers to a business model that enables an enterprise to operate in a way that protects and enriches society and the environment.<sup>11</sup>

Based on a perceptive view,<sup>12</sup> CSR is identified as an umbrella term for a variety of concepts and practices that recognize the responsibility of firms towards society and the environment.<sup>13</sup> We will use this metaphor for all the phenomena mentioned above, since CG, ESG, SF and CP are all points of view that can make a business entity more responsible towards society (Figure 1). The umbrella as a whole is CSR,<sup>14</sup> and its ribs

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[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4412158](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4412158).

<sup>8</sup> Paces, Alessio M. "Sustainable corporate governance: the role of the law." In *Sustainable Finance in Europe, Corporate Governance, Financial Stability and Financial Markets*, edited by Danny Busch, Guido Ferrarini and Seraina Grünewald. Palgrave Macmillan, 2021.

<sup>9</sup> Ferrarini, Guido. "Redefining corporate purpose: sustainability as a game changer." In *Sustainable Finance in Europe, Corporate Governance, Financial Stability and Financial Markets*, edited by Danny Busch, Guido Ferrarini and Seraina Grünewald. Palgrave Macmillan, 2021. 99.

<sup>10</sup> Taufiqurrahman, SH. M. Hum. "Regulatory on the corporate social responsibility in the context of sustainable development by mandatory in the world trade organization law perspective (case study in Indonesia)." *Juridical Tribune - Tribuna Juridica* 3, no. 2 (2013): 45-65; Gupta, Pankaj Kumar and Singh Shallu. "Evolving legal framework of corporate governance in India – issues and challenges." *Juridical Tribune - Tribuna Juridica* 4, no. 2 (2014): 240-253.

<sup>11</sup> "ESG Reporting Guide for Issuers of the Budapest Stock Exchange." [https://bse.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/esg/ESG\\_Reporting\\_Guide\\_final\\_ENG.pdf2](https://bse.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/esg/ESG_Reporting_Guide_final_ENG.pdf2). 9.

<sup>12</sup> Frynas, Jędrzej George and Siân Stephens. "Political Corporate Social Responsibility: Reviewing Theories and Setting New Agendas." *International Journal of Management Reviews* 17, (2015): 483-509. <https://doi.org/10.1111/ijmr.12049>.

<sup>13</sup> Chalkasra, Lolita S. P. S., John Paolo R. Rivera, Dynah Avigail T. Basuil. "A Review of Theoretical Perspectives on CSR among Family Enterprises." *Vision* 23, no. 3 (2019): 225-33. 227. <https://doi.org/10.1177/0972262919860966>.

<sup>14</sup> Fleischer, Holger. "Corporate purpose: a management concept and its implications for company law." *European Company and Financial Law Review* 18, no. 2 (2021): 161-89. <https://doi.org/10.1515/ecfr-2021-0008>; Knoll-Csete, Edit and András Tóth. "Vállalatok társadalmi felelősségvállalása: A fenntartható gazdaság etikus marketing stratégiája." [Corporate social responsibility: an ethical marketing strategy for a sustainable economy] *Glossa Iuridica* 8, no. Különszám (2021): 153-164. 157; Auer, Ádám. *Corporate governance: A felelős társaságirányítás jelenkori dimenziói*. [Corporate governance: contemporary

are: *corporate governance*, *sustainable finance*, the corporate governance that takes environmental and social aspects into account (*environmental social governance*) and the concept of a higher social purpose that provides social legitimacy and “increases its value”,<sup>15</sup> *corporate purpose*, these spokes are connected to one another.



**Figure 1.** CSR as an umbrella term, see also Papp, 2022

Compiled by the authors

There are many other possible approaches to and evaluations of CSR and the other trends outlined, apart from this umbrella model.

An ambivalent relationship exists between competition rules and the objectives of CSR, and sustainable development in particular. The Organisation for Economic Co-operation and Development (hereinafter: OECD) points out that consumers are willing to prefer a more sustainable product offered at the same price as a less sustainable products,<sup>16</sup> thus competition encourages businesses to meet sustainability targets. This means that effective competition directly encourages businesses to operate more sustainably.<sup>17</sup> However, this requires not only that the process of competition on the market is fair, but also that consumer choice is undistorted and free from unfair

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dimensions of corporate governance] Dialóg Campus, 2017. 26-27. Ádám Angyal worked on the subject in Hungary as a monograph. Angyal, Ádám. *Vállalatok társadalmi felelőssége, felelős társaságirányítás. Corporate social responsibility*. [Corporate social responsibility, corporate governance] Kossuth Kiadó, 2009. See further Paccas, Alessio M. “Sustainable corporate governance: the role of the law.” In *Sustainable Finance in Europe, Corporate Governance, Financial Stability and Financial Markets*, edited by Danny Busch, Guido Ferrarini and Seraina Grünewald. Palgrave Macmillan, 2021; Ventura, Livia. “Philanthropy and the For-profit Corporation: The Benefit Corporation as the New Form of Firm Altruism.” *European Business Organization Law Review* 23, (2022): 603-32. <https://doi.org/10.1007/s40804-021-00227-x>.

<sup>15</sup> European Model Company Act, Chapter 1 General Provisions and Principles, Section 1.06 Purpose of Company (1).

<sup>16</sup> “Sustainability and Competition.” <https://web.archive.oecd.org/2021-10-31/567713-sustainability-and-competition-2020.pdf>.

<sup>17</sup> “The Green Deal and competition policy.” [https://ec.europa.eu/commission/presscorner/detail/en/speech\\_20\\_2913](https://ec.europa.eu/commission/presscorner/detail/en/speech_20_2913).

influences.<sup>18</sup> Generally, the use of more sustainable methods is more expensive,<sup>19</sup> which encourages enterprises to cooperate with each other to eliminate the possibility of competitive disadvantage due to increased costs.<sup>20</sup> As a general rule, such cooperation is prohibited by competition law.<sup>21</sup> There are several ways of resolving this conflict, both through the courts and legislation:

a) enterprises have the option of concluding so-called standardisation agreements with each other, which do not create restrictive agreements under certain conditions;<sup>22</sup>

b) an agreement for sustainability purposes may benefit from an individual

<sup>18</sup> Tóth, András. *Kortárs magyar versenyjog*. [Contemporary Hungarian competition law] Ludovika Egyetemi Kiadó, 2022. 56-57. It is not only the European Union that is striving for the latter [Proposal for a Directive on substantiation and communication of explicit environmental claims (Green Claims Directive)]. [https://environment.ec.europa.eu/publications/proposal-directive-green-claims\\_en](https://environment.ec.europa.eu/publications/proposal-directive-green-claims_en). To this end, in Hungary the Hungarian Competition Authority (hereinafter: HCA) published a guidance document in 2020 to help undertakings comply, which catalogues, in addition to general advice, the most common green claims ["Zöld marketing – A Gazdasági Versenyhivatal tanácsai vállalkozásoknak. [https://www.gyh.hu/pfile/file?path=/szakmai\\_felhasznaloknak/tajekoztatok/szakmai\\_felhasznalok\\_tajekoztatok\\_zold-iranymutatás\\_201217&inline=true](https://www.gyh.hu/pfile/file?path=/szakmai_felhasznaloknak/tajekoztatok/szakmai_felhasznalok_tajekoztatok_zold-iranymutatás_201217&inline=true)].

<sup>19</sup> A different approach in other legal analyses reaches similar conclusions (Goshen, Zohar, Assaf Hamdani and Alex Raskolnikov. „Poor ESG: Regressive Effects of Climate Stewardship.” *ECGI Working Paper Series in Law*, no. 764 (2024). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4771137](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4771137).), i.e., that ESG-driven climate policies are costly, and the costs are borne by people (Goshen, Zohar, Assaf Hamdani and Alex Raskolnikov. „Poor ESG: Regressive Effects of Climate Stewardship.” *ECGI Working Paper Series in Law*, no. 764 (2024). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4771137](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4771137). 21.). Good examples are carbon taxes, which seem to raise the price of energy, gasoline and all goods (Goshen, Zohar, Assaf Hamdani and Alex Raskolnikov. „Poor ESG: Regressive Effects of Climate Stewardship.” *ECGI Working Paper Series in Law*, no. 764 (2024). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4771137](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4771137). 23-24.) and lead to unemployment in certain sectors (Goshen, Zohar, Assaf Hamdani and Alex Raskolnikov. „Poor ESG: Regressive Effects of Climate Stewardship.” *ECGI Working Paper Series in Law*, no. 764 (2024). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4771137](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4771137). 24-25). If a firm has a new expense, it will raise prices (Goshen, Zohar, Assaf Hamdani and Alex Raskolnikov. „Poor ESG: Regressive Effects of Climate Stewardship.” *ECGI Working Paper Series in Law*, no. 764 (2024). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4771137](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4771137). 26.).

<sup>20</sup> Tóth, András. *Kortárs magyar versenyjog*. [Contemporary Hungarian competition law] Ludovika Egyetemi Kiadó, 2022.

<sup>21</sup> Such cooperation is prohibited by Article 101(1) of the Treaty on the Functioning of the European Union (TFEU), as well as by Article 11(1) of Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices (hereinafter: Hungarian Competition Act) in Hungary, so public policy for sustainability and competition policy may conflict.

<sup>22</sup> The European Commission's Guidelines 2011/C 11/01 on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements (hereinafter: the Horizontal Guidelines) state in paragraph 280 that “[w]here participation in standard-setting is unrestricted and the procedure for adopting the standard in question is transparent, standardisation agreements which contain no obligation to comply with the standard and provide access to the standard on fair, reasonable and non-discriminatory terms will normally not restrict competition within the meaning of Article 101(1).” If these conditions are not fulfilled, an individual exemption under Article 101(3) TFEU is possible under paragraph 329 of the Horizontal Guidelines.

exemption<sup>23</sup> if the pro-competitive effects outweigh the anti-competitive effects.<sup>24</sup> The efficiency benefit required by the individual exemption must be realised in the form of some economic benefit, such as, for example, an improvement in product quality (Paragraph 183 of the Horizontal Guidelines). In Hungary, competition law also refers contributions to environmental protection [Article 17(a) of the Hungarian Competition Act], but EU law does not [Article 101(3) TFEU].<sup>25</sup> One pertinent example of the effective application of the exemption rule is the CECED case, in which manufacturers of household washing machines agreed to stop producing the least energy-efficient washing machines;<sup>26</sup>

c) if the conditions for individual exemptions cannot be established, competition rules may form obstacles to sustainability efforts, one example of which is the Chicken of Tomorrow case, in which businesses agreed to increase animal welfare standards at a cost to consumers and with reduced choice in the market.<sup>27</sup> The Dutch example shows us that it is possible to approve sustainability initiatives at Member State level, in the form of ministerial decrees,<sup>28</sup> but the cross-border nature of the issue seems to justify EU-level legislation, as does the fact that Member State legislation can easily violate the *effet utile*<sup>29</sup> rule of EU law.

So, it seems that effective competition encourages businesses to operate sustainably, but balancing sustainability costs with competitive disadvantage is a challenge, which often leads to prohibited cooperation under competition law. The conflict between competition policy and sustainability policy can be resolved by the courts, but if the desired level of sustainability cannot be ensured in that way, legislative

<sup>23</sup> Under Article 101(3) TFEU, an agreement is exempt if it “*contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not: impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives; afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.*”

<sup>24</sup> Sipka, Renáta. “A fenntarthatóságot célzó megállapodások versenyjogi értékelésének keretei – az európai legjobb gyakorlatok bemutatása.” [Framework for the competition assessment of sustainability agreements – a presentation of European best practices] *Versenytükör* 14, no. 1 (2018): 37–48. 40.

<sup>25</sup> In addition, in paragraph 84 of the European Commission's Guidelines 2004/C 101/08 on the application of Article 81(3) of the Treaty also clarifies that consumers under the exemption rule can only be customers of the parties to the agreement and subsequent purchasers. Based on the above, it seems that it is not sufficient to rely on the fact that the agreement has a positive effect on the environment in general in order to exempt undertakings.

<sup>26</sup> Commission Decision of 24 January 1999 relating to a proceeding under Article 81 of the EC Treaty and Article 53 of the EEA Agreement (Case IV.F.1/36.718.CECED), CELEX number: 32000D0475.

<sup>27</sup> “ACM's analysis of the sustainability arrangements concerning the ‘Chicken of Tomorrow’, Analysis.” ACM/DM/2014/206028 accessed October 17, 2024, [https://www.acm.nl/sites/default/files/old\\_publication/publicaties/13789\\_analysis-chicken-of-tomorrow-acm-2015-01-26.pdf](https://www.acm.nl/sites/default/files/old_publication/publicaties/13789_analysis-chicken-of-tomorrow-acm-2015-01-26.pdf).pdf 4.

<sup>28</sup> Van de Sanden, Mariska and Hera Butt. “Competition law and sustainability initiatives: Dutch bill provides more leeway.” Kluwer Competition Law Blog (September 23, 2019). <https://competitionlawblog.kluwercompetitionlaw.com/2019/09/23/competition-law-and-sustainability-initiatives-dutch-bill-provide-s-more-leeway/>

<sup>29</sup> If we add to Article 101(1) TFEU Article 4(3) of the Treaty on European Union (hereinafter: TEU) and Protocol No. 27 to the TEU, it seems that Member States have an obligation not to take measures that lead to market conduct that is contrary to competition law (typically cartel law).

intervention may be necessary.

The characteristics and aspects described above are even more important for trust-based enterprises, especially family enterprises.

## 2.1. Corporate governance<sup>30</sup>

In companies, “systems of relationships covered by multifactorial networks of interests”<sup>31</sup> appear, and several theoretical approaches have emerged to explore, understand and explain them. The purpose of corporate governance goes beyond governance itself: it is a complex phenomenon that aims to increase a company’s wealth and to demonstrate responsible, ethical and transparent behaviour that increases investor and market confidence and can thus contribute to market growth.<sup>32</sup>

Corporate governance is an internal system that focuses on the *internal* structural mechanisms of a company; corporate social responsibility is an area that is primarily concerned with *external* processes, in which the application of ethical standards that are not — or not only — legal is a dominant element. The objectives are interlinked, since in both cases the primary objective is to satisfy the enterprise’s behaviour that meet additional requirements alongside maximising profit. These additional requirements are obviously multifaceted and cannot be exhaustively defined, so any trend (such as environmental, human rights, labour law, etc.) can be included in this category.<sup>33</sup> At this point corporate governance can be also linked to ESG.

In addition to the two basic theoretical approaches<sup>34</sup> — an investor model that favours the interests of its members (shareholder theory)<sup>35</sup> and a contractual model concluded by the management<sup>36</sup> that takes into account the interests of those involved

<sup>30</sup> Auer, Ádám. *Corporate governance: A felelős társaságirányítás jelenkori dimenziói*. [Corporate governance: contemporary dimensions of corporate governance] Dialóg Campus, 2017. 26. For a brief summary of corporate governance, see also: Dúl, János. *Gondolatok a corporate governance és az öröklési jog szinergiájáról*. [Reflections on the synergy between corporate governance and inheritance law] Nemzeti Közszerzői Egyetem Közigazgatási Továbbképző Intézet, 2019. 10-26; “Climate Change and Corporate Governance.” <https://doi.org/10.1787/272d85c3-en>; Al-ahdal, Waleed M., Faozi A. Almaqtari, Mosab I. Tabash, et al. “Corporate Governance Practices and Firm Performance in Emerging Markets: Empirical Insights from India and Gulf Countries.” *Vision* 27, no. 4 (2023): 526-37. <https://doi.org/10.1177/09722629211025778>.

<sup>31</sup> Kisfaludi, András. “Társasági jogviták választottbíróság előtt.” [Company law disputes before arbitration courts] In *Acta Conventus de Iure Civili* Tomus X. edited by Tekla Papp. Lectum Kiadó, 2009.

<sup>32</sup> Papp, Tekla. *Társasági jog*. [Company law] Lectum Kiadó, 2011. 532.

<sup>33</sup> Auer, Ádám. *Corporate governance: A felelős társaságirányítás jelenkori dimenziói*. [Corporate governance: contemporary dimensions of corporate governance] Dialóg Campus, 2017. 26-27.

<sup>34</sup> Bebchuk, Lucian A., Kobi Kastiel, Roberto Tallarita. “Does Enlightened Shareholder Value Add Value?” *The Business Lawyer* 77, no. 3 (2022): 1-29. <http://ssrn.com/abstract=4065731>; Fenwick, Mark, Tronel Joubert, Sanita van Wyk, et al. „ESG as a Business Model for SMEs.” *ECGI Working Paper Series in Law*, no. 642 (2022). 3-4. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4098644](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4098644).

<sup>35</sup> Friedman, Milton. *Capitalism and Freedom*. University of Chicago Press, 1962.

<sup>36</sup> Bodzási, Balázs. “A hosszú távú részvényesi (befektetői) szerepvállalás ösztönzésére irányuló uniós törekvések.” [EU efforts to encourage long-term shareholder (investor) engagement] *Fontes Iuris* 4, no. 2 (2018): 32-9. 32-3.

in a business relationship with the enterprise (stakeholder theory)<sup>37</sup> — there are several theoretical approaches embedded in the amendment to Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies that were intended to encourage long-term shareholder participation.<sup>38</sup>

Agency theory is related to investor theory, in which the conflicts of interest in the relationship between the principal (members of the company) and the agent (operative body of the company: executive officers and management) and identifies attitudes toward managerial decisions made to operate the organization (member's control, liability of the executive officer, preference for short-term benefits: profit maximization versus day-to-day management requiring specialized knowledge tailored to growing company size).<sup>39</sup> The long-term benefits of the investor model, *stewardship theory*, which focuses on the priorities arising from the alignment of management's responsible corporate asset management activities with organizational goals (confidence and mutual value building, and managerial sense of duty and loyalty).<sup>40</sup> *Resource dependence theory* is related to the contractual model, and measures the success of an organization in terms of its ability to subordinate, coordinate, and control its internal and external resources to the corporate goal (the role of management qualifications and experience in shaping internal and external organizational environments).<sup>41</sup>

The legal definition of corporate governance was provided by the Cadbury Report in 1991: corporate governance is a set of requirements for the management and control of a company. Corporate governance requirements have been developed worldwide, mainly on the basis of the OECD recommendations on the subject (the most

<sup>37</sup> Freeman, R. Edward. *Strategic Management: a Stakeholder Approach*. Cambridge University Press, 1984.

<sup>38</sup> Directive (EU) 2017/828 of the European Parliament and of the Council of May 17 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.

<sup>39</sup> Derakhshan, Roya, Rodney Turner, Mauro Mancini. "Project Governance and Stakeholders: A Literature Review." *International Journal of Project Management* 37, no. 1 (2019): 98-116. 99-100. <https://doi.org/10.1016/j.ijproman.2018.10.007>; Muth, Melinda and Lex Donaldson. "Stewardship Theory and Board Structure: A Contingency Approach." *Corporate Governance: An International Review* 6, no. 1 (1998): 2-28. 5-6. <http://dx.doi.org/10.1111/1467-8683.00076>; Talbot, Lorraine E. "The Coming of Shareholder Stewardship: A Contextual Analysis of Current Anglo-American Perspectives on Corporate Governance." *Warwick School of Law Research Paper*, no. 22 (2010). 5. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1676869](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1676869).

<sup>40</sup> Derakhshan, Roya, Rodney Turner, Mauro Mancini. "Project Governance and Stakeholders: A Literature Review." *International Journal of Project Management* 37, no. 1 (2019): 98-116. 99-100. <https://doi.org/10.1016/j.ijproman.2018.10.007>; Muth, Melinda and Lex Donaldson. "Stewardship Theory and Board Structure: A Contingency Approach." *Corporate Governance: An International Review* 6, no. 1 (1998): 2-28. 6. <http://dx.doi.org/10.1111/1467-8683.00076>.

<sup>41</sup> Derakhshan, Roya, Rodney Turner, Mauro Mancini. "Project Governance and Stakeholders: A Literature Review." *International Journal of Project Management* 37, no. 1 (2019): 98-116. 99-100. <https://doi.org/10.1016/j.ijproman.2018.10.007>; Muth, Melinda and Lex Donaldson. "Stewardship Theory and Board Structure: A Contingency Approach." *Corporate Governance: An International Review* 6, no. 1 (1998): 2-28. 6. <http://dx.doi.org/10.1111/1467-8683.00076>. Papp, Tekla. "Társasági jogi gondolatszilánkok a hosszú távú részvényesi szerepvállalás ösztönzéséről." [Company law shards for thought on encouraging long-term shareholder engagement] *Erdélyi Jogélet* 3, no. 2 (2022): 17-31. <https://doi.org/10.47745/ERJOG.2022.02.02>



recent of which are the G20/OECD Principles of Corporate Governance).<sup>42</sup> According to Directive 2006/46/EC, a company whose securities are admitted to trading on a regulated market has to include a corporate governance statement in its annual report. Corporate governance puts the functioning of the company at the centre of regulation, using ‘ex ante’ means to avoid unjustified, unforeseeable costs (social costs) that could arise from the dissolution of the company. The development of these rules was the result of various corporate scandals (e.g., Enron, Vivendi Universal), whose abuses incurred serious social (budgetary) costs since unmet creditor claims were so extreme that public intervention was required.<sup>43</sup>

The Hungarian Civil Code regulates listed companies (public shareholder companies) obliging them to report on responsible corporate governance.<sup>44</sup> According to this provision, the board of directors of a public shareholder company must present a report on the corporate governance policy of the company at the annual general meeting in compliance with the rules of the given stock exchange for its actors. The report has then to be approved by the general shareholders meeting. The resolution of the general meeting and the approved report must then be published on the website of the given public shareholder company.<sup>45</sup>

A study created in the framework of *Studies in Banking and Capital Markets Law* and supervised by the European Banking Institute analyses the responsible corporate governance codes and recommendations of EU member states — including the BÉT FTA<sup>46</sup> — from the point of view of the abovementioned CSR processes.<sup>47</sup> With regard to the sustainability factors examined, the responsible Hungarian corporate

<sup>42</sup> Auer, Ádám. “Felelős társaságirányítás.” [Corporate governance] In *Társasági jogi lexikon* [Company law lexicon], edited by János Dúl, Zóra Zsófia Lehoczki, Tekla Papp and Emőd Veress. Dialóg Campus Kiadó, 2019. 119.

<sup>43</sup> Auer, Ádám. “Felelős társaságirányítás.” [Corporate governance] In *Társasági jogi lexikon* [Company law lexicon], edited by János Dúl, Zóra Zsófia Lehoczki, Tekla Papp and Emőd Veress. Dialóg Campus Kiadó, 2019. 119; Auer, Ádám. *Corporate governance: A felelős társaságirányítás jelenkori dimenziói*. [Corporate governance: contemporary dimensions of corporate governance] Dialóg Campus, 2017; Mallin, Christine A. *Corporate Governance*. 6th edition. Oxford University Press, 2019; Cheffins, Brian R. “Corporate Governance Regulation: A Primer.” *ECGI Working Paper Series in Law*, no. 750 (2024). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4684999](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4684999); Kárpáti, Daniel, Luc Rennebog and Jeroen Verbouw. „The Family Firm. A Synthesis, Stylized Facts, and Future Research Directions.” *ECGI Working Paper Series in Finance Working Paper*, no. 908 (2023). 24-26. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4412158](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4412158).

<sup>44</sup> Act V of 2013 on Civil Code (HCC) Section 3:289.

<sup>45</sup> HCC Section 3:289 (3): Provisions of the articles of association derogating from the provisions set out in this section shall be null and void. There are special rules for state-owned companies, see Papp, Tekla and Ádám Auer. “Corporate governance in state-owned companies in Hungary.” *Juridical Tribune - Tribuna Juridica* 6, no. 2 (2016): 22-39.

<sup>46</sup> Budapest Stock Exchange Responsible Corporate Governance Recommendations 2018; “Felelős társaságirányítás.” <https://www.bet.hu/Kibocsatok/Ajanlasok-kibocsatoknak/Felelos-tarsasagiranyitas>; Papp, Tekla. “Társasági jogi gondolatszilánkok a hosszú távú részvényesi szerepvállalás ösztönzéséről.” [Company law shards for thought on encouraging long-term shareholder engagement] *Erdélyi Jogélet* 3, no. 2 (2022): 17-31. <https://doi.org/10.47745/ERJOG.2022.02.02>.

<sup>47</sup> Siri, Michele and Shanshan Zhu. “Integrating sustainability in EU Corporate Governance Code.” In *Sustainable Finance in Europe, Corporate Governance, Financial Stability and Financial Markets*, edited by Danny Busch, Guido Ferrarini and Seraina Grünwald. Palgrave Macmillan, 2021.

governance recommendation has not performed well: the aim of BÉT FTA is not linked to CSR, and does not include a definition of CG in any interpretation, nor does it address sustainability requirements. Stakeholders (mentioned without a definition), the CSR committee, sustainability compensation, reporting on the enforcement of non-financial aspects (such as ESG) and its publication, the validation of employee interests and efforts to create gender balance, as well as ethical clauses (without a code of ethics) can all be found in it.<sup>48</sup>

## 2.2. Environmental Social Governance<sup>49</sup>

Sustainability and ESG are often used synonymously. In a strict sense, sustainability refers to processes or practices which have a positive — or at least neutral — environmental impact, but in a broader sense it also extends to certain social issues as well as corporate governance practices. In the EU regulatory framework, the two terms (sustainability and ESG) are used quite interchangeably.<sup>50</sup>

As society increasingly faces the catastrophic and unpredictable consequences of climate change and resource depletion, urgent action is needed to adapt public policies to this new reality. The financial system has to play a key role here.<sup>51</sup> The pressure from financiers and investors to consider ESG factors is having a significant impact on corporate cash flows and is resulting in a significantly changed operational

<sup>48</sup> Siri, Michele and Shanshan Zhu. “Integrating sustainability in EU Corporate Governance Code.” In *Sustainable Finance in Europe, Corporate Governance, Financial Stability and Financial Markets*, edited by Danny Busch, Guido Ferrarini and Seraina Grünewald. Palgrave Macmillan, 2021. 195-224.

<sup>49</sup> Fenwick, Mark, Tronel Joubert, Sanita van Wyk, et al. „ESG as a Business Model for SMEs.” *ECGI Working Paper Series in Law*, no. 642 (2022). 7-12. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4098644](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4098644); Chiu, Iris H-Y, Lin Lin, David Rouch. “Law and Regulation for Sustainable Finance.” *European Business Organization Law Review* 23, (2022): 1–7. <https://doi.org/10.1007/s40804-021-00230-2>; MacNeil, Iain and Irene-marié Esser. “From a Financial to an Entity Model of ESG.” *European Business Organization Law Review* 23, (2022): 9–45. <https://doi.org/10.1007/s40804-021-00234-y>; Tan, Celine. “Private Investments, Public Goods: Regulating Markets for Sustainable Development.” *European Business Organization Law Review* 23, (2022): 241–71. <https://doi.org/10.1007/s40804-021-00236-w>; 78. Nyikos, Györgyi. Fenntartható finanszírozás és fejlesztés. Stratégia és szabályozás: átállás a fenntartható finanszírozási modellekre. [Sustainable financing and development. Strategy and regulation: moving to sustainable financing models] Akadémiai Kiadó, 2022; Edmans, Alex. “The End of ESG.” *ECGI Working Paper Series in Law*, no. 847 (2022). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4221990](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4221990); Bujtár, Zsolt and Barnabás Ferencz. „A környezetvédelmi, társadalmi és irányítási (ESG) gondolatíság alapjai.” [Basics of environmental, social and governance (ESG) thinking] *ESG* 1, no. 1 (2023): 15-20; Tiwari, Rajesh, Neeraj Sharma and Nagendra Kumar Sharma. “Categorizing and Understanding the Evolution of Literature on ESG Investments: A Bibliometric Analysis.” *Vision*, OnlineFirst (2023). <https://doi.org/10.1177/09722629231197574>; Singhania, Monica and Neha Saini. “Quantification of ESG Regulations: A Cross-Country Benchmarking Analysis.” *Vision* 26, no. 2 (2022): 163-71. <https://doi.org/10.1177/09722629211054173>.

<sup>50</sup> “ESG Reporting Guide for Issuers of the Budapest Stock Exchange.” 9. [https://bse.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/esg/ESG\\_Reporting\\_Guide\\_final\\_ENG.pdf2](https://bse.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/esg/ESG_Reporting_Guide_final_ENG.pdf2).

<sup>51</sup> Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions. Action Plan: Financing Sustainable Growth. Brussels, 8.3.2018. COM (2018) 97 final. (Communication, 2018) 1.

financing environment.<sup>52</sup>

ESG seems to be at a very early stage in Europe, and experience of it is limited; it is only used for short-term loans, such as for financing construction. Evidently, these focus mainly on environmental or climate issues.<sup>53</sup> In Poland, the crawling market for ESG-driven financial products has meant that national ESG quality seals, national regulation, national supervisory practice and national case law on liability claims regarding sustainable trading have failed to emerge thus far.<sup>54</sup>

The Budapest Stock Exchange (BÉT) ESG Reporting Guide provides assistance to listed companies in the application of ESG principles in a standard framework: how they can demonstrate the integration of ESG matters into decision-making, and the use of information contained in ESG reports in the development of business decisions made by the company's managers.<sup>55</sup> There are so far four typical forms of ESG report in Hungary: simple reports (not a financial report and not in line with any ESG standard; e.g., Borsodi Sörgyár Kft.'s 2019 sustainability report), standardized reports (a report that complies with some ESG standards; e.g. Szerencsejáték Zrt.'s 2019 sustainability report), certified reports (a standardized report certified by an external, independent third party; e.g., OTP Bank Nyrt.'s 2019 sustainability report), integrated reports (prepared in accordance with integrated reporting standards and presented by the company from a financial and ESG point of view performance; e.g., ALTEO Nyrt.'s 2019 sustainability report).<sup>56</sup> The Budapest Stock Exchange formulated recommendations for its issuers to improve their ESG compliance and to gradually increase and schedule their category classification.<sup>57</sup>

The Hungarian National Bank published an updated green financial report in May 2024, in which, among other things, it presented and analysed the sustainability of the Hungarian economy, financial risks arising from climate change and relevant to Hungary, green financing and the MNB's (Hungarian National Bank) green education activities.<sup>58</sup> In this material, it was established that the reduction of GHG (greenhouse gas) emissions is also desirable from the point of view of the national economy, since Hungary is significantly in need of imports, including natural gas and crude oil, which significantly increases the country's vulnerability. The MNB Banking Carbon Risk Index is at its highest value so far and is based on the climate risk network, and the

<sup>52</sup> Hajdu, Tibor Zoltán. "Bizalmi vagyonkezelés. Az alapítók generációkon átívelő öröklési stratégiájának eszköze." [Fiduciary asset management. A tool for the founders' intergenerational succession strategy] *Gazdaság és Pénzügy* 9, no. 3 (2022): 197-221. 202. <https://doi.org/10.33926/GP.2022.3.2>.

<sup>53</sup> "Sustainable Finance and Ownership – a Danish Perspective", *Sustainable Finance in European Jurisdictions*, April 2022, Budapest, Ferenc Mádl Institute of Comparative Law.

<sup>54</sup> Oplustil, Krzysztof and Anne-Marie Weber. "Country Report Poland." Paper presented at Sustainable Finance in European Jurisdictions, Budapest, Hungary (April 2022). 1-4.

<sup>55</sup> "ESG Reporting Guide for Issuers of the Budapest Stock Exchange." 24. [https://bse.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/esg/ESG\\_Reporting\\_Guide\\_final\\_ENG.pdf2](https://bse.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/esg/ESG_Reporting_Guide_final_ENG.pdf2).

<sup>56</sup> "ESG Reporting Guide for Issuers of the Budapest Stock Exchange." 27. [https://bse.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/esg/ESG\\_Reporting\\_Guide\\_final\\_ENG.pdf2](https://bse.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/esg/ESG_Reporting_Guide_final_ENG.pdf2).

<sup>57</sup> "ESG Reporting Guide for Issuers of the Budapest Stock Exchange." 46-49. [https://bse.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/esg/ESG\\_Reporting\\_Guide\\_final\\_ENG.pdf2](https://bse.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/esg/ESG_Reporting_Guide_final_ENG.pdf2).

<sup>58</sup> "Zöld pénzügyi jelentés." [Green financial report] <https://www.mnb.hu/letoltes/zold-penzugyi-jelentes-2024.pdf>.

climate exposures in lending portfolios. Risk reduction can be ensured by a higher degree of transparency, which is why the MNB publishes quarterly green data and prepares ESG recommendations for credit institutions and financial enterprises.<sup>59</sup>

### 2.3. Sustainable finance

Sustainable finance can be summarised very briefly as the way in which people with capital can invest their wealth, or part of it, in financial products that help to protect the environment and nature, and to fight environmental crises.<sup>60</sup>

At the end of 2016,<sup>61</sup> the Commission appointed a High Level Expert Group on Sustainable Finance, which published a report outlining a comprehensive vision on how to develop a sustainable financing strategy for the EU, and then published the Action Plan: Financing Sustainable Growth based on its recommendations.<sup>62</sup> The European Commission appointed in late 2019 promised to implement a Green Deal Action Plan and adopted a strategy for financing the transition into a sustainable economy in two steps, on 21 April 2021 and 6 July 2021, with a view to accelerating the efforts which the previous European Commission had proposed as the above-mentioned Sustainable Finance Action Plan in March 2018.<sup>63</sup> Consequently, the EU's sustainable finance reforms include the Sustainability Disclosure Regulation 2019 and Taxonomy Regulation 2020, as well as follow-on initiatives for the regulation of investment firms, funds and benchmarks.<sup>64</sup>

Sustainable finance should not be seen as a single compass, but as a set of building blocks that contribute to seeing an investment as green while serving the

<sup>59</sup> "Zöld pénzügyi jelentés." [Green financial report] <https://www.mnb.hu/letoltes/zold-penzugyi-jelentes-2024.pdf>.

<sup>60</sup> Elekes, Andrea. "Fenntartható növekedés – fenntartható pénzügyi szolgáltatások az Európai Unióban." [Sustainable growth – sustainable financial services in the European Union] *Pénzügyi Szemle* 63, no. 3 (2018): 328-344; Zsupanekné Palányi, Ildikó. "A fenntartható növekedés makrogazdasági és vállalati szinten." [Sustainable growth at macroeconomic and company level] *EU Working Paper*, no. 4 (2005): 49-59; Knoll-Csete, Edit and András Tóth. "Vállalatok társadalmi felelősségvállalása: A fenntartható gazdaság etikus marketing stratégiája." [Corporate social responsibility: an ethical marketing strategy for a sustainable economy] *Glossa Iuridica* 8, no. Különszám (2021): 153-164; Papp, Tekla and János Dül. "Sustainable finance: The relating actual Hungarian legislation in EU frame." *Zbornik Radova Pravni Fakultet (Novi Sad)* 56, no. 4 (2022): 1145-70. <http://doi.org/10.5937/zrpfns56-38980>; Papp, Tekla and János Dül. "Country Report Hungary." In *Sustainable Finance in the EU* edited by Jens Ekkenga and Martin Winner. Mohr Siebeck, 2024. 217-240. <https://doi.org/10.1628/978-3-16-163723-0>; Sisodia, Anjali and Girish Chandra Maheshwari. "Exploring Sustainable Finance: A Review and Future Research Agenda." *Vision OnlineFirst* (2023). <https://doi.org/10.1177/09722629231209177>.

<sup>61</sup> De Sadeleer, Nicolas. "Sustainable development in EU law: still a long way to go." *Jindal Global Law Review* 6, no. 1 (2015): 39-60. <https://doi.org/10.1007/s41020-015-0009-0>.

<sup>62</sup> Communication, 2018, 2; "Fenntartható finanszírozás – véleményezésre." [Sustainable finance – for review] <https://eionet.kormany.hu/fenntarthato-finanszirozas-velemenyezésre>.

<sup>63</sup> Zetzsche, Dirk A. and Linn Anker-Sørensen. "Regulating Sustainable Finance in the Dark." *European Business Organization Law Review* 23, (2022): 47-85. 48. <https://doi.org/10.1007/s40804-021-00237-9>.

<sup>64</sup> Chiu, Iris H-Y. "The EU Sustainable Finance Agenda: Developing Governance for Double Materiality in Sustainability Metrics." *European Business Organization Law Review* 23, (2022): 87-123. 88. <https://doi.org/10.1007/s40804-021-00229-9>.

interests of its members. Based on the Commission's communication, *sustainable finance* generally refers to the process of taking due account of environmental and social considerations in investment decision-making, leading to increased investments in longer-term and sustainable activities. More specifically, environmental considerations refer to climate change mitigation and adaptation, as well as the environment more broadly, and related risks (e.g., natural disasters).<sup>65</sup>

The European Parliament underscores that—because of the financial crisis and the adverse economic cycle—many of the functions of family businesses are underfinanced, so it is important for family businesses to have open and easy access to alternative sources of finance.<sup>66</sup>

The EU's sustainable finance and climate change agenda has brought forward a package of sustainable finance legislation. The Taxonomy Regulation sits alongside the Sustainable Finance Disclosure Regulations (SFDR) and the Low Carbon Benchmarks Regulation as part of this package. The Taxonomy Regulation establishes an EU framework for classification of sustainable economic activities. It aims to provide transparency for investors and businesses and to prevent *greenwashing* by defining the criteria under which a financial product or activity can be described as environmentally *sustainable*.<sup>67</sup>

According to the Hungarian National Bank, it is important to avoid expanding any green funding on green transactions and products that have been officially established but do not provide any actual environmental benefit—this is the definition of the risk of greenwashing.<sup>68</sup> There are several approaches to greenwashing, one of them is the following: *[it] intuitively refers to market practices, both intentional and unintentional, whereby the publicly disclosed sustainability profile of an issuer and the characteristics and/or objectives of a financial instrument or a financial product either by action or omission do not properly reflect the underlying sustainability risks and impacts associated to that issuer, financial instrument or financial product.*<sup>69</sup>

<sup>65</sup> Communication, 2018, 2; Zetzsche, Dirk A. and Linn Anker-Sørensen. "Regulating Sustainable Finance in the Dark." *European Business Organization Law Review* 23, (2022): 47-85. 50-57. <https://doi.org/10.1007/s40804-021-00237-9>. For a European Union outline overview, see Nyikos, Györgyi. *Fenntartható finanszírozás és fejlesztés. Stratégia és szabályozás: átállás a fenntartható finanszírozási modellekre*. [Sustainable financing and development. Strategy and regulation: moving to sustainable financing models] Akadémiai Kiadó, 2022; Magyar Nemzeti Bank. "Green Finance Report. Status Report on the Sustainability of the Hungarian financial system." (2021). 81ff. <https://www.mnb.hu/letoltes/20210303-zold-penzugyi-jelentes-angol.pdf>; "Sustainable Finance Roadmap 2022-2024." [https://www.esma.europa.eu/sites/default/files/library/esma30-379-1051\\_sustainable\\_finance\\_roadmap.pdf](https://www.esma.europa.eu/sites/default/files/library/esma30-379-1051_sustainable_finance_roadmap.pdf). See also: Commission Recommendation (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy.

<sup>66</sup> European Parliament resolution of 8 September 2015 on family businesses in Europe (2014/2210(INI)) (2017/C 316/05) (Resolution, 2015) 12.

<sup>67</sup> "Taxonomy Regulation Disclosures. A snapshot" <https://assets.kpmg.com/content/dam/kpmg/ie/pdf/2021/06/ie-taxonomy-regulation-disclosures.pdf>; Pollman, Elizabeth. "The Making and Meaning of ESG." *ECGI Working Paper Series in Law*, no. 659 (2022). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4219857](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4219857).

<sup>68</sup> "Zöld pénzügyek Magyarországon. Konzultációs dokumentum." [Green finance in Hungary. Consultation document] <https://www.mnb.hu/letoltes/zold-penzugyek-konzultacios-dokumentum-2.pdf>.

<sup>69</sup> "Sustainable Finance Roadmap 2022-2024." 8. <https://www.esma.europa.eu/sites/default/files/library/>

The main benefit of external certification is to maintain the *purity* of the green label and reduce the risk of greenwashing. At the same time, certification is a cost disadvantage on the green side of other financial products. This element, which in fact can be considered a barrier to entry, is therefore useful on the one hand, and a market in children's shoes on the other, insofar as excessive a restrictive effect should be avoided. Consequently, the HNB will analyse in detail the extent to which it is appropriate to rely on external rating agencies in connection with green products.<sup>70</sup>

From the green financial report of the Hungarian National Bank, it should be noted that the MNB issued its Green Recommendation for insurance in 2024 and the new detailed rules of recommendation for green banking have entered into force, which are overseen by the Supervisory Authority.<sup>71</sup> In order to support the green transition, the MNB decided in 2023 to expand and extend the green capital requirement discount program.<sup>72</sup>

## 2.4. Corporate purpose<sup>73</sup>

CSR can be seen as actions that aim towards some social good and go beyond the basic interests of the enterprise;<sup>74</sup> at this point it meaning a link to corporate purpose. “[M]ost company leaders believe that their firms’ larger purpose is to make a positive difference in the world—not just to maximize shareholder value. (...) It is the ultimate goal of the business, the essential reason why it exists, and how it contributes to the

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esma30-379-1051\_sustainable\_finance\_roadmap.pdf.

<sup>70</sup> “Zöld pénzügyek Magyarországon. Konzultációs dokumentum.” [Green finance in Hungary. Consultation document] <https://www.mnb.hu/letoltes/zold-penzugyek-konzultacios-dokumentum-2.pdf>; “Green Financial Product Search Concept of HNB (professional consultation document).” <https://www.mnb.hu/letoltes/mnb-zold-penzugyi-termekkereso-szakmai-konzultacios-dokumentum-ifua-final.pdf>.

<sup>71</sup> “Zöld pénzügyi jelentés.” [Green financial report] <https://www.mnb.hu/letoltes/zold-penzugyi-jelentes-2024.pdf>.

<sup>72</sup> “Zöld pénzügyi jelentés.” [Green financial report] <https://www.mnb.hu/letoltes/zold-penzugyi-jelentes-2024.pdf>.

<sup>73</sup> Ferrarini, Guido. “Redefining corporate purpose: sustainability as a game changer.” In *Sustainable Finance in Europe, Corporate Governance, Financial Stability and Financial Markets*, edited by Danny Busch, Guido Ferrarini and Seraina Grünewald. Palgrave Macmillan, 2021. 85-150. 100; Fleischer, Holger. “Corporate purpose: a management concept and its implications for company law.” *European Company and Financial Law Review* 18, no. 2 (2021): 161-89. <https://doi.org/10.1515/ecfr-2021-0008>; Mayer, Colin. “The Governance of Corporate Purpose.” *ECGI Working Paper Series in Law*, no. 609 (2021). [https://ecgi.global/sites/default/files/working\\_papers/documents/mayerfinal\\_1.pdf](https://ecgi.global/sites/default/files/working_papers/documents/mayerfinal_1.pdf); Lund, Dorothy S. and Elizabeth Pollman. “Corporate Purpose.” *ECGI Working Paper Series in Law*, no. 711 (2023). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4472334](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4472334); Lund, Dorothy S. “Toward A Dynamic View of Corporate Purpose.” *ECGI Working Paper Series in Law*, no. 746 (2023). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4665040](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4665040); Nurgozhayeva, Roza and Dan W. Puchniak. “Corporate Purpose Beyond Borders: A Key to Saving Our Planet or Colonialism Repackaged?” *ECGI Working Paper Series in Law*, no. 744 (2023). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4652012](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4652012); Cheffins, Brian R. “The Past, Present and Future of Corporate Purpose.” *ECGI Working Paper Series in Law*, no. 713 (2024). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4420800](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4420800).

<sup>74</sup> Chalkasra, Lolita S. P. S., John Paolo R. Rivera, Dynah Avigail T. Basuil. “A Review of Theoretical Perspectives on CSR among Family Enterprises.” *Vision* 23, no. 3 (2019): 225-33. 227. <https://doi.org/10.1177/0972262919860966>.

common good”.<sup>75</sup> A company’s purpose had referred to the ultimate beneficiaries of corporate activity: whose interests should be considered, and should take priority when corporate power is exercised.<sup>76</sup>

There is a demand for the inclusion of corporate purposes of a public benefit/public interest nature in the articles of association that also serve long-term corporate success, and on the basis of enterprise reports including an explanation of CP implementation for voting (decision-making), and for establishing dual-purpose enterprises (public benefit-oriented for profit organizations: the Italian *società benefit*, the French *société à mission*, the American benefit corporation, the German *GmbH im Verantwortungseigentum*).<sup>77</sup> The CPs of a sustainable agricultural family enterprise serve the common good and at the same time create motivation for the family that strengthens its cohesion and relies on family traditions (for example proximity to nature, and crossing generations). It generates positive utility for the family (owners) and also for the stakeholders as an organizational higher purpose:<sup>78</sup> supporting young family members, gender equality, expanding expertise, improving well-being, promoting innovation, etc.<sup>79</sup>

Corporate purpose can appear in several aspects in company documents, for example, in the sustainability report of the Hungarian company Zwack Unicum Plc. for the years 2022-2023.<sup>80</sup> The business priority of this enterprise is long-term economic efficiency (the traditional objective of enterprises); however, the sustainability strategy consists of typical ESG-factors, but other essential areas are social and cultural responsibility, advocacy of responsible drinking, and ethical business conduct; Zwack Unicum goes beyond the objectives that usually characterise enterprises.

<sup>75</sup> Joly, Hubert. “Creating a Meaningful Corporate Purpose.” *Harvard Business Review*. October 28, 2021. <https://hbr.org/2021/10/creating-a-meaningful-corporate-purpose>.

<sup>76</sup> Kershaw, David and Edmund Schuster. “The Purposive Transformation of Corporate Law.” *The American Journal of Comparative Law* 69, no. 3 (2021): 478–538. <https://doi.org/10.1093/ajcl/avac004>.

<sup>77</sup> Fleischer, Holger. “Corporate purpose: a management concept and its implications for company law.” *European Company and Financial Law Review* 18, no. 2 (2021): 161-89. 166-7. <https://doi.org/10.1515/ecfr-2021-0008>; Ferrarini, Guido. “Redefining corporate purpose: sustainability as a game changer.” In *Sustainable Finance in Europe, Corporate Governance, Financial Stability and Financial Markets*, edited by Danny Busch, Guido Ferrarini and Seraina Grünewald. Palgrave Macmillan, 2021. 85-150. 99; Papp, Tekla. “Társasági jogi gondolatszilánkok a hosszú távú részvényesi szerepvállalás ösztönzéséről.” [Company law shards for thought on encouraging long-term shareholder engagement] *Erdélyi Jogélet* 3, no. 2 (2022): 17-31. 19. <https://doi.org/10.47745/ERJOG.2022.02.02>.

<sup>78</sup> Thakor, Anjan V. “Higher Purpose, Employees and the Firm.” *Finance Working Paper*, no. 974 (2024). 1. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4635804](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4635804).

<sup>79</sup> Legény, Lili. “A mezőgazdaság alappillérei: a családi gazdaságok.” [The pillars of agriculture: family farms] <https://arsboni.hu/a-mezogazdasag-alappillerei-a-csaladi-gazdasagok/>.

<sup>80</sup> “Sustainability report 2022-2023.” [https://zwackunicum.hu/files/cegunk\\_fenntarthatosag-napjainkban\\_\\_sustainability-report---1-august-2013\\_en\\_1384528367/fenntarthatosagi\\_jelentes\\_2023\\_ENG\\_v2.pdf](https://zwackunicum.hu/files/cegunk_fenntarthatosag-napjainkban__sustainability-report---1-august-2013_en_1384528367/fenntarthatosagi_jelentes_2023_ENG_v2.pdf).

### 3. Family enterprises

#### 3.1. The phenomena of family enterprises

Family enterprises often grow at an impressive rate. They are a source of economic growth and jobs and pay considerable attention to regional and local factors. The weight and importance of family enterprises is undisputed, and they are seen as the backbone of the economy in many countries around the world.<sup>81</sup> The importance of family enterprises should be mentioned in connection with the fact that a number of European Union bodies have dealt with them on multiple occasions, always emphasising their important role in national economies.<sup>82</sup>

Family enterprises are a powerful tool for disseminating the enterprise culture and remain the best means of enabling millions of people to go into business, not only in small and medium enterprises (SMEs), where they form the majority, but also in large family enterprises, which account for between 12% and 30% of all large enterprises in countries as important as Germany, the United Kingdom, Italy and France. Family enterprises, whether large or small, are defined by the family group exercising permanent control of the enterprise, even if it is a public company limited by shares. In these cases, there may be no ambition to list on the stock exchange.<sup>83</sup>

An Expert Group set up by European Commission Enterprise and Industry Directorate-General found that family enterprises are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the specific commitment they show to local communities, the responsibility they feel as owners, and the values they stand for.<sup>84</sup>

Part of the complexity of family enterprises lies in the fact that they combine

<sup>81</sup> Csákné Filep, Judit, Richárd Kása, László Radácsi. "Családívállalat-kormányzás. A nemzetközi szakirodalom kategorizálása a három kör modell tükrében." [Family enterprise governance. Categorisation of the international literature in the light of the three circles model] *Vezetéstudomány* 49, no. 9 (2018): 46-56. 46. <https://doi.org/10.14267/VEZTUD.2018.09.04>.

<sup>82</sup> See among others: European Parliament resolution of 8 September 2015 on family businesses in Europe (2014/2210(INI)) (2017/C 316/05); Opinion of the European Economic and Social Committee on 'Family businesses in Europe as a source of renewed growth and better jobs' (own-initiative opinion) (2016/C 013/03).

<sup>83</sup> Opinion of the European Economic and Social Committee on the 'Diverse forms of enterprise' (Own-initiative opinion) 2009/C 318/05 2.13. See also: Opinion of the European Economic and Social Committee on 'The potential of small family and traditional businesses to boost development and economic growth in the regions' (own-initiative opinion) (2018/C 081/01). Fenwick, Mark, Tronel Joubert, Sanita van Wyk, et al. „ESG as a Business Model for SMEs.” *ECGI Working Paper Series in Law*, no. 642 (2022). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4098644](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4098644); Amore, Mario D., Valentino D'Angelo, Isabelle Le Breton-Miller, et al. „Using Artificial Intelligence to Measure the Family Control of Companies.” *ECGI Working Paper Series in Finance Working Paper*, no. 950 (2024) [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4683794](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4683794).

<sup>84</sup> "European Commission – Enterprise and Industry Directorate-General. Final report of the Expert Group. Overview of family-business-relevant issues: Research, networks, policy measures and existing studies. November 2009", ("Overview of family-business-relevant issues, 2009") 4; Chalkasra, Lolita S. P. S., John Paolo R. Rivera, Dynah Avigail T. Basuil. "A Review of Theoretical Perspectives on CSR among Family Enterprises." *Vision* 23, no. 3 (2019): 225-33. <https://doi.org/10.1177/0972262919860966>.



the interests of a family based on love and solidarity with those of a profit-oriented business.<sup>85</sup> There are a variety of reasons for setting up a family business, but common to all of them are a naturally occurring system of values, a willingness to demonstrate dedication and sacrifice, and a sense of responsibility towards those who set up the business and those who take it over. Family businesses are better able to withstand difficult periods of recession and stagnation, and one of the main reasons for their longevity is the sense of personal responsibility for the image of the business.<sup>86</sup>

Family businesses are important not only for what they represent to the economy, but more importantly for the commitment they show to local communities, the long-term stability they bring, the responsibilities they feel as owners, and the values they stand for.<sup>87</sup>

*Family businesses must be seen not only in terms of assets but as a combination of property and values. That is, family businesses have implications that involve more than merely serving a financial purpose; they are a means of sharing certain values and providing a service to the community in which they are integrated.*<sup>88</sup>

The phenomena of family enterprises are significant in Hungary, too. Based on a Hungarian empirical research, it can be found that family enterprises operate primarily in the local market and are strongly embedded in the local economy. Family enterprises are dominant in economic and innovation cooperation, informal administrative routines and decision-making, and can often be long established with a longer operating history and experience, a long-term perspective, and a desire for stability in Hungary.<sup>89</sup>

### 3.2. Terminology and definition of family enterprises

#### 3.2.1. Terminology of family enterprises

Research on family enterprises has a history of some 50 years, and these studies are predominantly economic in nature, with the legal issues involved being less researched. Several problems can be identified from the analyses: on the one hand, family enterprises themselves are referred to by various names, such as *family business*,

<sup>85</sup> Málovics, Éva. "Konfliktusok a családi vállalkozásban: Egy kvalitatív kutatás eredményei." [Conflicts in the family enterprise: results from a qualitative study] *Taylor* 10, no. 2 (2018): 7–15. <https://ojs.bibl.u-szeged.hu/index.php/taylor/article/view/13157/13013>; Kállay, László and Krisztofer Szabó. "A családi gazdasági társaságok azonosítása és fő teljesítménymutatóinak összehasonlító elemzése Magyarországon." [Identification and comparative analysis of the main performance indicators of family companies in Hungary] *Közgazdasági Szemle* 70, no. 10 (2023): 1108–30. 1116. <https://doi.org/10.18414/KSZ.2023.10.1108>.

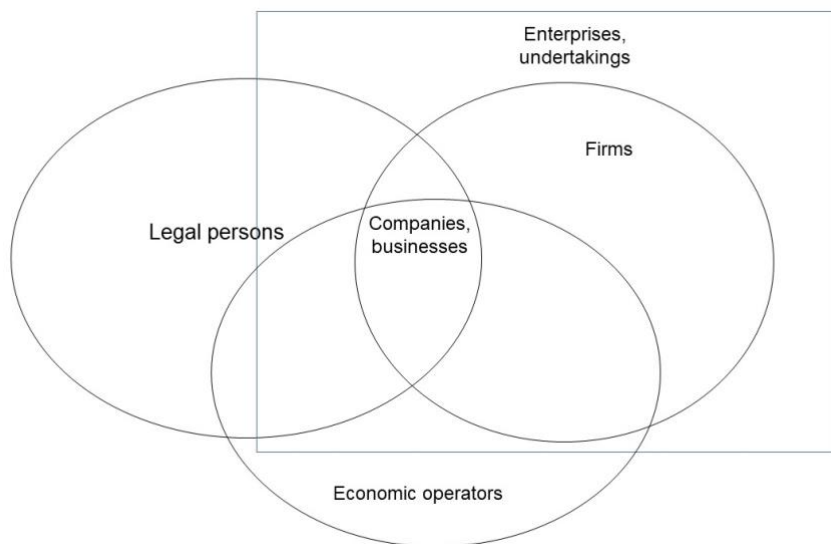
<sup>86</sup> Opinion of the European Economic and Social Committee on 'Family businesses in Europe as a source of renewed growth and better jobs' (own-initiative opinion) (2016/C 013/03) 1.1.

<sup>87</sup> „Overview of family-business-relevant issues, 2009.” 22

<sup>88</sup> Tápies, Josep and John L. Ward. (Eds.) *Family-owned business, a role model of values*. Palgrave MacMillan, 2008.

<sup>89</sup> Rideg, András, Livia Lukovszki, Anna Róza Varga, et al. "A magyar családi mikro-, kis- és középvállalatok erőforrásai és képességei." [Resources and capabilities of Hungarian family micro, small and medium-sized enterprises] *Közgazdasági Szemle* 69, no. 6 (2022): 739–57. 750. <http://doi.org/10.18414/KSZ.2022.6.739>.

*family firm, family enterprise, family-owned firm*.<sup>90</sup> Each of their Hungarian equivalents is used, being translated, both in everyday life and in the literature. In law, we use one term for a particular legal phenomenon, and the question must be raised as to whether these terms refer to the same phenomenon, and if they do, the question remains as to which term is the most appropriate. More importantly, if they do not mean the same thing, what are the differences between them? We have not yet found any literature on this point, yet the use of the correct term is important because, at least from the point of view of Hungarian law, the terms *business/company*, *firm* and *enterprise/undertaking* do not mean the same, even if there is an overlap between all the categories (see Figure 2).



**Figure 2.** *Grouping of business entities in Hungary. Compiled by the authors based on cited legislative acts*

Figure 2 aims to provide an overview on different legal entities in Hungarian law.

Enterprises and business undertakings are persons acting within their profession, independent occupation or business activity.<sup>91</sup>

Some legal persons are regulated in Hungarian Civil Code, such as associations, companies, cooperatives, groupings, foundations. There are even certain general rules for state participation in relations governed by civil law in HCC. We must note that not all the legal persons are regulated in the HCC, for example, all local governments are

<sup>90</sup> See for example papers cited by Chalkasra, Lolita S. P. S., John Paolo R. Rivera, Dynah Avigail T. Basuil. "A Review of Theoretical Perspectives on CSR among Family Enterprises." *Vision* 23, no. 3 (2019): 225-33. <https://doi.org/10.1177/0972262919860966>.

<sup>91</sup> HCC Section 8:1 (1) 4.

legal persons.<sup>92</sup>

A company may be established in the form of a general partnership, a limited partnership, a limited liability company or a company limited by shares,<sup>93</sup> the shares may or may not be listed on the stock exchange.

Firms are defined in Act V of 2006 on Public Company Information, Company Registration and Winding-up Proceedings,<sup>94</sup> and economic operators are regulated by Act CXXX of 2016 on the Code of Civil Procedure.<sup>95</sup>

The European Parliament's resolution consistently uses the term family business, whereas the Hungarian translation of this resolution also uses the words 'family enterprise' and 'family farm' in comparison to this term. We will use *family enterprise* in this paper, since it covers the largest possible number of legal entities (except for citation). This is justified because the term *family enterprise* does not necessarily cover legal persons only, but also for example certain civil law relationships.<sup>96</sup>

### 3.2.2. Definition of family enterprises

To follow issue of terminology, we should examine what family enterprises are: one of the most researched topics in connection with family enterprises is their definition. In everyday life, they can be understood as being a family's ability to exercise control over a legal entity, usually a company. Typically, they span several generations and can have a significant impact on local society.<sup>97</sup> The Expert Group identified more than 90 definitions, which shows that even within the same country several different definitions can be used.<sup>98</sup> Across the 33 countries under analysis, there

<sup>92</sup> Act CLXXXIX of 2011 on Hungary's local governments Section 41 (1).

<sup>93</sup> HCC Section 3:89 (1).

<sup>94</sup> Firms can be general partnerships, limited partnerships, limited liability companies or companies limited by shares (both private and public), groupings, individual firms, in Hungary the branches of an enterprise having its seat abroad, commercial representations of foreign undertakings, water management companies, court bailiff firms, notary offices, European economic interest groupings, European companies, cooperatives, European cooperative societies, joint enterprises.

<sup>95</sup> Act CXXX of 2016 on the Code of Civil Procedure Section 7 (1) 6. economic operator means a company, European company, grouping, European economic interest grouping, European grouping for territorial cooperation, cooperative, housing cooperative, European cooperative society, water management company, forest management company, the branch in Hungary of an enterprise having its seat abroad, state-owned enterprise, other state-owned economic organ, enterprise of certain legal persons, jointly owned enterprise, court bailiff firm, notary office, law office, patent firm, voluntary mutual insurance fund, private pension fund, individual firm, private entrepreneur and, in the context of its civil relationships related to its economic activities, the State, the local government, a budgetary organ or another legal person required by law to apply the rules pertaining to the economic activities of budgetary organs, a higher education institution, an association, a statutory professional body or a foundation.

<sup>96</sup> Dúl, János. "Certain Legal Aspects of Family Businesses in Hungary". In *Adapting to Change Business Law Insights from Today's International Legal Landscape*, edited by Cristina Elena Popa Tache, Renata Treneska Deskoska, Nathaniel Boyd, et al. ADJURIS, 2024. 156-71. 162-3.

<sup>97</sup> Polster, Csilla and Márta Konczosné Szomathelyi. "Családi vállalkozások hatása a helyi társadalomra." [The impact of family enterprises on local society] *Civil Szemle* 18, no. 2 (2021): 21-34.

<sup>98</sup> „Overview of family-business-relevant issues, 2009". 9.

is no single definition of ‘family enterprise’ that is widely and exclusively applied to every conceivable area, such as in public and policy discussions, legal regulations, as an eligibility criterion for support services, or in the provision of statistical data and academic research. However, a wide range of different definitions have been applied in socio-economic research and also to some extent in legal regulations.<sup>99</sup>

The conceptualisation is an issue that dates back over several decades: 21 definitions had been analysed by 1999.<sup>100</sup> Our view is that the quintessence of family enterprises was captured in the statement: “what makes a family business unique is that the pattern of ownership, governance, management, and succession materially influences the firm’s goals, strategies, structure, and the manner in which each is formulated, designed, and implemented”.<sup>101</sup>

The lack of and necessity for a single definition is emphasized by the European Parliament’s resolution: there is no legally binding, concrete, simple and harmonised Europe-wide definition of a family business; therefore it is impossible, in the absence of a definition, to gather comparable data in the EU Member States in order to draw attention to the special situation, needs, and economic accomplishment of family enterprises; whereas this lack of reliable and comparable data can hinder policy decision-making and may mean that the needs of family enterprises are not being met.<sup>102</sup> If there is a single definition, it would be easier to analyse the importance of ownership for the success and survival of an enterprise; to highlight the specific challenges facing family enterprises and to propose to the European Parliament and the Member States a statistically workable Europe-wide definition of what a family business is—developed together with Eurostat—taking into account the differing circumstances of the Member States.<sup>103</sup>

Which is why the European Parliament called on the Member States to improve the legal framework for the transfer of family enterprises, to create special financing instruments for transfers and thus prevent liquidity shortages, ensuring the survival of family enterprises and preventing distress sales. It also called on the Commission and Member States to promote family-business-specific education in business transfers, governance structures, owner strategies and innovation strategy. Particularly in countries where, for historical reasons, the family business concept is not as well established, which would contribute to their long-term success, especially in terms of business transfer.<sup>104</sup>

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<sup>99</sup> Mandl, Irene. “Overview of Family Business Relevant Issues: Contract No. 30-CE-0164021/00-51 Final Report.” KMU Forschung Austria, 2008. 1.

<sup>100</sup> Chua, Jess H., James J. Chrisman, Pramodita Sharma. “Defining the Family Business by Behaviour.” *Entrepreneurship Theory and Practice* 23, no. 4 (1999): 19-39. 19. <https://doi.org/10.1177/104225879902300402>.

<sup>101</sup> Chua, Jess H., James J. Chrisman, Pramodita Sharma. “Defining the Family Business by Behaviour.” *Entrepreneurship Theory and Practice* 23, no. 4 (1999): 19-39. 22. <https://doi.org/10.1177/104225879902300402>.

<sup>102</sup> Resolution, 2015. K-L.

<sup>103</sup> Resolution, 2015. 29.

<sup>104</sup> Resolution, 2015. 21. Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions Implementing the Lisbon

It is essential to agree on an accepted definition of what constitutes a family enterprise in order to have a better view. There is general agreement on three essential elements: the family, the business, and the ownership. Having analysed existing definitions, the expert group proposes the following definition: *A firm, of any size, is a family business, if:*

1) *The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.*

2) *The majority of decision-making rights are indirect or direct.*

3) *At least one representative of the family or kin is formally involved in the governance of the firm.*

4) *Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.*<sup>105</sup>

This definition represents the opinion and agreement of the members of the expert group; and the group recommends its use in the Member States and other countries covered by the project to produce quantitative (and comparable at European level) information on the family enterprise sector.<sup>106</sup>

In connection with the historical reasons indicated by European Parliament, it can be noted that in Hungary the corporate culture that allowed family enterprises to develop may have started after the 1989 regime change.<sup>107</sup> The definition or identification method used to examine family enterprises has a major impact on the results. Based on a study in Hungarian, 56 definitions were identified and twelve definitions were used in the literature<sup>108</sup> on a specific sample, in which they obtained values ranging from 22.3 to 83.6 percent for the share of family enterprises. This raises

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Community Programme for Growth and Jobs. Transfer of Businesses – Continuity through a new beginning. COM(2006) 117 final.

<sup>105</sup> „Overview of family-business-relevant issues, 2009”. 4.

<sup>106</sup> „Overview of family-business-relevant issues, 2009”. 10.

<sup>107</sup> Bogáth, Ágnes. “Családi vállalkozások utódlástervezése és a kontrollinghasználat kapcsolata – empirikus tapasztalatok.” [Family enterprise succession planning and the use of controlling – empirical evidence] *Gazdálkodás* 63, no. 5 (2019): 381-93. 382-4. <http://doi.org/10.22004/ag.econ.296488>. Baros-Tóth, Ágnes. “A családi vállalkozások hosszú élettartamának esélyei az évszázados japán családi vállalkozások tükrében.” [Longevity prospects of family enterprises in the light of centuries-old Japanese family businesses] *Tudásmenedzsment* 23, no. 1 (2022): 155-67. 156 and 165. <https://doi.org/10.15170/TM.2022.23.1.10>; Hajdu, Tibor Zoltán. “Bizalmi vagyonkezelés. Az alapítók generációkon átívelő öröklési stratégiájának eszköze.” [Fiduciary asset management. A tool for the founders' intergenerational succession strategy] *Gazdaság és Pénzügy* 9, no. 3 (2022): 197-221. 197 and 200. <https://doi.org/10.33926/GP.2022.3.2>; Krankovits, Melinda, Aron Gyimesi and Márta Konczosné Szombathelyi. “Családi vállalkozások generációváltása, mint komplex probléma – oktatási szempontból.” [Generational change in family enterprises as a complex problem – from an educational perspective] *Multidiszciplináris Kihívások, Sokszínű Válaszok* 3, no. 1 (2020): 71-89. 73. <https://doi.org/10.33565/MKSV.2020.01.06>.

<sup>108</sup> Kása, Richárd, László Radácsi and Judit Csákné Filep. “Családi vállalkozások definíciós operacionalizálása és hazai arányuk becslése a kkv-szektoron belül.” [Definitional operationalisation of family enterprises and estimation of their share in the SME sector in Hungary] *Statistikai Szemle* 97, no. 2 (2019): 146-74. 150-2. <https://doi.org/10.20311/stat2019.2.hu0146>.

the possibility that there are not simply definitions in the literature that differ from each other, mainly in technical details, but that different definitions of the concept of family enterprise have emerged. Consequently, it is not possible to provide analytical results on family enterprises in general, but only to draw conclusions on any given definition.<sup>109</sup> The range of family businesses is excessively heterogeneous;<sup>110</sup> therefore, a growing number of researchers are trying to approach the issue of definition from a heterogeneity perspective, emphasising the heterogeneous nature of family businesses rather than treating them as a homogeneous entity.<sup>111</sup> Despite this fact, researchers are still trying to define family enterprises.<sup>112</sup>

The following definition is used in this paper: a family enterprise is a legal entity in which a predominant proportion of shares and/or controls are linked to the same family (persons who are related to each other) and whose purpose is to preserve this feature across generations.<sup>113</sup>

### 3.3. The relevance of control in Hungarian competition law and family enterprises

It is essential that not only the term ‘family enterprise’, but also the term ‘control’, which is an element within it, can be defined in different ways. This is well illustrated by the fact that in Hungarian competition law and company law *control* has

<sup>109</sup> Kállay, László and Krisztofer Szabó. “A családi gazdasági társaságok azonosítása és fő teljesítménymutatóinak összehasonlító elemzése Magyarországon.” [Identification and comparative analysis of the main performance indicators of family companies in Hungary] *Közgazdasági Szemle* 70, no. 10 (2023): 1108-30. 1111. <https://doi.org/10.18414/KSZ.2023.10.1108>.

<sup>110</sup> Baros-Tóth, Ágnes. “Mi is az a családi vállalkozás? – A családi vállalkozások meghatározásának problematikája.” [What is a family enterprise? – The problem of defining family enterprises] *Tudásmenedzsment* 23, no. 2 (2022): 68-81. 68-69. <https://doi.org/10.15170/TM.2022.23.2.6>.

<sup>111</sup> Baros-Tóth, Ágnes. “Mi is az a családi vállalkozás? – A családi vállalkozások meghatározásának problematikája.” 73.

<sup>112</sup> For a summary see Kárpáti, Daniel, Luc Rennebog and Jeroen Verbouw. „The Family Firm. A Synthesis, Stylized Facts, and Future Research Directions.” *ECGI Working Paper Series in Finance Working Paper*, no. 908 (2023). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4412158](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4412158); they also emphasize the heterogeneity *ibid.* 29-33; on the conceptualization: Baros-Tóth, Ágnes. “Mi is az a családi vállalkozás? – A családi vállalkozások meghatározásának problematikája.” [What is a family enterprise? – The problem of defining family enterprises] *Tudásmenedzsment* 23, no. 2 (2022): 68-81. 69-70. <https://doi.org/10.15170/TM.2022.23.2.6>; Kállay, László and Krisztofer Szabó. “A családi gazdasági társaságok azonosítása és fő teljesítménymutatóinak összehasonlító elemzése Magyarországon.” [Identification and comparative analysis of the main performance indicators of family companies in Hungary] *Közgazdasági Szemle* 70, no. 10 (2023): 1108-30. 1108-9. <https://doi.org/10.18414/KSZ.2023.10.1108>; Rideg, András, Livia Lukovszki, Anna Róza Varga, et al. “A magyar családi mikro-, kis- és középvállalatok erőforrásai és képességei.” [Resources and capabilities of Hungarian family micro, small and medium-sized enterprises] *Közgazdasági Szemle* 69, no. 6 (2022): 739-57. 740-1. <http://doi.org/10.18414/KSZ.2022.6.739>.

<sup>113</sup> Arató, Balázs. “Családi vállalkozások nemzetközi kitekintésben.” [Family enterprises in an international perspective] *Glossa Iuridica* 7, no. 3-4 (2020): 263-85; Arató, Balázs. “A családi vállalkozások jellegmegővésének eszközei a hazai szabályozás tükrében.” [Instruments to protect the character of family enterprises in the light of domestic legislation] *Gazdaság és Jog* 31, no. 3-4 (2023): 31-7. 36.

different meanings. The Hungarian Competition Act<sup>114</sup> distinguishes between legal and de facto, direct and indirect control. Direct legal control is exercised by a sole undertaking, or more than one undertaking jointly if they:

- a) are entitled to exercise majority voting rights in another undertaking; or
- b) are entitled to appoint the managing director of another undertaking; or
- c) are entitled by contracts to exercise decisive influence of another undertaking.<sup>115</sup>

In comparison, direct de facto control means: acquire the actual ability to exercise decisive influence of another undertaking.<sup>116</sup> In the case of indirect control, the *controlling undertaking* controls the *controlled undertaking* through *other undertakings*.<sup>117</sup> Since the concept of family enterprise is based on the concept of control, it can be concluded that the diversity of definitions of control makes it more difficult to define family enterprises.

In Hungarian company law, control can also be achieved by gaining a controlling interest, and by creating a group of companies and holding the position of an executive officer (director). The controlling interest is a relationship through which a natural person or a legal person (*controlling shareholder*) alone has more than half of the votes or a significant influence;<sup>118</sup> the influence can be either direct or indirect.<sup>119</sup> Direct and indirect shares of ownership or voting rights of close relatives have to be counted together,<sup>120</sup> meaning that the company is under family influence. If the family business is a company limited by shares, or a limited liability company, or grouping, or a cooperative, then it may participate as a member in groups of companies under the Hungarian Civil Code.<sup>121</sup> The family enterprise as the controlling member of the groups of companies may cooperate with controlled members on the base of a uniform business

<sup>114</sup> Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices (hereinafter: Hungarian Competition Act).

<sup>115</sup> Hungarian Competition Act Section 23(2) (a)-(c).

<sup>116</sup> Hungarian Competition Act Section 23(2) (d).

<sup>117</sup> Hungarian Competition Act Section 23(3).

<sup>118</sup> HCC Section 8:2 (1), (2) The controlling shareholder shall have a significant influence in a legal person if he is its member or shareholder and a) is entitled to elect or remove the majority of the executive officers or members of the supervisory board of this legal person; or b) other members or shareholders of the legal person vote in the same way as the controlling shareholder do or exercise their voting rights through the controlling shareholder provided that they have more than half of the votes together. Pál, Előd. "Irányítási jog." [Governance right] In *Társasági jogi lexikon* [Company law lexicon], edited by János Dúl, Zóra Zsófia Lehoczki, Tekla Papp and Emőd Veress. Dialóg Campus Kiadó, 2019. 147-148.

<sup>119</sup> HCC Section 8:2 (4) A person having control in another legal person (intermediate legal person) having a voting right in the legal person shall have indirect control in the legal person. The extent of indirect control shall be the same share of control of the intermediate legal person that the controlling shareholder has in the intermediate legal person. If the controlling shareholder has a control exceeding half of the votes in the intermediate legal person, the control of the intermediate legal person in the legal person shall be fully considered as the indirect control of the controlling shareholder.

<sup>120</sup> HCC Section 8:2 (5).

<sup>121</sup> HCC Section 3:49 (2); Dúl, János. "Konzern." [Group of companies] In *Társasági jogi lexikon* [Company law lexicon], edited by János Dúl, Zóra Zsófia Lehoczki, Tekla Papp and Emőd Veress. Dialóg Campus Kiadó, 2019. 164; Dúl, János. "Vállalatcsoport." [Group of companies] In *Társasági jogi lexikon* [Company law lexicon], 306.

policy defined in a control contract.<sup>122</sup> If the only executive officer (managing director) of the family company<sup>123</sup> is a family member, or the majority of the members of the board of directors and the board of directors of the family company<sup>124</sup> are family members, or the CEO (chief executive officer) of the family company<sup>125</sup> is a family member, then *the family* exercises control over the operation of the company. Control is important in family enterprises<sup>126</sup> where there is a special overlap among the family, the membership (the ownership) and the firm, and the family's identity, preservation of image, reputation and SEW (socioemotional wealth),<sup>127</sup> and, furthermore, the succession of the next generation of the family, can be enforced by control.

### 3.4. The relationship between family enterprises and CSR

Family enterprises have a clear connection to all branches of CSR; even in the European Parliament resolution several connections are apparent. For example when the European Parliament emphasises that family businesses tend to demonstrate a high degree of social responsibility towards their staff and manage resources actively and responsibly, and that they generally take a sustainable and long-term approach to the economic future of the business (by acting as an *honourable merchant*, *responsible owner*, or *steward*) and thus make an important contribution both to their local communities and to Europe's competitiveness, and create and maintain high-quality jobs.<sup>128</sup>

Family enterprises are mentioned in several papers and documents and they can be linked to corporate governance.<sup>129</sup> One such is the European Confederation of Directors' Associations (ecoDa) *Corporate Governance Guidance and Principles for Unlisted Companies in Europe 2010*. In phase 1, we find principles that could be applied to all unlisted companies; and in phase 2, corporate governance principles that are applicable to large and/or more complex unlisted companies. Although all the principles should be used in connection with family enterprises (dependent on their being listed or unlisted), principle 9 explicitly refers to family enterprises: "[f]amily-controlled

<sup>122</sup> HCC Section 3:49 (1).

<sup>123</sup> In Hungary this is possible in a general partnership, a limited partnership or at a limited liability company.

<sup>124</sup> In Hungary this is possible in a private company limited by shares and at public company limited by shares.

<sup>125</sup> In Hungary it is possible in a private company limited by shares for the chief executive officer to exercise the rights of board of directors. HCC Section 3:283.

<sup>126</sup> Kavya, Balakrishnan and Santhakumar Shijin. „Ownership and Control of Widely and Closely Held Firms in India.” *Vision* 21, no. 4 (2017): 449-60. <https://doi.org/10.1177/0972262917738895>.

<sup>127</sup> Ponomareva, Yuliya, Francesco Paolone, Domenico Rocco Cambrea, et al. “The Ties That Bind or Those That Tear Us Apart? Co-CEO Constellations and ESG.” *ECGI Finance Working Paper*, no. 969 (2024). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4754036](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4754036).

<sup>128</sup> Resolution, 2015. 1, 2 and 6.

<sup>129</sup> La Porta, Rafael, Florencio Lopez-de-Silanes and Andrei Shleifer. “Corporate Ownership Around the World.” *The Journal of Finance* 54, no. 2 (1999): 471-517. <https://www.jstor.org/stable/2697717>; Corporate Governance Guidance and Principles for Unlisted Companies in the UK 2010; Corporate Governance Code for Large Privately-Owned Companies.



companies should establish family governance mechanisms that promote coordination and mutual understanding amongst family members, as well as organize the relationship between family governance and corporate governance". It also gives some hints for this in the form of key points (e.g., the choice of family governance processes will depend on the size of the business, the number of family members, and the degree of involvement of family members in the business).<sup>130</sup> One can see that certain sustainability issues will depend on the family enterprise itself, smaller ones do not necessarily have such an impact on their surroundings compared to larger enterprises, however, smaller ones can also give valuable contributions, and solutions to problems arising from internal mechanisms.

ESG is connected with a sustainable approach to the economic future of the business, and CP with the contribution to local communities. "Despite some 600 environmental, social and governance (ESG) frameworks being in use today, creating an 'alphabet soup' of different approaches that generate confusion, some companies have got on with the work and driven their own ESG agenda."<sup>131</sup> Family enterprises take carbon emissions as seriously as other firms, and produce lower emissions where firms face a greater risk of climate policy tightening.<sup>132</sup> For family enterprises, embracing ESG can be a vital strategy for ensuring long-term success and continuity.<sup>133</sup> The first step is to establish a clear understanding of the enterprise's ESG goals and objectives; family enterprises must also develop a comprehensive ESG strategy that outlines the enterprise's approach to addressing these issues. This should include specific targets and key performance indicators to measure progress and ensure accountability. Communication is also an essential element of any successful ESG strategy. Family enterprises need to be transparent about their ESG goals, performance and progress, both internally and externally. This might involve developing a dedicated ESG report or incorporating ESG information into the enterprise's annual report.<sup>134</sup> Creation of the annual report is not only a best practice to be followed, but will become soon mandatory due to CSRD.<sup>135</sup> This Directive has been implemented in Hungary and, based on it, large, medium and small enterprises covered by the scope of the relevant

<sup>130</sup> "Corporate Governance Guidance and Principles for Unlisted Companies in Europe." [https://ecoda.eu/wp-content/uploads/2019/08/GUIDANCE\\_-\\_2010\\_CG\\_for\\_Unlisted\\_-\\_EU.pdf](https://ecoda.eu/wp-content/uploads/2019/08/GUIDANCE_-_2010_CG_for_Unlisted_-_EU.pdf).

<sup>131</sup> „How family enterprises are embracing sustainability". [https://www.ey.com/en\\_gl/insights/family-enterprise/how-family-enterprises-are-embracing-sustainability](https://www.ey.com/en_gl/insights/family-enterprise/how-family-enterprises-are-embracing-sustainability).

<sup>132</sup> Dyck, I. J. Alexander, Karl V. Lins, Lukas Roth, et al. "Family-Controlled Firms and Environmental Sustainability: All Bite and No Bark." *ECGI Working Paper Series in Finance*, no. 983 (2024). 5. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4829162](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4829162).

<sup>133</sup> Moreira, Fernando. "Embracing ESG: How Family Businesses Can Implement Sustainable Strategies for Long-Term Success." (2023). <https://www.linkedin.com/pulse/embracing-esg-how-family-businesses-can-implement-success-moreira>.

<sup>134</sup> Moreira, Fernando. "Embracing ESG: How Family Businesses Can Implement Sustainable Strategies for Long-Term Success." (2023). <https://www.linkedin.com/pulse/embracing-esg-how-family-businesses-can-implement-success-moreira>.

<sup>135</sup> Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

details have to produce a complex report.<sup>136</sup>

Concerning CP, family enterprises have all the features laid out in subchapter 2.4. The aim of these enterprises is the pursuit of their common business-like economic activities in order to earn a living to support family members. However, these family enterprises can also serve another purpose. Family enterprises can play an important role in retaining the rural population and play a key role in the economy, improving the social and cultural situation of the area in which they operate, thus becoming an integral part of the social fabric of their region.<sup>137</sup> The bigger the family enterprises, the more responsible these enterprises should be, since the smaller (family or non-family) enterprises may follow them. Of course, the influential non-family enterprises can also serve as an example: what puts more responsibility on family enterprises is the fact that a family, a smaller community is linked to the enterprise.

In the Corporate Purpose approach, there are enterprises that combine and harmonize their for-profit and non-profit goals, these are social enterprises. Social enterprises have business, environmental and social goals: their main purpose is to make social change in a financially sustainable way.<sup>138</sup> Some of these social enterprises successfully maximize improvements in social well-being,<sup>139</sup> and among these we can find also family businesses,<sup>140</sup> for example, Two Blind Brothers.<sup>141</sup>

The notion of socio-emotional wealth (SEW) postulates that decisions made by a family are not determined by economic logic to the same degree as non-family enterprises.<sup>142</sup> SEW is seen as a distinguishing marker that differentiates family

<sup>136</sup> See Act CVIII of 2023 on the rules of corporate social responsibility, taking into account environmental, social and governance aspects, to promote sustainable finance and unified corporate responsibility, and amending other related laws.

<sup>137</sup> Kalss, Susanne and Stefan Probst. *Familienunternehmen*. [Family enterprises] Manzsche Verlags- und Universitätsbuchhandlung, 2013. 302; Dúl, János and Nagy Barna Krisztina. "Az öröklési szerződés szindikátusi szerződéskénti alkalmazhatósága a társasági jogban mint népességmentartó tényező." [The applicability of the contract of inheritance per syndicate contract in company law as a factor of population retention] In *A Magyar Tudomány Napja a Délvidéken (2016): A vidék népességmentartó erejének fokozását elősegítő társadalmi, jogi és természeti tényezők* [The Day of Hungarian Science in Délvidék (2016): Social, legal and natural factors contributing to the enhancement of rural population retention] edited by József Szalma. Dialóg Campus Kiadó, 2018. 235-254; Vágány, Judit Bernadett. „Generational Change in Family Farms and the Situation of Arable Land, as a Factor of Production, in Hungary.” *Acta Polytechnica Hungarica* 20, no. 10 (2023): 127-43. 128.

<sup>138</sup> "Social enterprise." [https://en.wikipedia.org/wiki/Social\\_enterprise](https://en.wikipedia.org/wiki/Social_enterprise).

<sup>139</sup> "Social Enterprise: What It Is, How It Works, and Examples." <https://www.investopedia.com/terms/s/social-enterprise.asp>.

<sup>140</sup> Randolph, Robert V., Benjamin N. Alexander, Kristen Madison, et al. "When Family Business Meets Social Enterprise: An Integrative Review and Future Research Agenda." *Family Business Review* 35, no. 3 (2022): 219-45. <https://doi.org/10.1177/08944865221100374>.

<sup>141</sup> Morgan, Blake. "20 Companies That Use Their Profits For Social Goals." *Forbes* 2021, October 26. <https://www.forbes.com/sites/blakemorgan/2021/10/26/20-companies-that-use-their-profits-for-social-go-od/>.

<sup>142</sup> Chalkasra, Lolita S. P. S., John Paolo R. Rivera, Dynah Avigail T. Basuil. "A Review of Theoretical Perspectives on CSR among Family Enterprises." *Vision* 23, no. 3 (2019): 225-33. 229. <https://doi.org/10.1177/0972262919860966>; Lobo, Kris G., Rivera, John Paolo R. Rivera and Babak Hayati. "A Non-parametric Analysis of Emotional Intelligence among Family Businesses in the Philippines." *Vision*, OnlineFirst (2022). <https://doi.org/10.1177/09722629221092138>.

enterprises from non-family enterprises. SEW is an all-encompassing approach that captures the *emotional endowment* of family owners, including the drive that is strongly present in family enterprises to preserve family interests within the firm at all costs.<sup>143</sup> The concern for image and reputation as a way to protect their SEW will make family firms more likely to be responsive to stakeholder (the environment, the community and customers) demands and are then likely to engage with them. Family firms are likely to pursue CSR to preserve SEW as a strategic choice or form of social insurance for business sustainability.<sup>144</sup> It can be seen also as a strategic tool in brand building.<sup>145</sup>

#### 4. Agricultural issues in Hungary in the light of CSR

##### 4.1. Agriculture and family enterprises

The relationship between agriculture and family enterprises is also strong: family-run farms and agricultural cooperatives play an active role in the economic make-up of rural areas. Membership of cooperatives and professional organisations is very important for their stability and flexibility. Farms preserve cultural heritage and the rural way of life, they densify social life in the countryside, they generate high-value products, they adopt a sustainable approach to natural resources and ensure that ownership in rural areas is widely dispersed.<sup>146</sup> “Family farming can be viewed as an extreme case, with specificities such as strong emotional attachment to the farm, strong ties between family members, the combination of business and family residency, embedded traditional roles, property that is difficult to divide”.<sup>147</sup>

The European Economic and Social Committee (EESC) stated in an opinion that bringing family-owned companies to capital markets would open up untapped potential to attract capital for growth, and the multiple-voting rights regime would help

<sup>143</sup> Baros-Tóth, Ágnes. “Mi is az a családi vállalkozás? – A családi vállalkozások meghatározásának problematikája.” [What is a family enterprise? – The problem of defining family enterprises] *Tudásmenedzsment* 23, no. 2 (2022): 68-81. 73. <https://doi.org/10.15170/TM.2022.23.2.6>; Dressler, Jonathan B. and Loren Tauer. „Socioemotional wealth in the family farm.” *Agricultural Finance Review* 75, no. 3 (2015): 403-15. <https://doi.org/10.1108/AFR-12-2014-0039>.

<sup>144</sup> Chalkasra, Lolita S. P. S., John Paolo R. Rivera, Dynah Avigail T. Basuil. “A Review of Theoretical Perspectives on CSR among Family Enterprises.” *Vision* 23, no. 3 (2019): 225-33. 229. <https://doi.org/10.1177/0972262919860966>; Kárpáti, Daniel, Luc Rennebog and Jeroen Verbouw. „The Family Firm. A Synthesis, Stylized Facts, and Future Research Directions.” *ECGI Working Paper Series in Finance Working Paper*, no. 908 (2023). 10-1. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4412158](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4412158).

<sup>145</sup> Mir, Maroof Ahmad and Anubhuti Dwivedi. „CSR Communication and Purchase Intentions: Analysing the Dynamic Consumer Psychology Process.” *Vision*, OnlineFirst (2023). <https://doi.org/10.1177/09722629231197289>.

<sup>146</sup> Opinion of the European Economic and Social Committee on ‘Land grabbing—a warning for Europe and a threat to family farming’ (own-initiative opinion) (2015/C 242/03) 5.4.1.

<sup>147</sup> Matser, Ilse, Jelle Buoma and Erik Veldhuizen. „No hard feelings? Non-succeeding siblings and their perceptions of justice in family firms.” *Journal of Family Business Management* (2020). <https://doi.org/10.1108/JFBM-09-2018-0048>; Glover, Jane L. “Gender, power and succession in family farm business.” *International Journal of Gender and Entrepreneurship* 6, no. 3 (2014): 276-95. 278-9. <https://doi.org/10.1108/IJGE-01-2012-0006>.

families to retain control, making listing more attractive to them. The EESC agrees that a detailed framework design should be produced at the national level, while encouraging high-level EU harmonisation. A new generation of Europeans are entering the retail investment market with sustainability (i.e., ESG-based factors) on their minds. At the same time, many economic agents are moving towards green goals, encouraged by European Green Deal policies. The EESC sees this combination of factors as a potentially strong driver in unlocking the full potential of the European sustainable finance taxonomy and corporate non-financial disclosure framework.<sup>148</sup> This policy is important for the European Union's Corporate Sustainability Reporting Directive (CSRD)<sup>149</sup> and a directive on consumer protection in connection with green transition<sup>150</sup> fits in this line.<sup>151</sup>

The agriculture policy of Hungary has strong connections to the EU's Common Agriculture Policy (CAP) due to its EU membership.<sup>152</sup> One of the latest developments in this issue is the initiation of the public consultation of the draft call for proposals "Investments for land-use change and their maintenance" under the Strategic Plan of the CAP for Hungary. As one can read in the press release, the main objectives of the call are to enhance the ecosystem services provided by agricultural land, to halt and reverse biodiversity loss by improving habitats for pollinators, or to protect against soil erosion, among other things. The realisation and maintenance of improvements serve not only environmental and nature conservational values, but also sustainable agricultural production.<sup>153</sup>

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<sup>148</sup> Opinion of the European Economic and Social Committee on the 'Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/65/EU to make public capital markets in the Union more attractive for companies and to facilitate access to capital for small and medium-sized enterprises and repealing Directive 2001/34/EC' (COM (2022) 760 final – 2022/0405 (COD)) 1.2. and 3.8.

<sup>149</sup> Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No. 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

<sup>150</sup> Directive (EU) 2024/825 of the European Parliament and of the Council of 28 February 2024 amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and through better information.

<sup>151</sup> Opinion. European Economic and Social Committee. Listing rules for public markets (Listing act).

<sup>152</sup> "Milyen lehetőségei vannak egy agrárvállalkozásnak, ha pénzre van szüksége?" [What options an agribusiness has when it needs money?] <https://kap.mnhv.eu/news/2024-03-05/153510/milyen-lehetosegei-vannak-egy-agrарvallalkozasnak-ha-penzre-van-szuksege>; Szilágyi, János Ede. "Változások az agrárjog elméletében?" [Changes in agricultural law theory?] *Miskolci Jogi Szemle* 11, no. 1 (2016): 30-50; Olajos, István. "A gazdasági fenntarthatósági szempontok a magyar agrárgazdaság fejlesztésére irányuló kap stratégia terv közvetlen támogatásaiban." [Economic sustainability aspects in the direct subsidies of the CAP strategy plan for the development of the Hungarian agricultural economy] In *A fenntarthatóság holisztikus megközelítésben* [A holistic approach to sustainability] edited by Mariann Veresné Somosi and Tamás Sikos T. Akadémiai Kiadó, 2023.

<sup>153</sup> <https://www.nak.hu/tajekoztatasi-szolgalatas/kozos-agrарpolitika/107253-megkezdodott-magyarorszag-kozos-agrарpolitika-kap-strategiai-terve-alapjan-a-foldhasznalat-valtast-elosegito-beruhazasok-es-azok-fenntartasa-cimu-palyazati-felhivas-tervezetenek-tarsadalmi-egyeztetese>.

## 4.2. Family farming

The most important definition in agriculture issues is that of family farming.<sup>154</sup> Based on the Food and Agriculture Organisation (FAO) concept, “[f]amily farming includes all family-based agricultural activities. It is an integral part of rural development. Family farming is agricultural, forestry, fisheries, pastoral and aquaculture production managed and operated by a family and is predominantly reliant on family labour, including both women’s and men’s.”<sup>155</sup> Family farms have significant roles in eradicating hunger and shaping our future of food, therefore, the FAO declared 2019-2028 as the UN Decade of Family Farming.<sup>156</sup> It even defined 7 pillars which are in line with the United Nations Sustainable Development Goals (SDGs),<sup>157</sup> the second relates to supporting youth and ensuring the generational sustainability of family farming. One of the possible ways of reaching this goal is to ensure that the youth have access to land and other natural resources, information, education, infrastructure, and financial services.<sup>158</sup>

The European Parliament’s resolution noted that according to the Commission’s Entrepreneurship 2020 Action Plan,<sup>159</sup> the transfer of business ownership, together with the transfer of management from one generation to the next, are the greatest possible challenges facing family businesses.<sup>160</sup> The European Parliament also noted that, because land is owned, family farms are rooted in a particular location; it also drew attention to the important role that women play in running family farms, calling on Member States to support business training aimed specifically at women farmers, in order to strengthen women’s involvement in family farming still further.<sup>161</sup> Such measures could enhance social justice by involving the whole family in farming, thus potentially establishing even stronger connections.

The European Economic and Social Committee mentioned in an opinion statement in 2015 that several Member States have adopted specific laws on family

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<sup>154</sup> For general issues for family farms in the world see Graeb, Benjamin E., M. Jahi Chappell, Hannah Wittman Ledermann, et al. „The State of Family Farms in the World.” *World Development* 87, November (2016): 1-15, <https://doi.org/10.1016/j.worlddev.2015.05.012>.

<sup>155</sup> “Introducing the UN Decade of Family Farming.” <https://www.fao.org/family-farming-decade/about/en/>.

<sup>156</sup> “Introducing the UN Decade of Family Farming.” <https://www.fao.org/family-farming-decade/about/en/>.

<sup>157</sup> “Sustainable Development Goals.” [https://unis.unvienna.org/unis/en/topics/sustainable\\_development\\_goals.html](https://unis.unvienna.org/unis/en/topics/sustainable_development_goals.html).

<sup>158</sup> “A global action plan to work together for common goals.” <https://www.fao.org/family-farming-decade/pillars/en/>.

<sup>159</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Entrepreneurship 2020 Action Plan. Reigniting the entrepreneurial spirit in Europe; see also: P6\_TA(2009)0100 European Parliament resolution of 10 March 2009 on the Small Business Act (2008/2237(INI)) 2010/C 87 E/11 40.

<sup>160</sup> Resolution, 2015. 17.

<sup>161</sup> Resolution, 2015. 38. P8\_TA(2017)0099 Women and their roles in rural areas. European Parliament resolution of 4 April 2017 on women and their roles in rural areas 2016/2204(INI)) (2018/C 298/02); P6\_TA(2009)0100 European Parliament resolution of 10 March 2009 on the Small Business Act (2008/2237(INI)) 2010/C 87 E/11 11-13. and 40.

enterprises, among which Hungary has adopted a definition of family-owned agricultural businesses.<sup>162</sup> This definition was most likely to be the term *family farm* in Act CXXII of 2013 concerning agricultural and forestry land trade; in 2020 a single act was adopted on family farms (Act CXXIII of 2020). Based on this Act, family farm is a production community established by at least two organic farmers who are related to each other;<sup>163</sup> it does not have legal personality or assets separate from its members, and within which the members carry out their farming activities on their own holding jointly and in a coordinated manner, based on the personal contribution of all members.<sup>164</sup> There is also a family agricultural enterprise concept in this Act: a family agricultural enterprise is a company, a cooperative, or a forest management company which is entered into the register of family agricultural enterprises and which is engaged exclusively in agricultural, forestry or complementary activities as defined in the Land Traffic Act, and which has at least two members who are related to each other.<sup>165</sup>

Rural livelihoods are the mainstay of the countryside, but are greatly hampered by the ageing of the population concerned, and also by the distancing of young people from traditional professions, which for them appear to be obsolete. However, given the general trends and shifts in emphasis, they must be linked to the service sector in order to be sustainable. This is why the state has also started to promote and support what are known as complementary farm activities,<sup>166</sup> such as rural tourism, promoting catering, the development of accommodation facilities, the creation of experience farms, and other innovative ideas.<sup>167</sup>

### 4.3. The relationship between CSR and succession of family farms in Hungary

In Hungary, CSR, CG, ESG and CP can also serve as an instrument for brand building and for responsible business across family generations. There are many options for inheriting a family business:<sup>168</sup> the law provides special contractual opportunities for Hungarian family agricultural farms.

Dealing with generational issues and making the change of agricultural generations smoother in order to ensure the continuity of safe food production has

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<sup>162</sup> 2016/C 013/03 3.2.

<sup>163</sup> Act CXXIII of 2020 on family farms Article 2 b) chain of relatives: ba) close relatives according to Article 8:1 (1) 1. of the Civil Code, bb) relatives of persons referred to in subsection (ba), and bc) lineal relatives of persons referred to in subsection bb) of the persons concerned.

<sup>164</sup> Act CXXIII of 2020 on family farms Article 6 (1).

<sup>165</sup> Act CXXIII of 2020 Art. 14 (2); Vágány, Judit Bernadett. „Generational Change in Family Farms and the Situation of Arable Land, as a Factor of Production, in Hungary.” *Acta Polytechnica Hungarica* 20, no. 10 (2023): 127-43.

<sup>166</sup> Act CXXIII of 2020 Article 2 c).

<sup>167</sup> Legény, Lili. “A mezőgazdaság alappillérei: a családi gazdaságok.” [The pillars of agriculture: family farms] <https://arsboni.hu/a-mezogazdasag-alappillerei-a-csaladi-gazdasagok/>.

<sup>168</sup> From global approach: Yew, Lee Kean. “A Conceptual Framework for Tacit Knowledge Transformation in Family Business: A Case Study Plastic Family Firm in Malaysia.” *Vision*, OnlineFirst (2023). <https://doi.org/10.1177/09722629231212308>.

fundamental importance for the future of Hungarian agriculture.<sup>169</sup> Therefore, the Hungarian Parliament created a law (Act CXLIII of 2021 on transfer of agricultural holdings) with the aim of making agricultural farms individual assets<sup>170</sup> to facilitate their transmission to the next generation in such a way that by preserving the diversity of agriculture and by strengthening its adaptability, the efficiency and functionality of the agricultural economy is ensured and help is given to balance the income conditions of those farmers who start, operate and develop agricultural farming. The transfer of an agricultural farm takes place by means of a contract concluded between the transferor<sup>171</sup> and transferee<sup>172</sup> of the farm, for which there are four types of contract at their disposal: farm transfer sale contract, farm transfer gift contract, farm transfer maintenance contract, and farm transfer life annuity contract.<sup>173</sup> In the case of the latter three types of contracts, if the parties agree on the transfer of agricultural and forestry land ownership, only close relatives may conclude it.<sup>174</sup>

On the basis of the farm transfer sale contract the transferor is obliged to transfer

<sup>169</sup> Justification of Act CXLIII of 2021 on transfer of agricultural holdings.

<sup>170</sup> Act CXLIII of 2021 on transfer of agricultural holdings Section 2 a) agricultural farm: serving the operation of the agricultural farm, aa) agricultural and forestry land owned or used by the farm transferor, including the homestead; ab) other property owned or used by the farm transferor and necessary for the continuation of agricultural and forestry activities real estate; ac) movable property owned or used by the transferor of the farm, necessary for carrying out agricultural and forestry activities things for which the transferor of the farm is entitled to organize production, as well as - seed-wage production, wage cultivation, with the exception of wage fattening and the keeping of outsourced animals – the right to use the results of production; ad) property rights relating to or encumbering the farm transfer, related to agricultural and forestry activities; ae) a share in the assets of the business association related to the agricultural and forestry activities carried out on the farm, cooperative share in a cooperative, cooperative interest in a forest management company, and af) rights and obligations related to assets specified in points aa)-ae).

<sup>171</sup> Act CXLIII of 2021 on transfer of agricultural holdings Section 2 b) farm transferor: a primary agricultural producer or an individual entrepreneur engaged in agricultural and forestry activities who has reached the retirement age or within 5 years from the conclusion of the contract, who ba) has been engaged in agricultural and forestry activities in his own name and at his own risk for at least 10 years, or additional activity and proven sales revenue derived from it, as well as bb) more than three-quarters of the area of agricultural and forestry land defined in the farm transfer contract land user registered in the land use register for at least 5 years, forest manager registered for at least 5 years in the registry of forest managers or the owner of a business association (companies) registered as such, or bc) a legal heir of a primary agricultural producer or individual entrepreneur who meets the conditions specified in subparagraphs ba) and bb).

<sup>172</sup> Act CXLIII of 2021 on transfer of agricultural holdings Section 2 c) transferee of a farm: a primary agricultural producer who is at least ten years younger than the transferor of the farm, who has not reached the age of 50, or an individual entrepreneur engaged in agricultural and forestry activities, who is required by law to operate the farm he wants to take over meets the prescribed conditions and who ca) is in a chain of relatives with the transferor of the farm as defined in the act on family farms, or cb) has been in an employment relationship or other legal relationship for employment with the farm transferor for at least 7 years. See also Act CXLIII of 2021 on transfer of agricultural holdings Section 3 (6).

<sup>173</sup> Kiss, Tibor. "The Contract on the Transfer of Agricultural Holdings." *Acta Universitatis Sapientiae Legal Studies* 12, no. 1 (2023): 97-120. <https://doi.org/10.47745/AUSLEG.2023.12.1.07>; Dúl, János. "Az agrárgazdaságok átadásáról szóló törvény egyes magánjogi aspektusai." [Certain private law aspects of the law on the transfer of agricultural holdings] *Debreceni Jogi Műhely* 20, no. 1-2 (2023): 65-97. <https://doi.org/10.24169/DJM/2023/1-2/4>.

<sup>174</sup> Act CXLIII of 2021 on transfer of agricultural holdings Section 9 (2).

ownership and proprietary rights of the farm, the transferee accepts a commitment to pay the purchase price and take over the farm.<sup>175</sup> Based on the farm transfer gift contract the transferor is required to transfer ownership and proprietary rights of the farm free of charge, the transferee is obliged to take over the farm.<sup>176</sup> The farm transfer maintenance contract means that the transferor has an obligation to transfer ownership and proprietary rights of the farm, the transferee is obliged to provide maintenance and care appropriate to her/his circumstances and needs until the death of transferor or the person designated by the transferor.<sup>177</sup> Under farm transfer, the life annuity contract is understood as the transferor being obliged to transfer ownership and proprietary rights of farm, the transferee is required periodically to provide a specified amount of money or another fungible thing until the death of the transferor.<sup>178</sup> According to the decision of the parties, each type of these contracts can be used in combination (a mixed contract).<sup>179</sup>

The close relationship, trust and cooperation between the transferor and the transferee is thus realized with the farm transfer maintenance and life annuity contracts, thereby better ensuring the operation of a sustainable farm spanning generations. These two contracts are linked to the family business (to the farm) for both parties:

- with the farm transfer maintenance contract the maintenance obligee (transferee) provides housing (residence, water, electricity, heating, etc.) on the farm, supplies food, clothing, and care (for cooking, washing, dishwashing, cleaning, etc.) on the farm, covers nursing and treatment in case of illness (procurement of medicines, medical examination and treatment, etc.) on the farm, and appropriate burial in the event of death (costs of a local funeral and burial site) of the transferor; and receives work and business management opportunities in return;

- with the farm transfer life annuity contract the annuity serves the same purpose as maintenance: the transferor's livelihood in the farm; and

- the transferee, who receives work and business management opportunities in return, can also use the knowledge and contact system of the transferor during the operation of the farm.<sup>180</sup>

The Hungarian legislator did not make it possible to conclude a family farm transfer contract in the event of death, in the frame of a contract of inheritance. In a contract of inheritance, the *testator* names the party contracting with her/him as her/his heir to inherit her/his property, a certain part of it or specific assets against maintenance, life annuity or care provided for the testator or a third party indicated in the contract,

<sup>175</sup> Act CXLIII of 2021 on transfer of agricultural holdings Section 3 (2) a).

<sup>176</sup> Act CXLIII of 2021 on transfer of agricultural holdings Section 3 (2) b).

<sup>177</sup> Act CXLIII of 2021 on transfer of agricultural holdings Section 3 (2) c).

<sup>178</sup> Act CXLIII of 2021 on transfer of agricultural holdings Section 3 (2) d).

<sup>179</sup> Act CXLIII of 2021 on transfer of agricultural holdings Section 3 (4).

<sup>180</sup> Papp, Tekla. "A tartási és életjáradéki szerződések statikája." [Statics of maintenance and life annuity contracts] In *H TEXNH MAKPH: Ünnepi tanulmányok Kecskés László 70. születésnapja tiszteletére* [L'art is remaining: Studies in honour of the 70th birthday of László Kecskés] edited by József Benke. Kontraszt Plusz Kft., 2023. 297-310; Papp, Tekla. "Variációk alimentációs kötelmekre." [Variations on Alimony Obligations] *Pro Publico Bono – Magyar Közigazgatás* 11, no. 1 (2023): 118-35. <https://doi.org/10.32575/ppb.2023.1.7>.



and the other party commits him/herself to perform maintenance, life annuity, or care.<sup>181</sup> In the case of a contract of inheritance the heir could operate and governance the family farm as her/his reversion, together with the transferor (testator). This contract would enable joint work for the transferee with the transferor who is in a good state of health, while the farm transfer maintenance and life annuity contracts suppose the ensurance of the transferor's subsistence.

Looking at the issue from a different perspective, competition law can also support the succession of family businesses, including family farms. The HCA greatly facilitates the generational change of family businesses<sup>182</sup> through its so-called Merger Notice.<sup>183</sup> Concentrations between independent businesses must be notified to the HCA if the parties' net turnover in the previous financial year exceeds the thresholds set out in the Hungarian Competition Act. The Merger Notice clarifies when close relatives as natural persons are not independent businesses, i.e., then they may not announce the transactions (including succession) between them to the HCA. On the one hand, if close relatives have joint control in several companies, then the controlled entities are not independent of each other.<sup>184</sup> On the other hand, if not all close relatives have voting rights in each undertaking, then the HCA states that the businesses are not independent of each other either.<sup>185</sup> This is the case, for example, when 2 close relatives independently control 2 different business associations. However, this is only the general rule, against which counter-evidence is possible.<sup>186</sup> The interpretation of the HCA is in line with European case law: the HaTeFo case,<sup>187</sup> the NUW Biofuel case<sup>188</sup> and the Pollmeier Malchow v Commission case.<sup>189</sup> Thanks to this, competition law does not create an obstacle to the succession of the family business.

Succession in agriculture has a particular relevance in Hungary. According to

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<sup>181</sup> HCC Section 7:48 (1).

<sup>182</sup> Bodócsi, András, Judit Buránszki, Attila Dudra, et al. "A magyar fúziós eljárásjog 2010 óta tartó fejlesztése." [The development of Hungarian merger procedural law since 2010] *Versenytükör* 17, no. 1 (2021): 14-23. 21; Tóth, András. *Kortárs magyar versenyjog*. [Contemporary Hungarian competition law] Ludovika Egyetemi Kiadó, 2022. 31.

<sup>183</sup> Notice No. 2/2023 of the Hungarian Competition Authority on certain judicial issues in merger control proceedings (hereinafter: Merger Notice).

<sup>184</sup> Paragraph 81 of the Merger Notice refers to Article 15(1) of the Hungarian Competition Act, which states that undertakings which are controlled by the same undertakings are not independent.

<sup>185</sup> Paragraph 82 of the Merger Notice states that "[a] reasonable presumption [...] also for such a situation is that, in view of the relationship of close relatives considered relevant by the Civil Code, the close relatives take (and can take) decisions determining the market conduct of such undertakings in concert with each other." With this interpretation the HCA confirms the reasoning of an earlier decision (Cf. Vj-99/2016.).

<sup>186</sup> Paragraph 83 of the Merger Notice.

<sup>187</sup> Judgment of the Court (Seventh Chamber) of 27 February 2014 (request for a preliminary ruling from the Bundesfinanzhof—Germany)—HaTeFo GmbH v Finanzamt Haldensleben, C-110/13., ECLI:EU:C:2014:114, CELEX number: 62013CA0110.

<sup>188</sup> Commission Decision of 7 June 2006 on State Aid No C 8/2005 (ex N 451/2004) which Germany is planning to implement for Nordbrandenburger UmesterungsWerke, C 8/2005., CELEX number: 32006D0904.

<sup>189</sup> Judgment of the Court of First Instance (Fourth Chamber, extended composition) of 14 October 2004—Pollmeier Malchow GmbH & Co. KG v Commission of the European Communities, T-137/02., ECLI:EU:T:2004:304, CELEX number: 62002TJ0137.

the data of the 2020 Agricultural Census Survey conducted by the Hungarian Central Statistical Office (KSH) on behalf of the National Chamber of Agriculture (NAK), 35 per cent of farm managers were aged 65 or over in 2020, while only 10 per cent were under 40. In general, farm managers do not know who they will entrust their business to in the future, and in many cases the children of farmers have chosen completely different career paths.<sup>190</sup>

Act CXXIII of 2020 on family farms entered into force on 1st January 2021 and Act CXLIII of 2021 on the Transfer of Agricultural Holdings (Farm Transfer Act) entered into force on 1 January 2023. Due to the timing of the entry into force of the acts, there is currently no experience of whether they have really helped to change succession or transfer the CSR approach and the related trends.

## 5. Closing thoughts

Family enterprises play an important role in the economy of every country; all of them are different and have a variety of needs. It could be easier to compare the situation and needs of family enterprises of different sizes, as well as compare family enterprises and non-family enterprises, to promote information and exchanges of examples of know-how and good practice throughout the EU. The establishment of a family business contact point at the Commission is also an aim of the European Parliament. There are some projects in connection with this, we mention 2 projects as examples: one of these is Succession Planning and Regeneration in Family Businesses for New Growth (SPRING). SPRING aims to help EU family enterprises to fulfil their potential by offering them a complete package with the necessary training, mentoring, support and guidance<sup>191</sup>.

The other, SUFABU (Succession in Family Businesses | Training Model for Sustainable Succession Process in Family Businesses) is an EU funded Erasmus+ project that responds to the needs of European family enterprises that currently face the task of intergenerational exchange. The project aims to create a flexible training system focused on the succession process in family enterprises and, at the same time, to raise awareness of the obstacles that family entrepreneurs experience on their way.<sup>192</sup>

Both programs are exceptionally important, because “succession is seen by many authors as the most important issue that family businesses have to cope with. It is also widely agreed that intergenerational transfer is not a single event, but a process that needs to be planned in advance in order to succeed”.<sup>193</sup>

In Hungary, there are already family businesses that do a lot for the community in the economic, ecological, social and cultural fields and constantly strive for

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<sup>190</sup> <https://agrotrend.hu/hireink/generaciovaltas-kapujaban-a-mezogazdasag/>; [https://www.ksh.hu/docs/hu/n/xftp/ac2020/elozetes\\_adatok/index.html#/mezogazdasagi-munkaero](https://www.ksh.hu/docs/hu/n/xftp/ac2020/elozetes_adatok/index.html#/mezogazdasagi-munkaero).

<sup>191</sup> „Succession Planning and Regeneration In Family Businesses for New Growth through an innovative training programme.” <https://www.euspring.eu/>.

<sup>192</sup> „Sustainable Succession in Family Businesses.” <https://www.sufabu.eu/>.

<sup>193</sup> „Overview of family-business-relevant issues, 2009.” 11; Leach, Peter. *Családi vállalkozások*. [Family enterprises] HVG Könyvek, 2018. 243-288.

sustainable activities.<sup>194</sup> Aside from research on Hungarian family enterprises (e.g., by the Budapest LAB Business Development Office), one can find two organisations in Hungary helping them: National Association of Family Enterprises (*Családi Vállalkozások Országos Egyesülete*, abbreviated: CSVOE, CSAVE) and the Hungarian association member of Family Business Network International.

Family enterprises can serve as a guide in implementing the ideas related to CSR. Family enterprises tackle carbon emissions with actions and are not simply interested in producing formal policy statements or engaging in so called *box-checking* exercises. As such, family enterprises appear to truly prioritize material environmental sustainability over the mere appearance of that.<sup>195</sup>

The taxonomy regulation<sup>196</sup> and the CSRD directive<sup>197</sup> of the European Union will certainly increase the sustainable operation of family enterprises existing predominantly as small and medium-sized enterprises in Hungary as well. We trust that the potential conflict of public policy interests related to family businesses through legislation will be resolved by juridical and legal practice, and that sustainably operating and socially sensitive family businesses will become the majority in Hungary as well.

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<sup>194</sup> “Everyday sustainability.” [https://zwackunicum.hu/files/cegunk\\_fenntarthatosag-napjainkban\\_\\_sustainability-report---1-august-2013\\_en\\_1384528367/Fenntarthat%C3%B3s%C3%A1g\\_2020\\_21\\_en.pdf](https://zwackunicum.hu/files/cegunk_fenntarthatosag-napjainkban__sustainability-report---1-august-2013_en_1384528367/Fenntarthat%C3%B3s%C3%A1g_2020_21_en.pdf).

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<sup>195</sup> Dyck, I. J. Alexander, Karl V. Lins, Lukas Roth, et al. “Family-Controlled Firms and Environmental Sustainability: All Bite and No Bark.” *ECGI Working Paper Series in Finance*, no. 983 (2024). 27. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4829162](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4829162).

<sup>196</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

<sup>197</sup> Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

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