Transparency: an obstacle or benefit to companies in Hungary?

bcsdh
Magyarországi Üzleti Tanács a Fenntartható Fejlődésért
Business Council for Sustainable Development 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

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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

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 (65%). 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: www.bcsdh.hu/topics/recommendation-for-business-leaders

List of Respondents



The Complex Interpretation of Corporate Sustainability

1 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.

2 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.

3 Ethical operations

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

4 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.

5 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).

6 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 prioritise sustainability factors. Through professional organisations and extensive cooperation the company should endeavour to integrate into its operations the sustainability principles of regulatory processes and policies.

7 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 endeavours 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 so as 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

The Current Situation of Sustainability

The future development of sustainability depends on big business

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.

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

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

Sustainable development globally and in Hungary

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

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.

Dr. Ágnes Fábián, CEO, Henkel Hungary

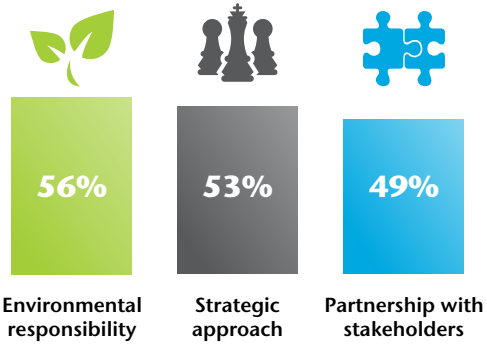
The Kyoto Agreement, which was replaced by the Paris Agreement, represents the beginning of a process which will reframe global economic-policy positions and roles completely, while focusing on action and active involvement. Companies have to follow this global trend at a strategic level.

Károly Kovács, Managing Director,
BDL Environmental Consulting Ltd.

The Paris Agreement, approved by 196 countries, represents a real turning point, as confirmed by a majority of Respondents. According to Diána Ürge-Vorsatz, a well-known climate researcher, the agreement was almost a miracle and represents a crucial milestone in the future of sustainable development. According to this agreement, bottom-up grassroots initiatives and top-down decisions will meet – so governments did their duties. Now it is time for CEOs to become engaged at both a personal and an organisational level. Besides switching from using fossil fuels to a low-carbon economy, there is a need for new business models that take environmental degradation into account and break with old habits and businesses (for example, those that follow the principles of the sharing or circular economy). To reach this goal, the use of energy and natural resources and the level of consumption have to be reduced. Promoting and applying ICT and other state-of-the-art technological solutions in new areas will help to achieve this goal. New consumption habits, in which quantity is replaced by quality, should be prioritised. All these targets represent new business opportunities for companies that recognise the need for change.

In order to further promote corporate sustainability, the active participation of customers and other stakeholders and maintaining pressure on companies is essential. It seems that this is the area which will require the biggest change in the near future.

Promoting partnerships with stakeholders is now one of our companies' TOP 3 priorities

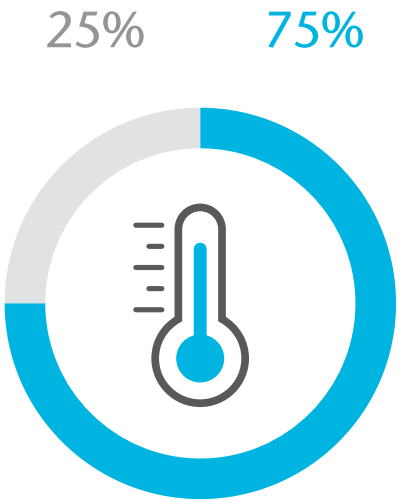


From the seven principles of the Recommendations for Business Leaders, Environmental responsibility has been ranked in first place for years in terms of the focal priorities of the Respondents.
Compared to previous years, slightly more companies report to dealing with integrating Partnership with stakeholders' principle and put it into practice during their operations. Since climate change creates new expectations at the international and domestic level, it is not surprising that emission reductions, environmentally conscious development and innovation will play key roles in the future. Moreover, 75% of the Respondents agreed that climate change is one of the top three factors which influence company development. According to the PWC global survey conducted among company executives, changes in technological development, demographic trends and the economic balance of power will be the most influential forces, alongside climate change.

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.

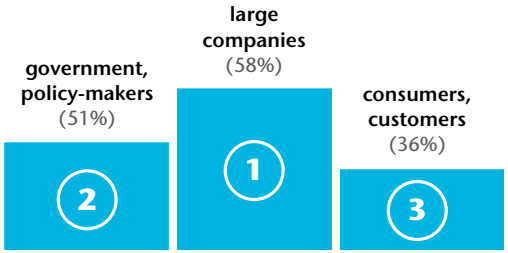
Jean Grunenwald, CEO, Nestlé Hungary

Climate change is one of the top three factors which influence company development



The respondents' answers indicate that domestic business decision-makers 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.

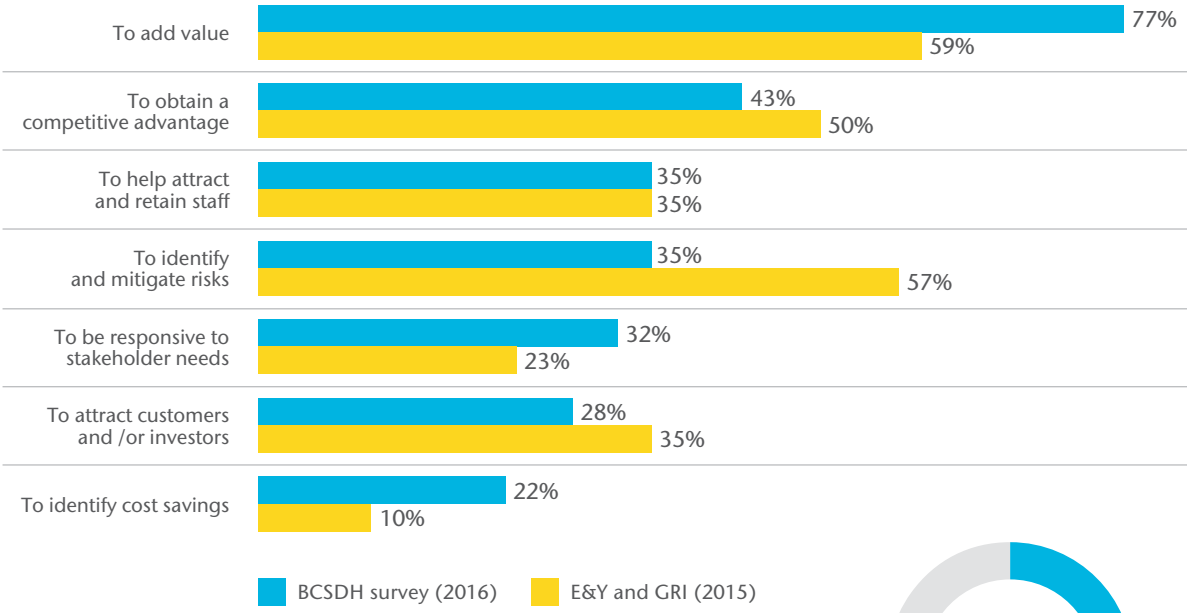
The key actors leading the transition to a sustainable economy, according to the Respondents, are the following:



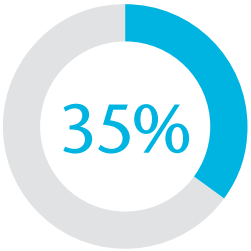
The Current Developments in Corporate Responsibility

One of the 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.

Aim of sustainable strategy

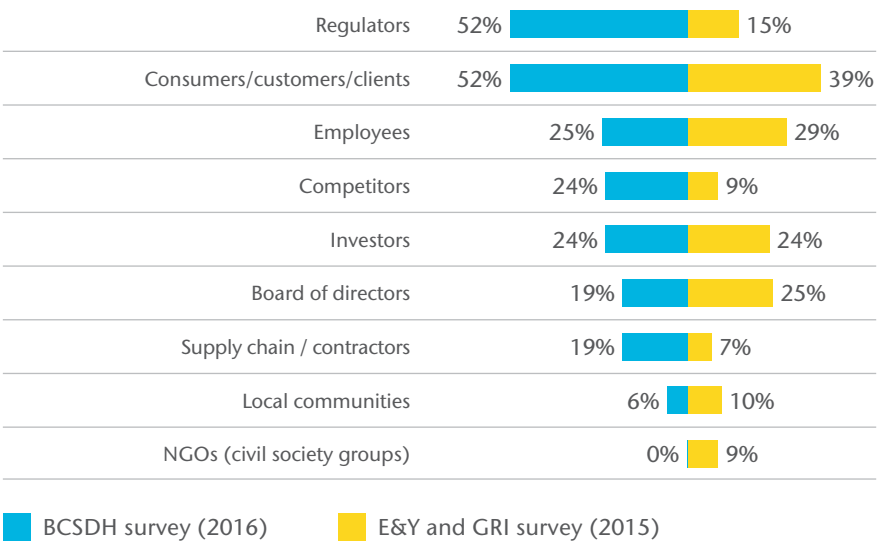


However, only 35% of Respondents use their corporate sustainability strategy to identify and mitigate business sustainability risks and advantages, while at the international level this goal receives more emphasis. This difference may explain why the synergy between corporate sustainable strategy and business is better realised in terms of global cooperation where it serves as a real basis for the development of future action plans. In Hungary, it is also important to increase the positive impact of the business sector. Furthermore, to move sustainability forward it is necessary for companies to examine sustainability trends and social and environmental risks consciously, as well as to explore relevant opportunities at the local level.



Only 35% of Respondents use a corporate sustainability strategy to identify and mitigate business sustainability risks and advantages.

The most influential stakeholder groups in terms of corporate sustainability strategy



According to Respondents, the companies' sustainability strategies and activities are most influenced by regulators, consumers and customers, among all stakeholders. Unfortunately, the efforts of NGOs and local communities have only been recognised and integrated into business decisions by a small number of companies. At the international level, a companies' ability to have an influence is better distributed among stakeholder groups, and consumers and customers clearly play the crucial role (the effect of regulations is less).

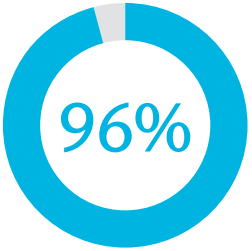
The impact of the wider operating environment remains important in terms of developing corporate sustainability strategy and activities. Nonetheless, many internal obstacles can be identified that require significant amounts of resources to be improved, and which may thus hinder further development. In accordance with the findings of last year, the personal commitment of company leaders still appears to be crucially important. Furthermore, the integration of internal business solutions into sustainable management practices, such as information sharing, training development, innovation and executive incentive schemes, also plays an important role.

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.

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



96% of Respondents agree that sustainability-related internal transparency leads to innovation.

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."

BCSDH – 'The Complex Interpretation of Corporate Sustainability' Recommendations for Business Leaders

Most survey participants agreed that operating transparently is not only a requirement for business actors but a key factor in the development of a sustainable economy.

The importance of transparency in developing a sustainable economy

Transparency and accountability foster performance improvement.

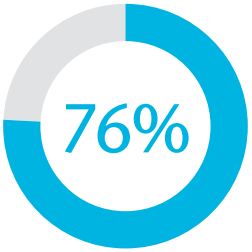
László Török, General Manager, Grundfos Manufacturing Hungary

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

Agreement goes even further, since 98% of all Respondents stated that operating transparently is the fundamental duty of all companies. This is because most Respondents believe that the long-term success and development of a company is only achievable if they are in line with sustainable development. To accomplish these objectives, the company has to (1) follow up and account for its performance and goals, and (2) communicate and cooperate with stakeholders. Having transparent operations is a precondition for this to occur.

The success of a company – in terms of its high-level sustainability performance and the achievement of long-term goals - is increasingly determined by the level of trust that exists among its stakeholders, for which transparency is necessary. Many respondents found it important that rhetoric should be followed by action and believed that operating transparently could serve as an effective management tool for achieving this objective. Besides its impact on the company, many highlighted the beneficial social impacts as well, since a transparent company can have an impact on others' awareness and help shape their behaviour.



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

76% of Respondents thought that the extent of a company's transparency is the result of interaction between the company and its stakeholders.

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. Furthermore, the greatest barrier to the creation and promotion of non-financial reports is the fact that 'nobody asks or makes companies accountable for this kind of information'.

The main obstacles to the development of non-financial reporting

42%

No-one asks for this kind of information

36%

Companies intend to publish but do not have the resources to prepare a public report

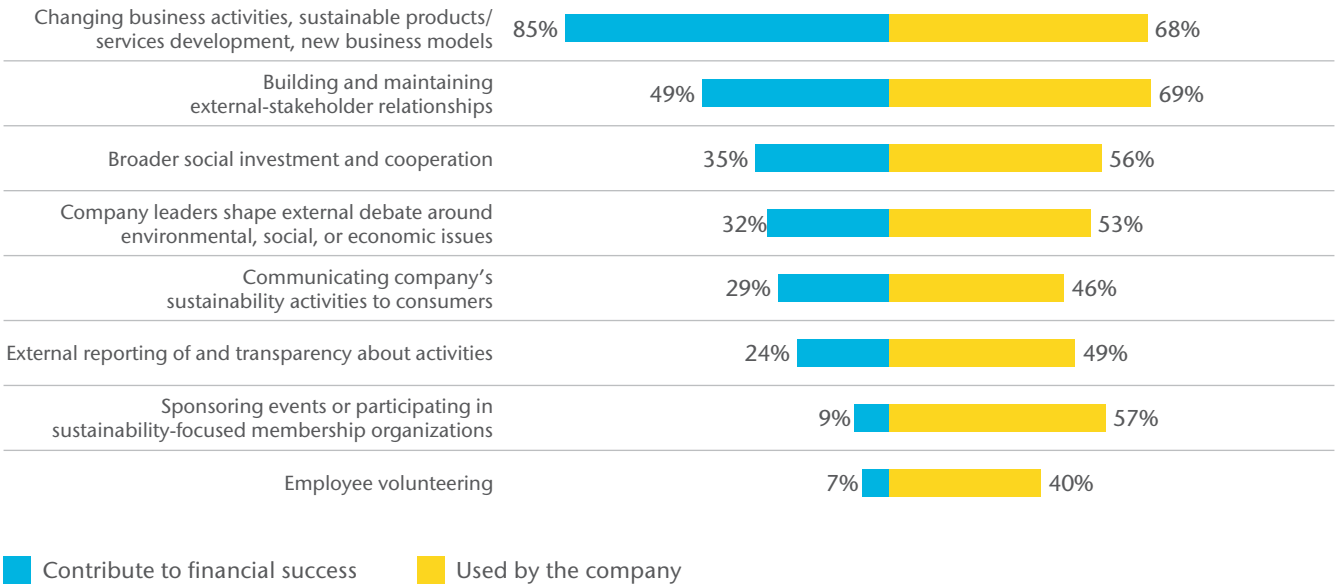
30%

There are no useful data / information available

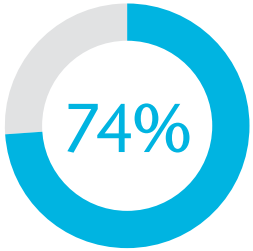
These findings show that there is thus even more responsibility on companies to increase the interest of stakeholders proactively and influence them. Additionally, as the previous answers show, the influence of only a couple of other sectors is recognised by decision-makers. Therefore, it would appear that fostering dialogue and cooperation between stakeholders and the business sector is crucially important for further increasing the transparency of operations and promoting corporate sustainability.

The survey asked respondents which sustainability activities are the most important for maximizing corporate financial value, and which ones are used in practice. Answers show that companies do not really prioritise in practice, even though they have strong opinions about the business impacts of such activities.

Sustainable activities which are important for maximizing a company's financial value and those used in practice

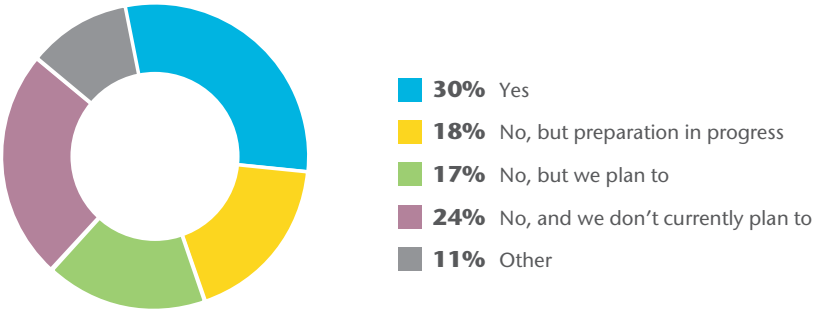


74% of Respondents said that it would take more effort to create a sustainability reporting system than the advantages and opportunity this would provide.



Even though the majority of Respondents (91%) agreed that measuring and reporting their companies' total (financial and non-financial) impact would contribute to their long-term success, only 30% of them have their own, domestic non-financial or integrated reports. 18% of companies are making progress on creating reports, and 17% plan to create them. Some respondents stated that it is adequate for their parent company to have a report so they are not planning to create one about their own domestic performance and impacts. 24% of respondents said that their company was not planning to publically report on their sustainable performance and plans. 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.

Do you make available any reports/ publications about your economic, social and environmental impact (n.b. specific to local company)?



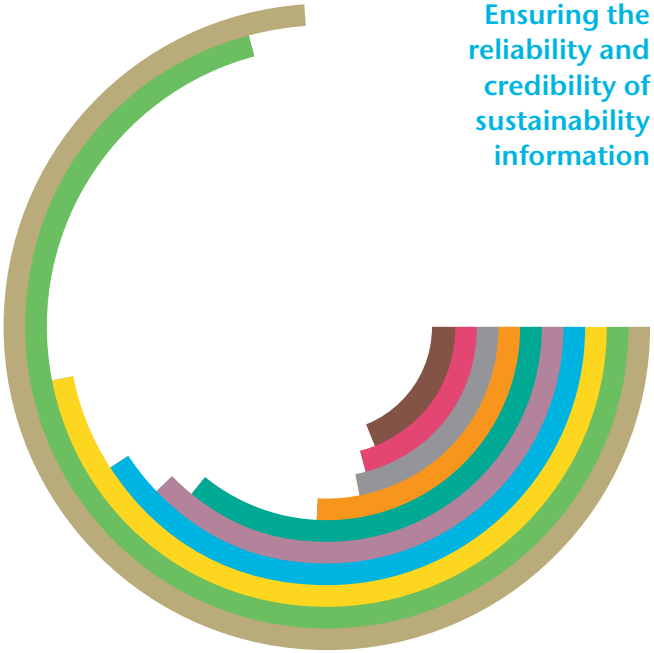
The European Parliament's new directive about the disclosure of non-financial and diversity information, which also applies to Hungary, states that non-financial reporting will be obligatory for some corporations. For 31% of Respondents this will not result in any changes because they already have an integrated, sustainability or other non-financial report. Only 5% admitted that they are unsure about how to fulfil this regulation which will come into force in 2017.

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

Companies primarily use their own sustainability performance indicators, but others undertake comparative analysis using standards and benchmarks. In terms of standards, the GRI, ISO and LBG are the most well-known. The Action 2020 Hungary indicators developed by BCSDH, and the SDG Compass which is designed to promote and make the UN Sustainable Development Goals more measurable, can provide additional support for measuring non-financial performance.

Increasing transparency not only relates to making more data publicly available, but also to improving the creditability 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. Only 41% use independent auditors to authenticate their sustainability achievements and uphold company creditability.



Ensuring the reliability and credibility of sustainability information

- **74%** Internal audits, monitoring (self-evaluation, compliance checks, etc.)
- **71%** Using standards (e.g. ISO, GRI, etc.)
- **47%** Awards, external acknowledgement
- **41%** Authentication of sustainability achievements using external auditor (audit, report, certificate, etc.)
- **38%** Self-regulation and related audits
- **36%** Continuity in presenting goals and results
- **26%** Benchmarks, rankings (e.g. industrial or issue-specific)
- **22%** Involving stakeholders (factory visits, external committees, stakeholder panels, etc.)
- **21%** Through balance in presenting 'good' and 'bad' results
- **19%** Assurance of sustainability report

International opinion-leader organisations such as the WBCSD, GRI and major audit firms that influence corporate transparency all agree that the need for transparency of measurement of data about corporate performance and company goals will increase in the future. This development is crucially important for addressing global and local social and environmental challenges and supporting sustainable development.

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.

The more detailed and downloadable version of the BCSDH survey is available on the site www.bcsdh.hu/topics/recommendation-for-business-leaders

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