

# Transparency: an obstacle or benefit to companies in Hungary?



The current situation and future expectations for Sustainable Development based on the opinion of the Signatories of 'The Complex Interpretation of Corporate Sustainability' Recommendation for Business Leaders

**Transparent operations in focus**

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## About the BCSDH

The Business Council for Sustainable Development in Hungary (BCSDH) is the national partner organization of the World Business Council for Sustainable Development (WBCSD). The Swiss-based WBCSD, founded in 1992, is today a CEO-led business organization that works with more than 200 corporations in over 70 countries across the world and deals exclusively with business and sustainable development. The Business Council for Sustainable Development in Hungary was founded in 2007 and currently has 74 corporate members, representing a community of forward-thinking business leaders of companies that contribute 30% of Hungary's GDP. BCSDH, as a CEO-led organisation, mobilises the business sector to drive an economically, socially and environmentally sustainable future. Through its members, the Business Council plays a recognised and guiding role and effectively promotes its standpoint about corporate sustainability by encouraging the creation of constructive business solutions and collaborative action.

More information: [www.bcsdh.hu](http://www.bcsdh.hu)

## About the report and research

The research for this report was carried out with the signatories to BCSDH's The Complex Interpretation of Corporate Sustainability Recommendations, and summarises the outcome of the 2016 survey on the current status, trends and future prospects of corporate sustainability in relation to the survey participants' own practices. This year's special focus is on the transparency of business operations. Besides the opinion of BCSDH's survey respondents, this report includes findings from international research.

68 out of 106 Signatories participated in the survey (64%). Data was collected using electronically distributed, structured questionnaires throughout the summer of 2016. The survey was conducted for the first time in 2013 with the intention of creating an ongoing tradition, and our organisation carried out the fourth iteration of the survey in 2016. The survey is neither statistically valid nor representative but it highlights the opinions of company leaders who are shaping approaches to local sustainability through their commitment and activities.

This report includes a narrower selection of the findings for 2016. The full report and a detailed list of references can be found on our website.

More information: <http://bcsdh.hu/topics/recommendation-for-business-leaders/>

# List of Respondents



# The Complex Interpretation of Corporate Sustainability

## Strategic approach

The management of a company that interprets sustainability in a complex way should draw up its business strategy by integrating long-term, value-creating economic, environmental and social aspects and should provide the resources necessary for implementing such strategy.

## Responsible management

An executive from the top management level of the company should be appointed to be responsible for its sustainability performance. Each member of management, at every level, should be individually responsible for promoting the sustainable operation of the company. The executive incentive scheme should include environmental and social goals as well as economic ones.

## Ethical operations

The company should operate in a way that respects the law and is ethical (for example, endeavor to be free from corruption and provide fair employment). The behavior expected should be recorded in writing, resources should be provided for implementation and enforcement and the policy should extend to all stakeholders.

## Respect for human values

The company should consider the protection of human life and safety, equality and the right to a healthy environment to be basic values and should take them into consideration when business decisions are made.

## Environmental responsibility

The life cycle approach, as well as both economic profit and environmental impact, should inform decisions made by the company. The company should be committed to environmental sustainability and should extend this responsibility to the entire supply chain (suppliers, partners and customers).

## Partnership with stakeholders

The company should cooperate with its stakeholders and maintain open and bilateral communication with them. When stakeholders are impacted by its operations, the company should aim to create mutual satisfaction and long-term cooperation and partnerships. It should set an example by taking advantage of its size and position. When selecting its business partners, it should consider and prioritize sustainability factors. Through professional organizations and extensive cooperation, the company should endeavor to integrate into its operations the sustainability principles of regulatory processes and policies.

## Transparent operations

The company should collect reliable data and information about its activities, economic, environmental and social impacts and performance on an ongoing basis. The information should be made available and the company should inform its partners in a regular and credible way.

*The present recommendation has been drafted by the Business Council for Sustainable Development in Hungary in cooperation with business leaders and sustainable development experts.*

## Message from the President



One important mission of the Business Council for Sustainable Development in Hungary (BCSDH) is to conduct an annual survey among the companies that have signed the recommendation entitled The Complex Interpretation of Corporate Sustainability, from which current sustainability trends, results and good practices can be identified. We believe that the survey plays an important role in supporting corporate sustainability endeavors because the results call attention to important phenomena. They reflect the experiences, opinions and expectations of Hungary's leading companies in the arena of corporate sustainability and its leaders.

In this year's survey, whenever possible, we attempted to make international comparisons to stimulate local companies to engage in forward-looking activities. Although the evaluation of sustainable development in Hungary lags behind the global average, lots of corporate leaders now have high hopes after the birth of the Paris climate agreement. Together with us, they trust that this public political commitment will be followed by real action, and that climate change will be one of the most defining elements of corporate sustainability in the near future.

I am convinced that the climate protection agreement ratified by state leaders will further incentivize the corporate sector and strengthen the belief of companies in their own responsibility. As the most flexible and action-ready entities, these companies will continue to see themselves as the key players in driving sustainability. It is great to see that companies would also like to further their sustainable and responsible business operations to this end. It is also positive to know that – based on the results of the survey – the main goal of companies' sustainability strategies is value creation; however, I believe that the goal would be better harmonised with strategy and business if it were complemented by the more active management of business risks and opportunities, just as happens in international practice. I think it is also important that, besides identifying the external drivers of sustainability, we have been able to identify a number of critical internal factors, the conscious development of which can further promote the transition to a sustainable economy.

During the previous two years, examining the strategic approach and the implementation of responsible corporate governance were the focus of our survey. This year, the core topic is transparent operations. It is no secret that, for me, increasing the internal and external transparency of corporate governance is a basic principle, and this belief is further strengthened by the fact that I share this conviction with the majority of BCSDH's membership. I trust that by sharing good practice that supports more transparency, and through our shared awareness-raising work, we can strengthen the external and internal factors through which the growing number of BCSDH members can really make the best of their potential for development and maximize the business and social advantages that can be gained from increasing transparency. I am confident that non-financial reporting will become better supported as well, and not primarily because of the EU initiatives regarding mandatory reporting, but because it can be an excellent tool for fostering corporate development and increasing stakeholder cooperation.

The results of this survey and the professional work of the whole organization support my conviction that the seven points of the Recommendation for Business Leaders genuinely relate to priority areas and tasks. I trust that through our work, especially the Action 2020 Hungary program, we will be able to identify and demonstrate real business solutions to companies committed to sustainability.

Attila Chikán Jr., President, Business Council for Sustainable Development in Hungary

# Trends

## Improving trends

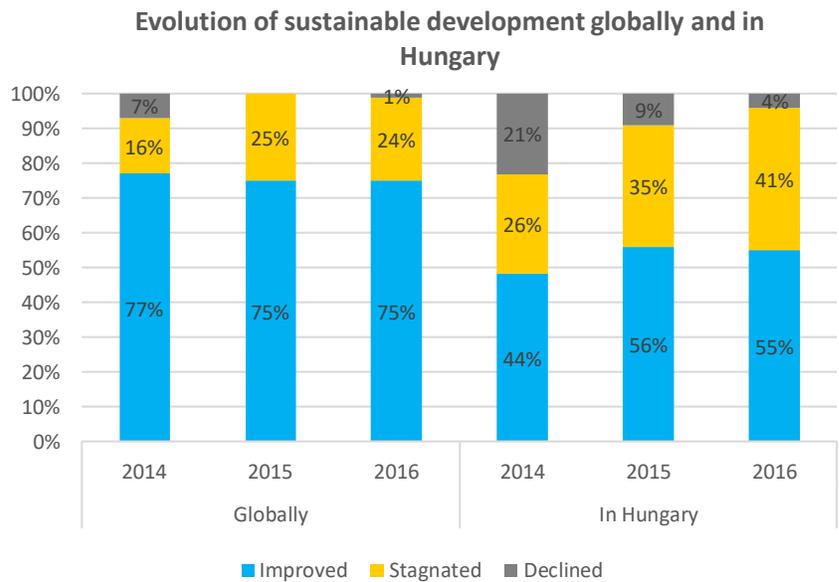
Respondents still see improvements and development in Sustainability, both globally and in Hungary. 75% have noticed an improvement in global trends in this direction, and 55% saw improvements in the domestic sphere. Many respondents stated that sustainable and responsible operations are now substantial components of leading companies' strategies and daily business operations. Confirming this, international policy-makers and opinion leader organizations also introduced further initiatives last year. The EU directives and related laws become more and more strict, governments are determined to act on climate change and influence corporate sustainability in a positive direction.

Compared to the global trends, respondents report a decline in the Hungarian business situation.

## Sustainable development globally and in Hungary



While in global terms a clear improving trend is detected by the respondents, only half of respondents see the same in Hungary, but overall Hungarian trends are evaluated positively. The majority of CEOs say, that readical breakthrough has not been yet on company level, but the Paris Climate Agreementtt may take a positive turn, and strengthen the situation in our country. Many of the survey participants argued that Hungary is still seen as a 'follower country' in which innovation and considering the long-term perspective are still in their infancy.



## The most important factors determining sustainability

DRIVERS	OBSTACLES
<ul style="list-style-type: none"> <li>✓ Paris Climate Agreement</li> <li>✓ EU Directive on compulsory non-financial reporting</li> <li>✓ Energy audit legislation</li> <li>✓ Sustainable Development Goals</li> <li>✓ Improve communication with stakeholders</li> <li>✓ Dissemination of business solutions (sustainable, shared and circular economy and business models)</li> <li>✓ Increasing demand for sustainable product, processes and certifications</li> <li>✓ Awards and certifications</li> <li>✓ More and more SMEs become sustainable beyond bigger companies</li> <li>✓ The recognition that sustainability is something additional, but part of daily business activities, one of the keys to business success</li> <li>✓ Innovation ability and willingness</li> <li>✓ NGO projects, sustainable lifestyle programs</li> <li>✓ Openness and attitude of young generation</li> </ul>	<ul style="list-style-type: none"> <li>✓ Economic policy (taxes and subsidies)</li> <li>✓ Unpredictable business environment, circumstances</li> <li>✓ The lack of cooperation among different sectors (government, business, science, civil)</li> <li>✓ Inactive CEOs</li> <li>✓ Strengthening terrorism and authoritarianism</li> <li>✓ Lack of innovation</li> <li>✓ Short term profit target overwhelm decision making</li> <li>✓ Low range of conscious and responsible consumers</li> </ul>

Motivation of developing corporate sustainability differs among companies. High level environmental solutions can be found at different areas, primarily due to the regulations. The development of technology and industrial trends are also influencing the degree of dealing during everyday operation with sustainability at a company. Stakeholders and especially consumer expectations and their behavior seem to be determining in the evolution of sustainable development.

*‘The transparency of a company’s sustainable production of goods and services often has multiple effects on consumers by increasing their level of knowledge, thereby changing customer transparency and behaviour.’*

Péter Szauer, CEO,  
HVG



## Respondents’ focal areas

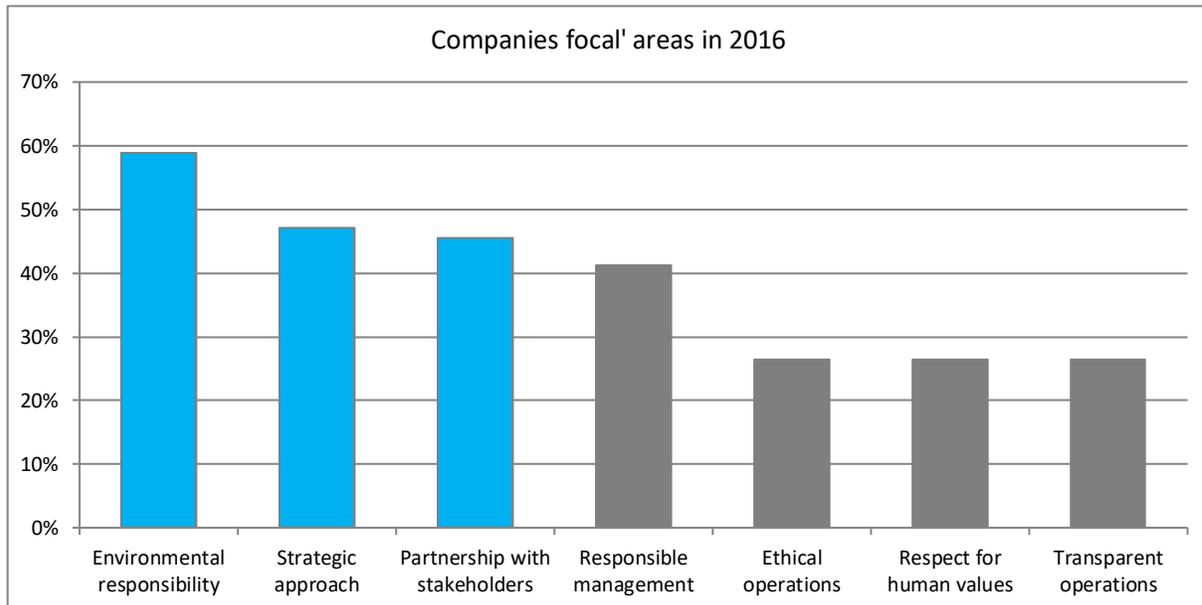
From the seven principles of the Recommendations for Business Leaders, Environmental responsibility has been ranked in first place for years in terms of the focal priorities of the Respondents. Environmental

responsibility has a stable place, moreover the international and national commitments in the field of climate change, the Paris Agreement can further strengthen this trend.

Which recommendation principles did companies focus on last year?	Respondents		Domestic Business Sector	
	Ranking 2016	Ranking 2015	Ranking 2014	Ranking 2013
Environmental responsibility	1.	1.	1.	1.
Strategic approach	2.	2.	6.	2.
Partnership with stakeholders	3.	4.	7.	5.
Ethical operations	4.	3.	3.	6.
Responsible management	5.	7.	4.	4.
Respect for human values	6.	5.	2.	7.
Transparent operations	6.	6.	5.	2.

Similar to last year's results, strategic approach is second important in the ranking of the seven principles, which means, companies try to integrate sustainability on high level. It seems, that partnership with stakeholders

became more important, which is in line with the last year's conclusion, that companies see, this is where they truly have to improve if they want to answer effective and impactful sustainability challenges.

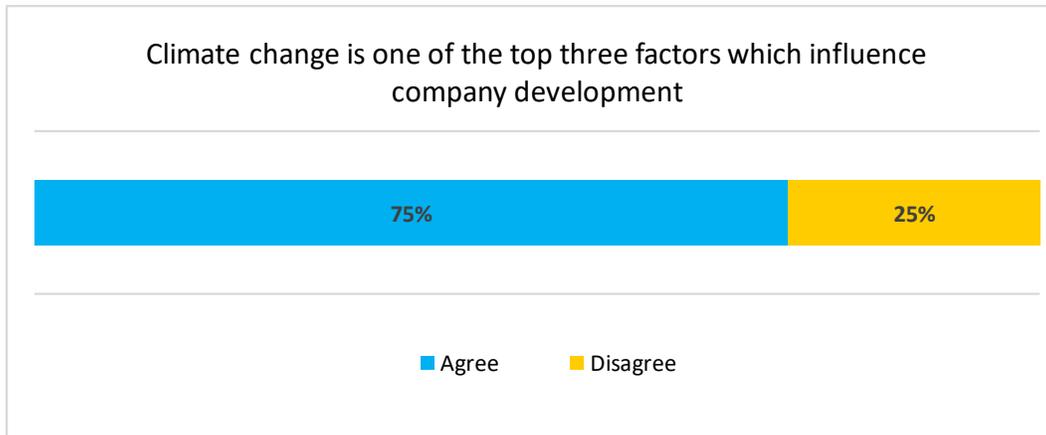


Despite the EU's legislation activities to enhance transparency and non-financial reporting, **companies in Hungary still do not take transparent operation crucial.**

We will analyse this phenomenon in detail in the second part of this document. Due to Climate Change goals and initiatives respondents think that environmental responsibility will still be in focus of operation (59%), but strategic approach and partnership will also be important (47% and 46% of answers). Responsible management, which is focusing on the commitment of executives and their role taking in moving forward sustainability, will be at priority of 41% of respondents. While ethical and transparent operation, and respect of human values will be priority at one quarter of respondents.

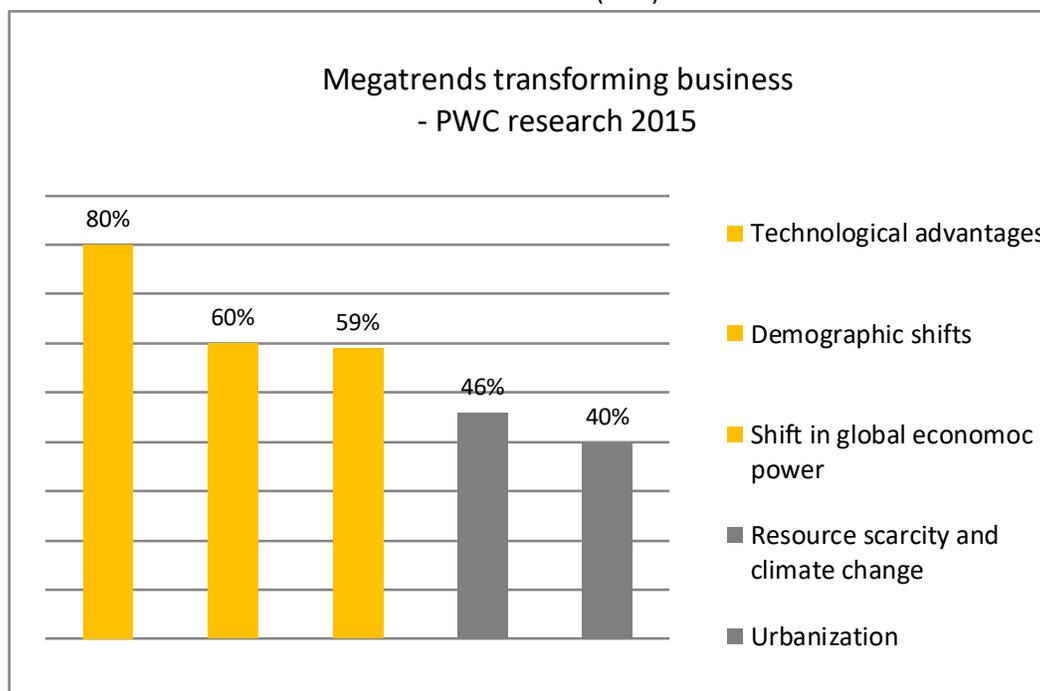
*'The Kyoto Agreement, which was replaced by the Paris Agreement, represents the beginning of a process which will reframe global economic-policy positions and roles completely, while focusing on action and active involvement. Companies have to follow this global trend at a strategic level.'* Károly Kovács – managing director – BDL Environmental Consulting Ltd.





Moreover, 75% of the Respondents agreed that **climate change is one of the top three factors which influence company development**. The respondents' answers indicate that domestic business decisionmakers not only see climate change as an obstruction or risk, or as having only short-term cost-saving potential, but also as a business opportunity with which they can gain competitive advantage and acquire new markets and / or new consumers.

According to the PWC global survey conducted among company executives, 45 % of the respondents said, that changes in technological development, demographic trends and the economic balance of power will be the most influential forces, alongside climate change. Concerns of those, who see climate change either as a threat or a challenge are the followings, 56% is concerned because of energy prices, 55% because the price of raw materials, 46% because of supply chain issues. Respondents see technological developments and benefits due to this as critical factors (59%), demographic trends (60%) and shifts in global power (81%).

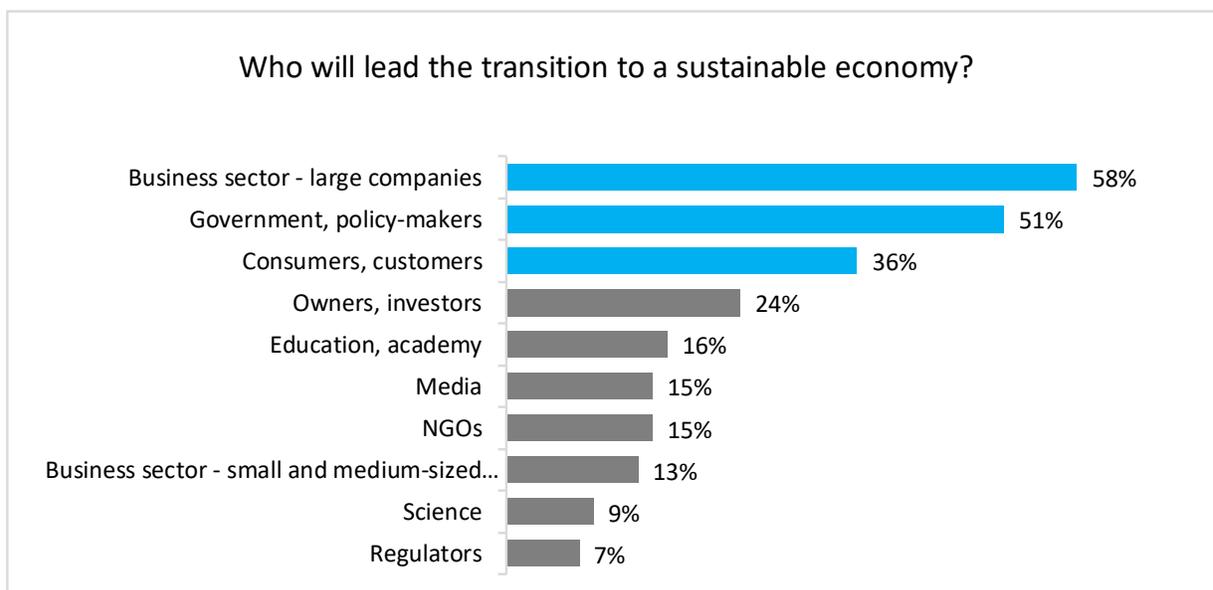


## Creating a sustainable economy depends on large companies

The further improvement of sustainable development in Hungary is mostly depending on large companies, political decision making, and consumers and costumers – based on the opinion of respondents. In 2014 government and politics was on the top of ranking of influentiors, but in 2016 respondents see large companies as main triggers in further development.

**58% of the respondents said that the most important sector leading the transition to a sustainable economy**

**is the business sector, specifically large companies.** After that, 51% said the government and policy makers. This may mean on the one hand that companies take higher responsibility, on the other hand, that they may be disappointed about other stakeholders. Based on our opinion the Paris Climate Agreement shows the decision of governments, so we believe, that higher commitment and responsibility taking is behind this evolution of the ranking of influentiors.

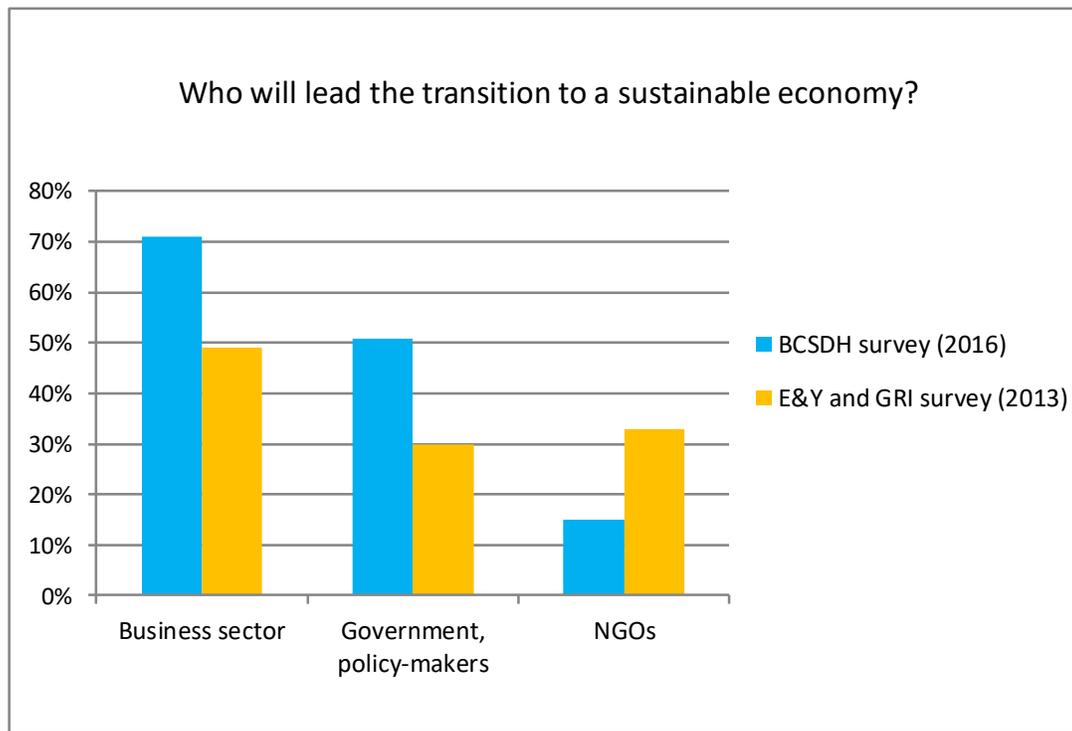


In 2014 the role of consumers and costumers was limited (only on the 6<sup>th</sup> place of the ranking), but in 2016 they moved on to the second place. Reason for this may be the strengthen of the portion of conscious consumers, which is a market based answer towards

companies' efforts on sustainability, and also means further opportunities to them. At the same time is shows the necessity to involve consumers, as their attitude and behavior is crucial to companies.

The joint research of E&Y and GRI in 2015 shows similar results. Most important role is given to the business sector (49% of respondents). Regulators are also visible in the list with 30% of answers, which is less than the BCSDH survey results show. It is well marked, that the role of NGOs is evaluated very different. While global opinion shows a high influence of NGOs (33%), only 15% of Hungarian respondents think they have real impact on the development of sustainability.

Although NGOs are responsible for important changes and results in sustainability, business sector does not see their real impact related to sustainable economy transition. Undoubtedly NGOs can be one of the most important partners of business sector in this transition, so the gap between this two sectors has to be bridged effectively.



*‘As far as the implementation of sustainability is concerned, companies and consumers often postpone action, pointing fingers at each other, waiting for each other. We are convinced that we need to work together with others in addition to making our own efforts in order to achieve a breakthrough - a change that fundamentally alters the system - instead of only incremental improvements. We have made sustainability a central part of our company’s business model and achieved concrete business results which can be counted in hundreds of millions of euros. ‘*

Regina Kuzmina, managing director,  
Unilever Hungary and Adria



## The aim of the corporate sustainability strategy is adding value

The most important core objectives of **the represented companies' corporate sustainable strategies is to add value.**

Other important considerations are the need to gain a competitive advantage and attract suitable workers, after that identifying and mitigating risks.

PWC survey in 2015 shows that 76% of CEOs believe that satisfying societal needs (beyond those of investors, customers and employees) and protecting the interests of future generations, is important. This is in line with the fact, that Hungarian leaders see value generation as an important goal.

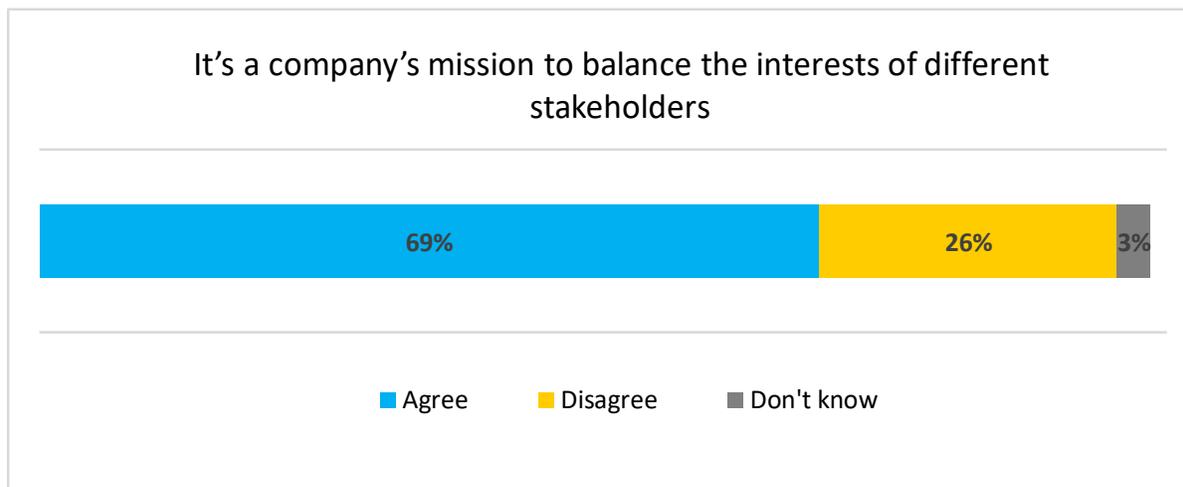
Similar results are shown by the joint survey among CEOs, conducted by E&Y and GRI in 2013, which less differences. The most important aim of the corporate sustainability strategy are the same as mentioned already. But it seems to be more focused and risk

managements comes up earlier in the list based on the opinion of respondents. This ensures, that corporate sustainability is more connected to the business logics and strategy. In Hungary to attract employees is also among most important targets, which is not so important on the global level, where at the same time, consumers and investors seem to be more in focus. It seems, that labour market trends are more challenging in Hungary than on the global level in general. Some companies articulate their own strategic aim. These are focusing on satisfying others' needs, specifically mentioning consumers behavior shaping. Some respondents also mention to be a leading example and play an important role to move forward corporate sustainability in Hungary – is the aim of the corporate sustainability strategy itself. Few mentionings are related stakeholders and transparent operation.



More than 66% of respondents think, that companies need to **balance the interests and expactiations of different stakeholders**. All company leaders, business decision-makers have already experienced, that sometimes these interests seem to be irresolvable at some decisions. Making these conflicts transparent to understand and optimize, or moreover to use problemsolving solutions resulting in win-win situations seem to be critical in the long-term development of

sustainability. Even though we know that survey respondents represent the most dedicated company executives in Hungary, still it is an encouraging sign that they are aware of and assure their responsibilities and duties in corporate sustainability. Though, how to do this, still remains in question since we know from Survey 2015 that the practical establishment of valuable partnerships still have many perceived barriers. According to PWC’s survey conducted in 2015, 69% of global/international CEO respondents agreed it is the company’s mission to balance the interests of different stakeholders.



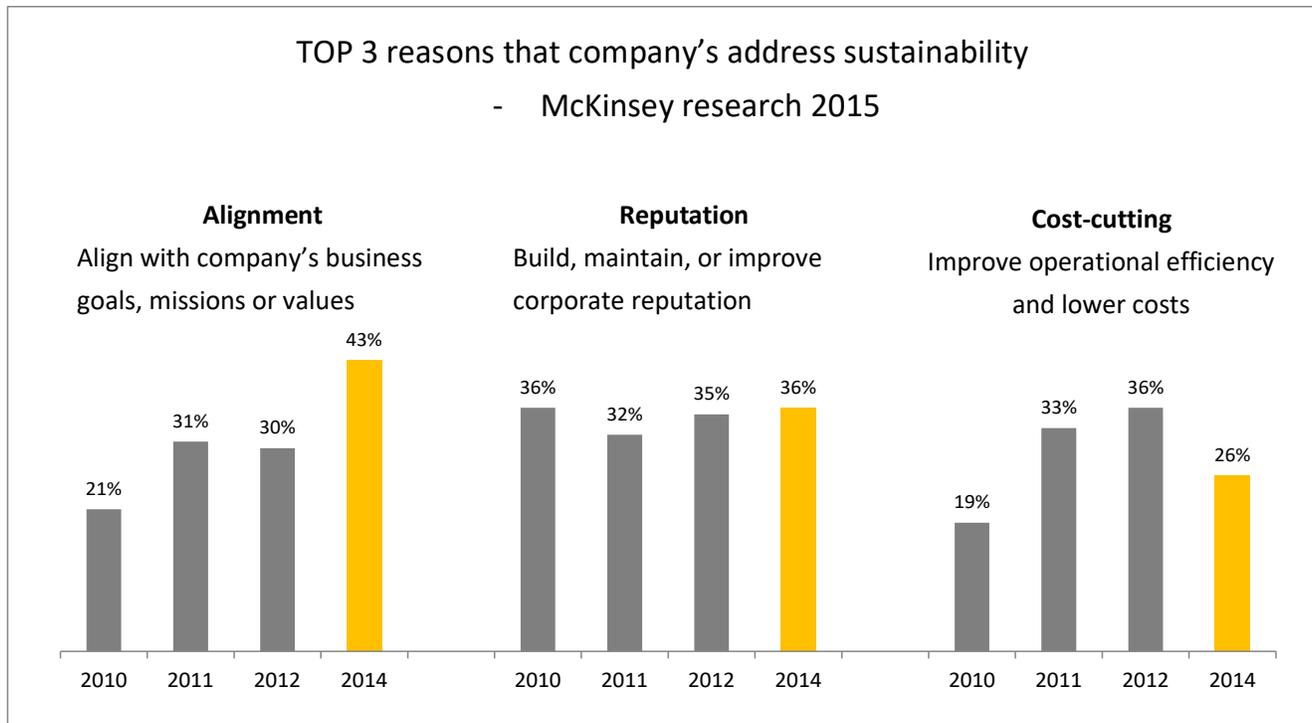
*“The issue of sustainability is receiving more emphasis in increasing numbers of professional forums. It is noticeable that companies are trying to examine one another’s best solutions and, where possible, adapting them to their own needs. Even the media is devoting more space to sustainability, and it is important that even young people are very open to and interested in companies’ activities in this area.”*

Zsolt Jamniczky, Member of the Board,  
 E.ON Hungária Zrt.



McKinsey research 2015 shows a gradual shift among global business decision-makers on defining sustainable strategy goals. On one hand, cost-cutting appears less and less as decision-making criteria (while in 2012, 36% indicated it as main reason, by 2014 this decreased to 26%). On the other hand, one third of respondents indicated that reputation is an important aspect. In 2014,

there was an increase from 30% to 43% of those that think companies are addressing sustainability issues because they have to align sustainability with companies' business goals, missions or values.



*“The Paris Climate Conference represents a significant milestone in terms of our full commitment to driving incremental change, both globally and locally. Clearly, it is critical that these commitments are now followed up with real and tangible activities. At Nestlé, we believe that maintaining open dialogue and engaging in an ongoing, proactive way with our multiple stakeholders is the best way to deal with these types of issues.”*

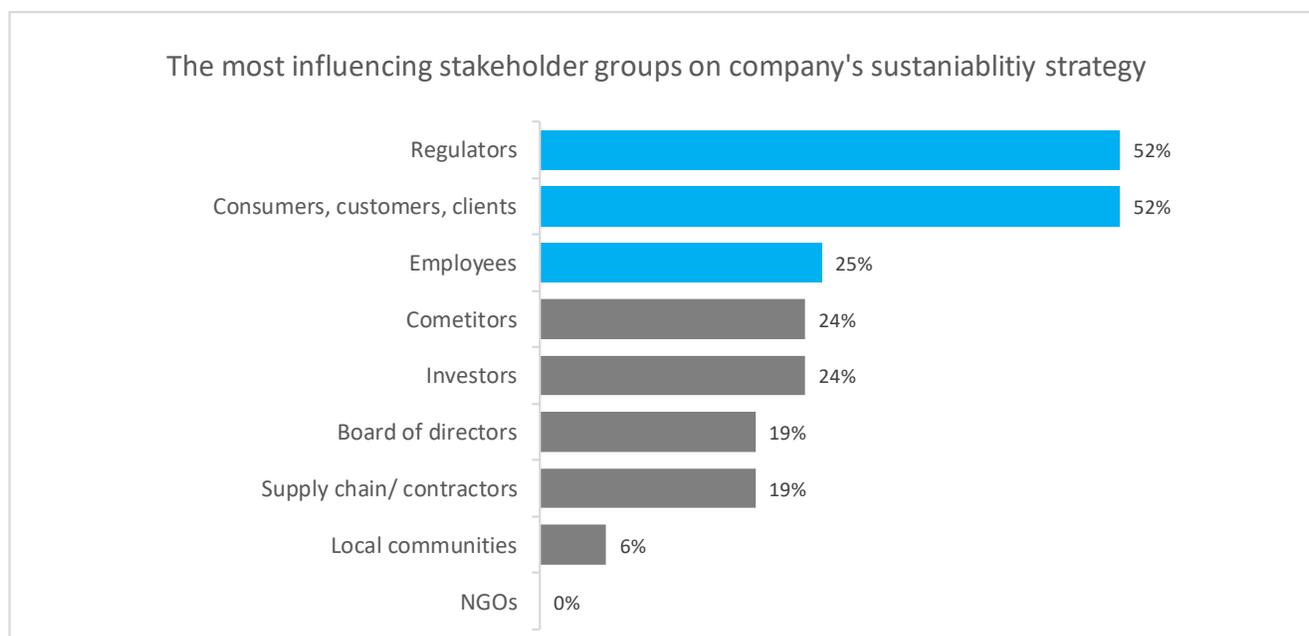
Jean Grunenwald, CEO,  
Nestlé Hungary



## Regulators and consumers have the most influence on companies

Since it is visible that companies' operational environment and its flows are crucial in the development of corporate sustainability, therefore we were curious which stakeholder groups are the most influential in terms of corporate sustainability strategy. It seems, regulators and consumers/customers have the biggest influence (52%) on survey participant companies.

In general, respondents recognised the scope and influence of local management, which is a positive result in terms of local sustainability challenges and local engagement. A quarter of respondents indicated other influential stakeholders, but these rather have industry and company specific impacts. At the same time, all agreed they perceive the impact of local communities and NGOs low.



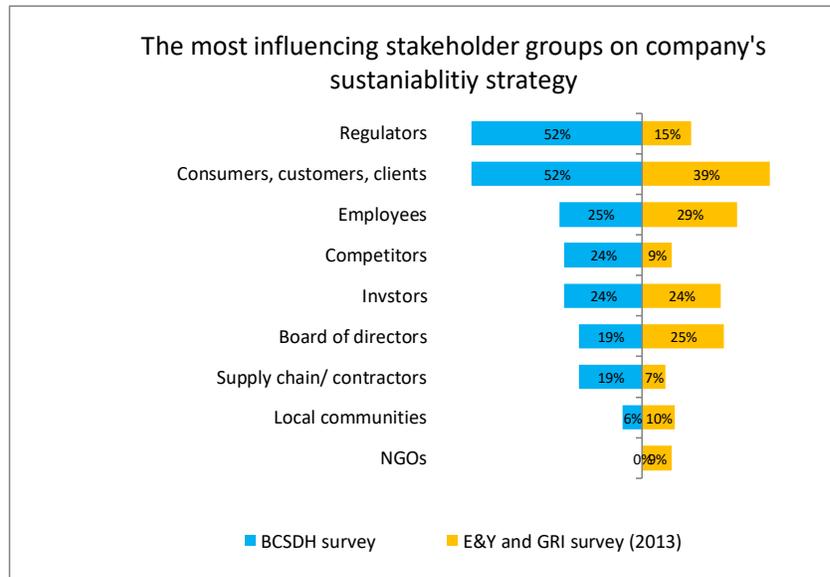
**While at international level, primarily consumers, customers and clients influence companies' business strategy and operations; in Hungary, the effect of regulations receive equally important role.**

It had already become clear in our 2013 Survey that regulations are sometimes too strict, in many cases they negatively effect sustainable development, and in

general they are unpredictable. These make conscious, long-term business planning more difficult. The contrast between national and international business decision-makers are the biggest here; while at national level 52%, at international level only 15% of decision-makers consider regulators as highly influential stakeholders. However, equal importance is attached to investors and employees on both national and global scale. Along the increasingly serious and urgent employment challenges, it has become an important aspect that everyday sustainable business operation requires all employees to integrate sustainability considerations and views into

their work, behaviour and decisions. Another interesting difference concerning supply chain is that 19% of national business leaders think suppliers and subcontractors could have strong impact on their company's success and operation. Only 7% of international research participants shared the same view on this. This difference may have been caused by the strong, ongoing centralisation trend in Hungary and

its region which significantly restructures decision-making power and the scope of suppliers. Thereby, heads of Hungarian subsidiaries could experience higher level of dependence within the supply chain, compared to international colleagues of the same global holding.



According to respondents, local communities and NGOs have no effect on neither shaping sustainable development, nor on influencing companies' future and operation. An interesting follow-up research question formulates from these results:

do local communities and NGOs have weak advocacy, expression of opinion, longing for information and pressure on business sector, or they use channels that are less visible to businesses?

*“Sustainable development has become a global business value. Sustainable development in the long run is based on innovation, among other things. The sustainability perspective is not yet properly integrated into business decision-making processes in Hungary.”*

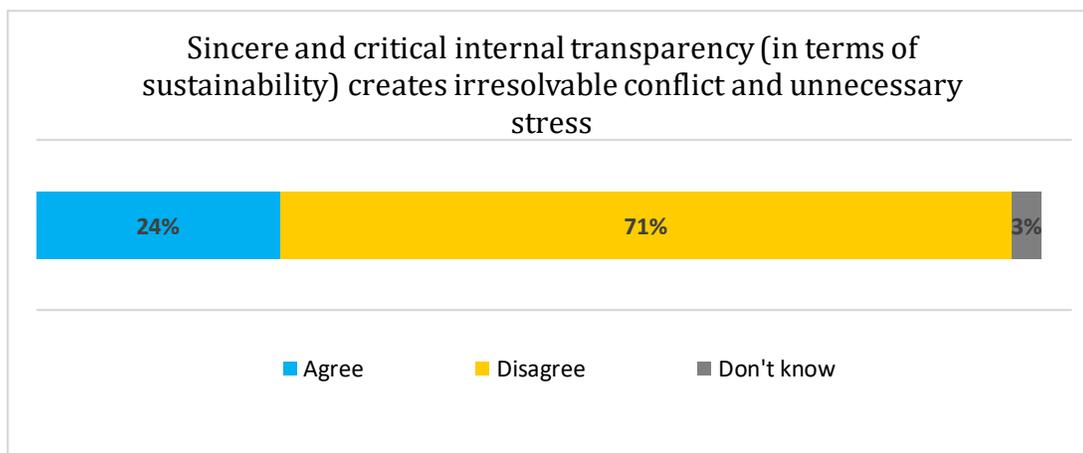
Ágnes Fábián, CEO,  
Henkel Hungary



## Critical internal factors

Close to three-quarters of survey respondents agreed that **internal, honest, critical information and opinion-sharing on sustainability is needed**. The attitude, knowledge, opinion and perception of internal decision-makers and employees are crucial in factual implementation of sustainable strategy and improved performance.

It is promising that only a quarter of respondents consider internal transparency as an unresolvable barrier, however their suspicion is easily fuelled by every day experiences. In Hungary, especially in the business sector (business as usual), the level of cooperative, democratic and inclusive decision-making and leadership style which is necessary for effectively balancing opposing interests is still low.



Even though impacts resulting from operational environment, and the expectations and reactions of stakeholders are significant, still it is worth directing more attention on those internal factors that have been influencing respondents' view on operational corporate sustainability during the past year. Improvement of these factors could entail breakthrough in companies' further development.

Personal commitment of decision-makers is still crucial in this process and it seems that information-sharing,

training and development, innovation and incentives are the most important internal business tools.

The ongoing "chicken and egg dilemma" still remains on whether sustainable and responsible operation becomes a competition factor for those companies that are already committed and willing to allocate resources to sustainable operation, because they consider it as a competition factor; or for those industries and/or companies that have committed and active leaders and sufficient amount of resources.

## INTERNAL FACTORS

- ✓ leadership commitment
- ✓ shareholder engagement and strategy
- ✓ employee engagement
- ✓ internal acceptance and perception of the topic and specialisation
- ✓ knowledge-sharing culture, internal-external transparency
- ✓ teaching and organisation development
- ✓ communication or action orientation on the field
- ✓ internal topic ambassador
- ✓ extending topic specific performance evaluation and incentive system
- ✓ innovation and product development
- ✓ available resources, capacity
- ✓ supply chain risks and opportunities
- ✓ industry's energy intensity
- ✓ dialogue with stakeholders
- ✓ consciously shaping corporate branding
- ✓ following and implementing good practices from other companies
- ✓ effective anti-corruption initiatives
- ✓ striving for the establishment of responsible investment possibilities
- ✓ scandals resulting from increased transparency
- ✓ sustainability and responsible operation among competition factors

*“On a global level we are experiencing the effects of various catastrophes (an increase in seawater levels, desertification, drought, waves of migration), all of which underline the importance of sustainable development. At the same time, a kind of ‘isolationist approach’ is gaining ground in, parallel with these more extreme developments (an increase in the level of terrorism, authoritarianism, and violence.) In Hungary, long-term strategists face significant challenges due to the continual and accelerating changes in the economy and the political-economic environment. These also make the daily implementation of a sustainable strategy more difficult. We need real change managers who dare to look forward and who dare to make changes during these uncertain times as the heads of companies.”*

István Salgó, Country Manager,

ING Bank N.V. Hungary Branch



## Transparent operations

Along with introducing trends resulting from the survey, we cover one of the fields from the Recommendation for Business Leaders every year. This year, our survey explored the topic of transparency. Based on survey results, BCSDH recommends the followings to business leaders on how to achieve responsible and sustainable business operation.

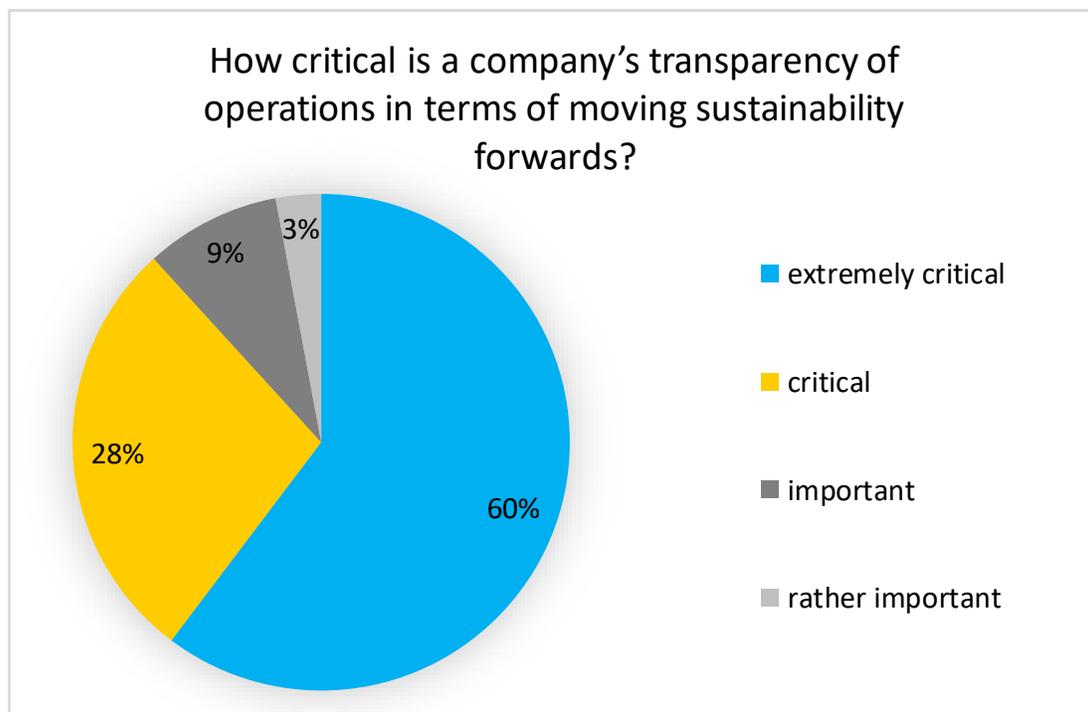
As a reminder from the Recommendation's text:

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„THE COMPANY SHOULD COLLECT RELIABLE DATA AND INFORMATION ABOUT ITS ACTIVITIES, ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPACT AND PERFORMANCE ON AN ONGOING BASIS. THE INFORMATION SHOULD BE MADE AVAILABLE AND THE COMPANY SHOULD INFORM ITS PARTNERS IN A REGULAR AND CREDIBLE WAY.”

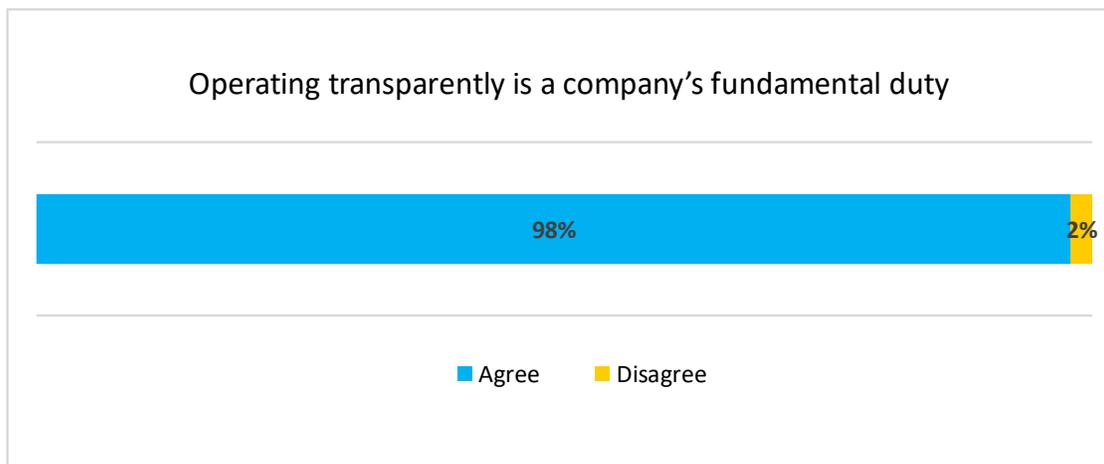
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Transparent operation is a requirement for actors of the business sector and has a crucial role in implementing sustainable economy (it received 6, 5 out of 7 points from respondents).



Agreement goes even further, since 98% of all Respondents stated that operating transparently is the fundamental duty of all companies, and only 2 % does not agree with this statement. This common agreement is based on the following thoughts:

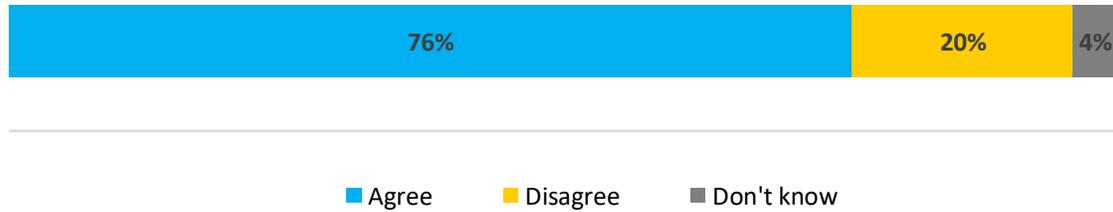
- ✓ Transparency is such business tool that enforces, encourages and helps companies to become truly sustainable and operate responsibly. Thereby, commitments cannot remain only words, but actions, accountability, some goal-settings and promises should follow that encourage conscious business leadership.
- ✓ The key to improvement is openness towards stakeholders and multidirectional information-sharing. Without these, real dialogue and cooperation needed for sustainable development cannot be obtained.
- ✓ Long-term, successful strategy lies on trust that cannot be built and maintained without transparency.



Even though strong commitment and belief are clearly demonstrated in the survey, these factors are overshadowed by the fact that 76% of respondents thought that the extent of a company's transparency is the result of interaction between the company and its stakeholders. This suggests, they do not consider operating transparently as their fundamental duty but as a result of and influencing factor on stakeholder interactions.

That's why, stakeholders' proactive interest and pressure receive an even bigger role, considering that some companies do not find it necessary to improve their transparency until there is need or demand for it. Therefore, it is worth rethinking previously mentioned results that businesses do not recognise the influence of local communities and NGOs on their operations or on sustainability trends. Additionally, the role of media, education and scientific research was also considered insignificant. Then which stakeholders could enforce and encourage transparency if not these ones?

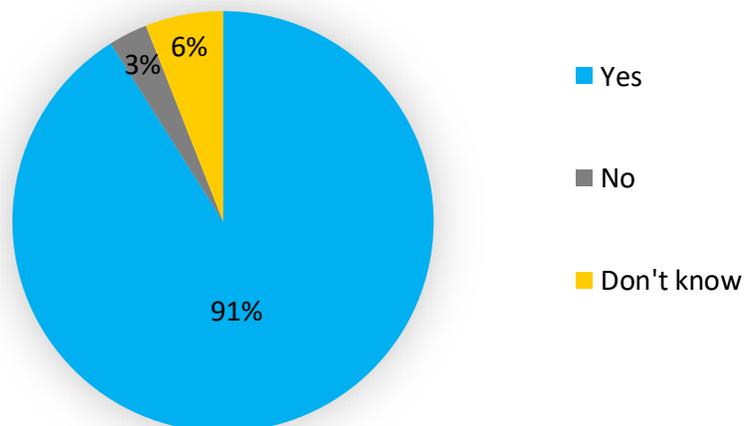
The extent of a company's transparency is the result of the interaction between the company and its stakeholders



## Factors of long-term success and financial efficiency

According to PWC survey in 2015, 74% of CEOs agreed that measuring and communicating a company's financial and non-financial impacts lead to long-term success and efficiency. In Hungary, respondents confirmed the same: 91% agreed, while only 3% disagreed with his statement. As it was mentioned previously, majority of respondents already consider these measures as companies' obligation.

Reporting the company's total (financial and non-financial) impact contributes to its long-term success

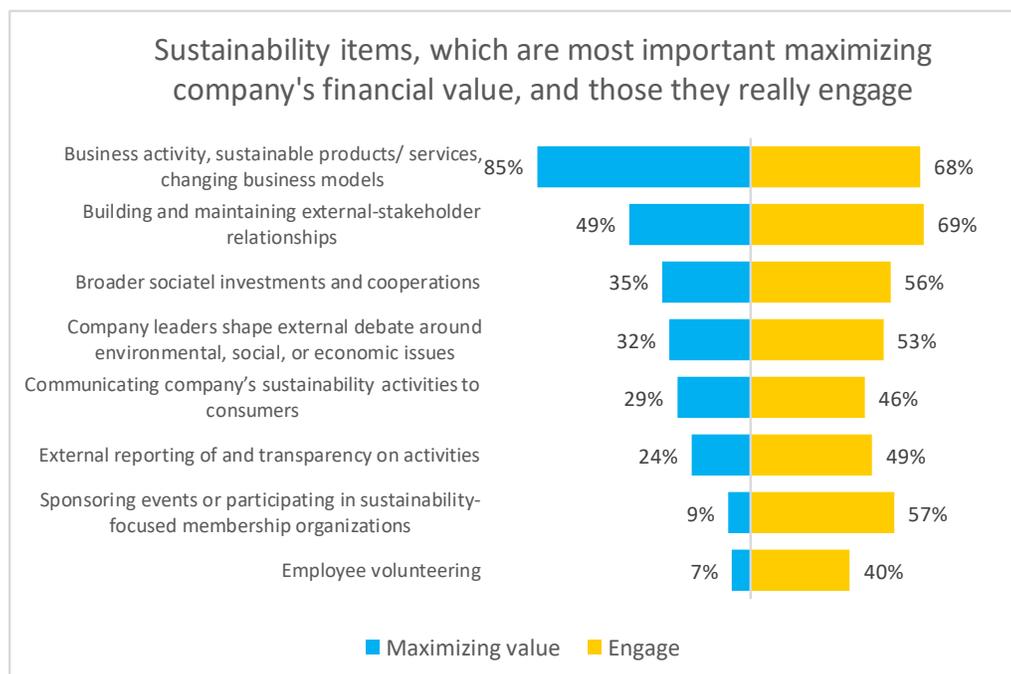


## Which sustainable activities are most important to contribute the company's long-term success?

	BCSDH Survey (2016)	McKinsey Survey (2015)	Movement
	(% of respondents)		
Building and maintaining external-stakeholder relationships	49%	33%	<b>+16</b>
Broader social investments and cooperations	35%	23%	<b>+12</b>
Company leaders shape external debate around environmental, social, or economic issues	32%	22%	<b>+10</b>
Communicating company's sustainability activities to consumers	29%	39%	<b>-10</b>
External reporting of and transparency on activities	24%	29%	<b>-5</b>
Sponsoring events or participating in sustainability-focused membership organizations	9%	17%	<b>-8</b>
Employee volunteering	7%	13%	<b>-6</b>

Sustainable business model, products and services contribute the most to long-term success - 85% of Hungarian respondents agreed (international research did not include this answer). In terms of business success, global business leaders consider the communication of sustainable activities among consumers the most critical aspect. Only 28% of

Hungarian respondents marked this option. Nationally, many complained that consumers, customers and clients are not open to information on sustainability and responsible operation. Their market decisions are defined by price sensitivity. It seems that global leaders have a different opinion on this.



Hungarian CEOs think, active involvement of stakeholders, social investments and business leaders weight more in social discourses. The importance of sustainability reporting and transparency received equal national and international votes (24%, 29%).

Based on both surveys, sponsorship, participating in sustainability-focused membership organisations and employee volunteering are at the bottom of the list. However, percentage wise more consider these aspects as part of business success globally.

Since respondents expressed their opinion on which sustainability activities they consider the most effective in business success, we also asked them on what degree they implement these practices. It is interesting to see

the significant difference between the activity a CEO consider as important profit matching mechanism, and the applied practice at the company. In reality, applied techniques are not chosen based on their real contribution to business success. All in all, there is low level diversification both nationally and internationally. Transparent operation and sustainability reporting are used by 57% of global and 49% of national respondents, while 24-29% think that these practices have actual contribution to financial efficiency. Let's explore the trends and drivers of performance measurement and sustainability reporting.

*„Having transparent communications is one of the most efficient ways to build up a good reputation in a multinational environment and contributes significantly to the success and sustainability of our businesses.”*



Joerg Bauer, president,

GE Hungary

## Measuring performance and sustainability reports

Those companies that measure their sustainable performance and impacts use the following tools:

- ✓ own performance indicators, self-evaluation according to KPIs thereby evaluating achievements compared to targets
- ✓ GRI indicators and reporting procedures
- ✓ standards such as ISO or something industry specific (e.g.: Airport Carbon Accreditation)

- ✓ measuring and quantifying impacts beyond results (e.g.: LBG-model, True Value)
- ✓ benchmark comparisons within business group or against competitors, applying other cooperative analyses or rankings
- ✓ conscious stakeholder feedback, dialogue or survey, mostly related to clients or employees, by multistakeholder forum as well
- ✓ thematic or goal specific research, survey
- ✓ awards, recognitions

A few respondents indicated, they do not yet have performance and impact assessment measurement system. Only a couple of companies exist that consciously apply the “Just walk!” philosophy, and they believe they do not need to communicate their sustainability efforts and results consciously and consequently. Opposed to this, the majority follows conscious and active communication, integrates sustainability aspects and results into their communication strategy. Furthermore, they use existing

online and printed channels and tools to promote these messages and results, and some even uses paid advertisements for this purpose. They do this not only for building reputation, promote information but to create foundation for real conversation and potential cooperation which is key to development. Annual reporting is in the centre of many company’s communication on sustainability performance.

Companies can choose from 77 indicators recommended by BCSDH’s Action 2020 Hungary program designed to measure sustainability results and impacts. Indicators are available on the program’s website: <http://action2020.hu/wp-content/uploads/2015/11/action2020-indicators.pdf>



Moreover, BCSDH made the UN SDG Compass available in Hungarian which contributes to achieve the UN Sustainable Development Goals. This document also includes indicators and measures. Both groups of measurement are in line with the GRI indicators and KPIs, commonly used by businesses. The SDG Compass is available on BCSDH’s website: <http://bcsdh.hu/topics/sdg-compass/>

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KPMG’s global survey results on non-financial business trends have shown for years that in member states of the European Union, there is a slight drop in reporting among the top 100 companies, while in Hungary slight increase was monitored.

**“CR reporting should therefore demonstrate that the company:**

- is aware of social and environmental megaforges and how thes impact
- understands and, ideally, has efficiency while reducing cost, benefiting quantified the resulting risks and opportunities
- has strategy in place to minimize risk and exploit opportunities and is clear about the actions it is taking.”

*(KPMG International (2013): The KPMG Survey of Corporate Responsibility Reporting 2013, pp. 48)*

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30% of respondents have non-financial report (sustainability, CSR, environmental or integrated) and another 18% has it under construction. Therefore, **it can be said that nearly half of respondents have non-financial reports.** 17% of respondents have not yet acquired this type of reporting but they are planning to have one. 24% does not plan to make a report. In addition to them, companies from other categories think that reporting at their holding company replaces reporting at the national subsidiary, which increases the percentage of

those that do not have a report. These results are controversial from three aspects. Firstly, securing transparent operation is among respondents’ commitments. Secondly, this opposes to EU directives. Thirdly, it also goes against the own believes of businesses that transparency is key to business and sustainable development. Even though, non-financial reporting is just one of those tools that can help achieving transparent operation. However, it cannot be ignored that according to international practices this might be one of the most effective development and communication tools in the realm of sustainability.

**“Transparency and accountability foster performance improvement.”**

László Török, General Manager,  
Grundfos Manufacturing Hungary



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The World Business Council for Sustainable Development conducted surveys in 2013 and 2014 on reporting practices among the biggest international companies. More than half of these reports were in the form of own sustainability reports, and majority of them were done according to the GRI guideline. The World Business Council believes that the improvement of non-financial reporting is indispensable for recognising and evaluating companies' real, short-term impacts, including environmental and social ones too. According to WBCSD, it is crucial that international and local regulations are encouraging companies for operating transparently, meaning that they measure and report on their sustainability performances and real impacts.



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The GLOBAL REPORTING INITIATIVE (GRI), is a global organisation defining tendencies of non-financial reporting. In its 2025 outlook, the organisation draw business decision-makers' attention on the fact that due to technological developments, stakeholders have been growing access to information and data on companies, and these technological advancements help understanding and analysing information better. On one hand, this enhances transparent operation. On the other hand, it turns consequent and reliable communication into a needed factor. GRI predicts that regulation and volunteering will become common in the development of reporting practices. They highlight the following focus topics: 1, transition to a sustainable business model; 2, contribution to the Sustainable Development Goals; 3, taking investors' standpoints into account; 4, internalisation and quantification of externalities.

## Obligatory reporting in 2017?

*The current Hungarian Act C of 2000 on Accounting regulates the modalities of non-financial reporting.*

*According to Article 95/C (1): The business that qualifies as public-interest entity, at which*

*a) on the balance sheet date in two consecutive years preceding the current financial year, two of the following three indices exceeded the following limits:*

*aa) the balance sheet total exceeded the 6 000 Million Forint,*

*ab) the annual turnover net of tax exceeded the 12 000 Million Forint,*

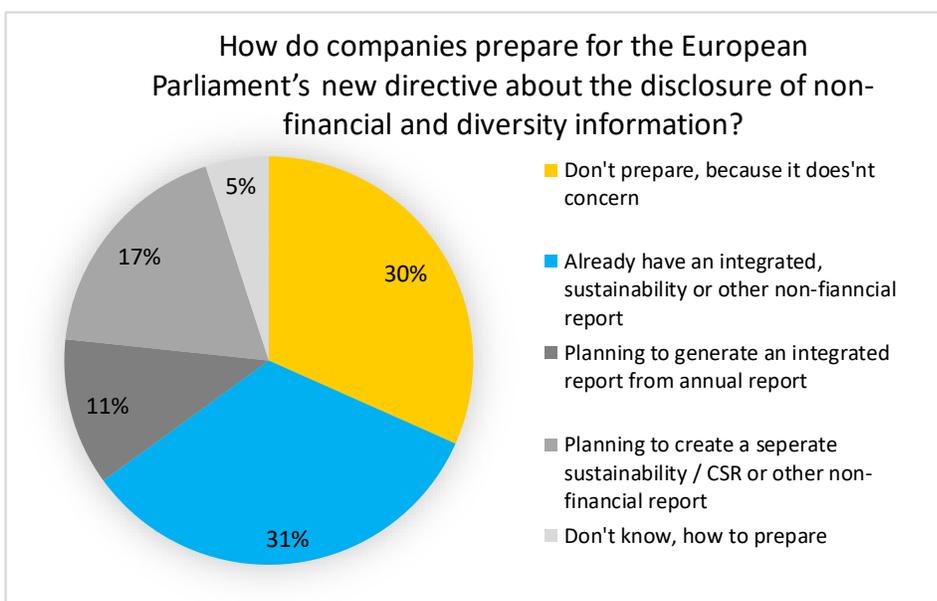
*ac) the average number of employees employed in the financial year exceeded the 250 people, and*

*b) the average number of employees employed in given financial year exceeded the 500 people,*

*within its annual report, it publishes non-financial statement concerning environmental, social and employment questions, information on respecting human rights, fighting against corruption and bribery within the scope of understanding the effects of the development, performance, position and action of the business.*

On 15th April 2014, the European Parliament adopted a Directive about the disclosure of non-financial and diversity information, amending the Accounting Directives (78/660/EEC and 83/349/EEC). The Directive intends to make large companies operate responsibly and take a longer-term perspective by requiring them to report on their social and environmental impacts. This way

companies may strengthen transparency and accountability, identify sustainability risks and thus increase investor and consumer trust. From 2017 the new Directive will make it compulsory for companies with a balance sheet of EUR 20 million or a net turnover of EUR 40 million that have more than 500 employees to report on non-financial information. This means that leading companies in Hungary need to be ready for these changes from 2015. Due to the approaching beginning of year 2017, we conducted a survey among Signatories of the Recommendation on how they prepare for the proposed mandatory reporting. 30% of Respondents said that they are not preparing for this, because it does not concern them. For 31% of Respondents this will not result in any changes because they already have an integrated, sustainability or other non-financial report. Only 5% admitted that they are unsure about how to fulfil this regulation.



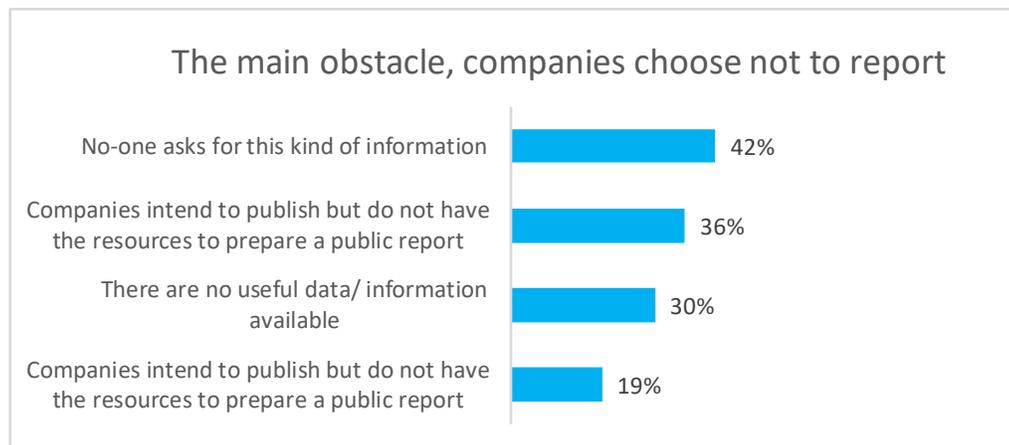
## Disinterest is the main barrier of reporting growth

Many factors have an influence on whether a company makes local, non-financial or integrated reporting or not.

**42 % of Respondents said that the main reason they choose not to report is that no ones asks for this kind of information.**

By analysing the temporal scope of corporate sustainability and responsible operations, experts have already highlighted years ago that, it is a unique phenomenon in Hungary that companies began active communication

and action on this area by themselves and not due to stakeholder pressure. This stakeholder pressure or either market response, feedback still have not strengthened. In relation to some industries/companies, or along with certain topics this issue receives temporary active attention which can turn into pressure factor as well. Unfortunately, not too many stakeholder asks for information on sustainability performance proactively. Therefore, most of those reporting companies do it proactively and voluntarily. If a company could actively promote and integrate this into its stakeholder communication, it will be able to shape them and.



*“Thanks to the sustainability report it is possible to document the economic performance and the social and environmental impact of our company. Our corporate practices have become more visible and transparent. The report helps us to further build trust among our stakeholders. We believe that this report will help us further differentiate ourselves and will enhance our reputation. This is why we decided to create this report - both for ourselves and for our stakeholders.”*

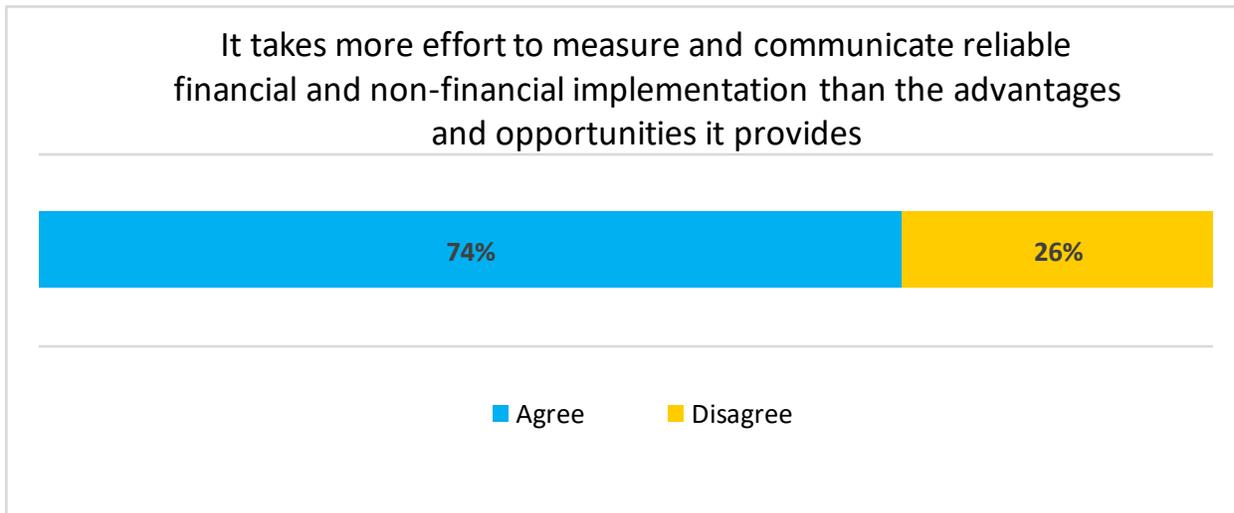
Kornél Szepessy, CEO,  
HungaroControl



According to 36%, lack of financial resources is the main barrier to reporting. The problem is not the actual amount a company would have to spend on this, but they do not see the short-term financial and business advantages of making an effort. Therefore, they either choose different tools to facilitate transparency or postpone the issue.

**74% agreed that, in Hungary, non-financial (individual or integrated) reports still cost more in terms of the effort it takes to create them than the advantages and opportunities**

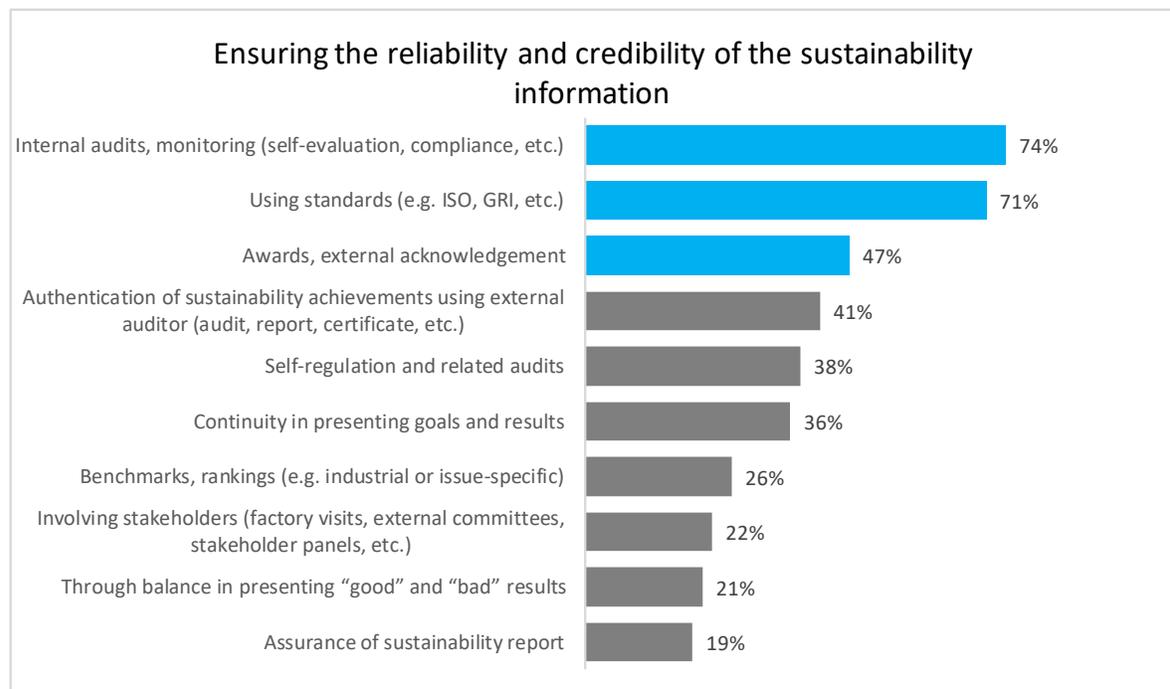
**they provide.** On the other hand, 26% clearly disagreed with this statement. This proves that the process and the reporting itself could bring different profit to companies, depending on whether it was implemented along a conscious plan and quality measures or not. 30% argued, they do not have valuable information and data for non-financial or integrated reporting. Another 19% stated, this information is available, however decision-makers do not have the will to facilitate transparency towards this direction.



## Internal audits, standards and external acknowledgement ensure the credibility

Increasing transparency not only relates to making more data publicly available, but also to improving the credibility of such information. Respondents state that they wish to ensure the reliability and credibility of the sustainability information they publish for themselves and for their stakeholders by conducting internal audits, using standards and participating in external award schemes and other public systems of acknowledgement.

One of the most commonly used tools that was chosen by 74% of respondents is internal audits that open the opportunity for companies to handle risks, delays and disagreements internally. The second most common tool was the use of standards (71% of respondents chose this), such as ISO or GRI, by which it is possible to receive feedback from an external party and compare operation to an independent guideline.



*„On one hand, certified reporting is a classified communication method. On the other hand, it is a management tool that helps the company to improve its sustainability performance continuously. This is not a question to leading companies anymore.”*

Robert Stöllinger, managing director,

KPMG Hungary



Even though, only a small amount of respondents choose them; awards and external acknowledgements are still considered as methods to verify business reporting. External evaluation, reinforcement, feedback, challenging with others could be important for those that apply these categories. Only 41% use independent auditors to authenticate their sustainability

*“In terms of sustainability, expectations towards the business sector have been increasing in Hungary. A few years ago, it was a gesture towards future generation, now it is supposed to be part of corporate culture and strategic planning. Sustainability reports have become more important and can influence the perceptions of some companies fundamentally. We are aware that the leading companies in the economy play decisive roles in the development of Hungary and the region, and thus identifying successful sustainable solutions is essential. As a result, we were among the first companies on the Hungarian market to publish an integrated sustainability report, and we have launched several successful initiatives such as the rubber bitumen project, the used cooking oil collection program and the Green Belt Area program to support community garden construction.”*

Sándor Fasimon, CEO,

MOL Hungary

achievements and uphold company credibility. 82% of international business leaders participating in E&Y’s research in 2014, stated that auditing data improves credibility, but it seems Hungarian CEOs think differently. Not all companies that make sustainability reporting use audits.



## Summary

Large companies are expected to play a key role in facilitating the move towards sustainable development. Their sustainability strategies are mostly determined by regulations, consumers and customers. In order to ensure effective and successful dialogue and cooperation between companies and other stakeholders, mutual information sharing is necessary. Operating transparently can help to achieve this and to develop and strengthen trust among stakeholders. By measuring sustainability performance and making these findings and goals transparent, discourse that stimulates creativity and innovation can be established. Therefore, the BCSDH recommends that all businesses and business decision-makers who are operating in Hungary gradually and continuously improve the transparency of their operations in order to take advantage of the benefit and potential that can be gained from non-financial reporting.

## List of international researches

**CorporateRegister (2013):** *CR Perspectives 2013- Global CR reporting trends and Stakeholder views, November 2013, pp. 37*

**E&Y, GRI (2013):** *Sustainability reporting — the time is now (EYG no. AU2091), pp. 24*

**GRI (May 2015):** *Sustainability and Reporting Trends – Preparing for the Future, pp. 19*

**KPMG (November 2015):** *Currents of change – The KPMG Survey of Corporate Responsibility Reporting 2015, 132962, pp. 48*

**KPMG International (December 2013):** *The KPMG Survey of Corporate Responsibility Reporting 2013, 131018, pp.82*

**McKinsey (July 2014):** *Sustainability's strategic worth: McKinsey Global Survey results, <http://www.mckinsey.com/business-functions/sustainability-and-resource-productivity/our-insights/sustainability-strategic-worth-mckinsey-global-survey-results>*

**PWC (2014):** *Business success beyond the short term - CEO perspectives on Sustainability, pp. 16*

**Radley Yeldar, WBCSD (November 2014):** *Reporting matters, Improving the effectiveness of reporting one year on, pp. 56*

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