

Strategic proposal for the Government of the Republic of Hungary on accelerating Corporate Social Responsibility

This strategic proposal was created under the guidance of the United Nations Development Programme, supported by the European Union, and with the contribution of more than 100 Hungarian experts



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Acronyms

CSR:	Corporate Social Responsibility
CSO:	Civil Society Organisation
EMAS:	Eco-management and Audit Scheme – <i>EC1836/93</i>
GDP:	Gross Domestic Product
HAS:	Hungarian Academy of Sciences
HCSO:	Hungarian Central Statistical Office
ILO:	International Labour Organisation
IPPC:	Integrated Pollution Prevention and Control
MEC:	Ministry of Education and Culture
MEW:	Ministry of Environment and Water
MF:	Ministry of Finance
MJLE:	Ministry of Justice and Law Enforcement
MLG:	Ministry of Local Government
MNDE:	Ministry for National Development and Economy
MSAL:	Ministry of Social Affairs and Labour
NGO:	Non-governmental Organisation
SME:	Small and Medium Enterprise
PR:	Public relations
UNDP:	United Nations Development Programme

EXECUTIVE SUMMARY

The UNDP with the support of the European Union has developed a **strategic proposal** for the Hungarian government on accelerating and encouraging Corporate Social Responsibility (CSR). The proposal is based on Western European best practices and the findings of pilot projects launched in eight Central and Eastern European countries¹, including Hungary. More than 100 experts were involved in the strategy building process.

During the project, we used the CSR definition of the European Commission (EC) from 2001: „A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.” (European Commission, 2001). The EC suggests that „Voluntary business initiatives, in the form of corporate social responsibility (CSR) practices, can play a key role in contributing to **sustainable development** while enhancing Europe’s innovative potential and competitiveness” (EC [2005]). According to EU guidelines, responsible companies undertake measures beyond the basic legal regulations in order to contribute to sustainability, **in cooperation with their stakeholders**.

The purpose of the current proposal is to help launching the process of change, which can lead to a future Hungary, that is a more liveable and whose development is more balanced and sustainable, providing its citizens a better quality of life. Our analysis wishes to contribute to a process, whereby the main value defining our lives is responsible action, both at the level of the individual and the community, among businesses, employees, the political elite, and in families. We are convinced that a more responsible way of thinking, transparent business practices and government operations, a better harmonization of economic, social, and environmental concerns can be reached only if we honestly face and understand all those issues and facts that are currently create obstacles against responsible thinking and action. Our proposal was created for the government of the Republic of Hungary, because we are convinced that the ruling government has a key responsibility in creating an enabling environment for responsible practices.

The role of the government in accelerating CSR is widely debated, since CSR by definition is a set of **voluntary activities**. However, the mere compliance with legal regulation, or a transparent, corruption free operation is not equal to CSR. Governments play a major role in accelerating CSR and providing enabling environment for that. Therefore, the baseline study, co-ordinated by UNDP and explored the state of CSR in the mentioned countries, made definite recommendations to governments. Five of the 11 main recommendations of the regional baseline study call on governments directly and the rest of the recommendations can be implemented only with the active participation of various government agencies.

The recommendations of the regional baseline study² were the following:

1. *Adopt the structure of this baseline for future work*
2. *Build consensus on country level indicators*
3. *Establish a mutual understanding for future developmental priorities*
4. *Seek to co-opt other country level measures that are relevant for CSR*

¹ Bulgaria, Poland, Lithuania, Hungary, Slovakia, Croatia, Macedonia, Turkey. The study is online at www.acceleratingcsr.eu.

² Baseline study: www.acceleratingcsr.eu

5. *National Governments should identify a named Department to lead on CSR issues*
6. *National Governments should consult widely with interested parties on CSR*
7. *National Governments to develop National CSR strategies*
8. *National Governments should lead by example – producing Government level Reports, integrating CSR issues into public procurement and adopting relevant legislation.*
9. *Project Initiators to enable further development of civil society organisations in the Region*
10. *Project initiators to support the further development of good reporting practice by companies in the Region*
11. *Project initiators to support the further development of good management practice by companies in the Region*

Corporate Social Responsibility can only flourish in an enabling environment, and the creation of such an environment is a key task for the government. However, until a government is unable or has no capacity to control and enforce compliance with even the most basic legal requirements and regulations, it can hardly require such truly meaningful action on behalf of companies as governments can in more developed countries require – since in those countries legal compliance is the mere basis. Currently in Hungary, the level of compliance and the following of norms are so low, that many times irresponsible action seems to be the standard.

Only government measures can close the legal gaps occurring due to lack of regulations – which are present in several areas including equal opportunity in Hungary. For examples, subsidies helping companies to employ the disabled are important – but the actual decision on which company will actually make use of this opportunity and employ the disabled is entirely an issue of CSR and remains an autonomous, voluntary decision of the company.

The authors of this proposal underline that the mere legal and lawful operation of companies is not equal to responsible corporate operation. At the same time, it is important to emphasise, that outstanding social or environmental initiatives do not substitute for the lack of a legal and transparent operation.

CSR can be accelerated through various financial, economic incentives, awareness building and education – all are important functions of government. Among others, a carefully planned **tax reform** can influence changes: tax rates on environmentally and socially damaging activities, tax breaks for progressive social and environmental action. A similar method is the calculation of external costs in overall costs. As we expect responsible companies to examine each business decision and investments from a social and environmental aspect – the same way we expect parliaments and governments to analyse the social and environmental effects of the passing, review and modification of any legal regulation.

Several previous proposals were presented to the current and previous governments to address the above issues and concerns. Therefore this proposal – although builds on these previous proposals – intends to go beyond the previous attempts in one key aspect: we propose that two main indicators (GDP and ecological footprint) instead of one (just GDP) measure the Hungarian economy. In the following chapter, based on international examples and expert discussions conducted in Hungary, we will explain what environmental, social, and above all, what economic advantages could be reached by **the introduction of the ecological footprint as the key indicator of the economy** and how this solution could place our country among the 10 most progressive countries acting for sustainable development.

The ecological footprint „makes it possible to assess how much land and water areas a certain human population requires to produce the resources it consumes and to absorb its waste” (Rees – Wackernagel [1996]). Once ecological footprint is introduced as a national indicator along with GDP, practically we could not only measure how much we produced, but also what we spent on and at what price!

We are making this strategic proposal convinced that all efforts supporting corporate responsibility must aim at sustainable development. Sustainable development as defined by the UN in 1987 is „...development which meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development [1987]).

Major ecological problems became widely known since the 1970s, and then the Brundtland Commission has created the notion of sustainable development in 1987, which served as the main focal point of the 1992 Rio Summit. Yet, even after a decade of repeated efforts, sustainable development is hard to translate into the everyday reality.

The Agenda 21, the output of the UN Conference on Environment and Development in 1992 phrases it as follows: "sustainable development is development that does not destroy or undermine the ecological, economic and social foundation on which its constant development is based".

The perspective of sustainable development stems from the recognition that the current constant strive for growth will lead to a social and environmental catastrophes even on the foreseeable future, therefore instead of the constant growth of the economy, the balance of a liveable environment, economic welfare and a healthy social development must be created.

Our proposal is based on an enlightened business perspective that understands that sustainability is not at all in conflict with the business interest, but rather the only possibly successful business strategy for the long term. Thus, sustainability can become a competitive advantage not only for Hungarian companies but also for the entire country.

We still often hear that measures aiming at a responsible, sustainable operation are going against basic business interests. This statement cannot be support because there is no such simple and overall answer to each element of CSR and sustainable development. Each business decision must be examined specifically from a sustainability perspective so that win-win solutions can be created, harmonizing business interest and social-environmental benefits. This requires a new approach, but this issue cannot be oversimplified: neither to stating that CSR leads to short term, spectacular business growth, or to stating that responsible measures can only be counterproductive to profit and growth.

In light of the above, we recommend four major tasks to be undertaken by the government:

- **Introducing the ecological footprint indicator** as a fundamental tool in shifting towards a socially, economically and environmentally sustainable development of the country;
- **Strengthening stakeholder groups** as key roleplayers in accelerating CSR
- Leading by example: establishing **the transparent, responsible and sustainable operation of central and local government and its companies**. Government institutions should introduce a system of CSR reporting based on Global Reporting Initiative (GRI)³ standards, building credibility by involving stakeholders and assigning independent auditors.
- Supporting employability by **enforcing equal opportunity principles**

We also find it important that in order to implement the above recommendations, the government establishes a **CSR coordination forum**, where responsible government officers share the most recent knowledge and trends, introduce up to date best practice and professional support in preparation for decision making. The forum – in which business, civil society and government should be represented – should serve as a continuous and active platform for all three sides, provide an opportunity for players interested in CSR for information sharing, expressing their opinions, even negotiating potential conflict and finding joint interests. As an important activity of the CSR Forum, it should publish best practice: since publicity – especially an intense communications campaign – can significantly contribute to the recognition and solution of problems.

³ GRI: Globally developed, administered, implemented and accepted guidelines on how to report on „sustainability performance“ of companies, how to involve stakeholders, enabling comparison of sustainability reports of different industries. www.globalreporting.org/AboutGRI

Key recommendations

From the above list of key recommendations due to its relative novelty in governmental discourse, we found it necessary to introduce the notion of the introduction of ecological footprint indicator in details. Due to its significance, recommendations for employment are also summarised below.

1. Introducing the ecological footprint indicator

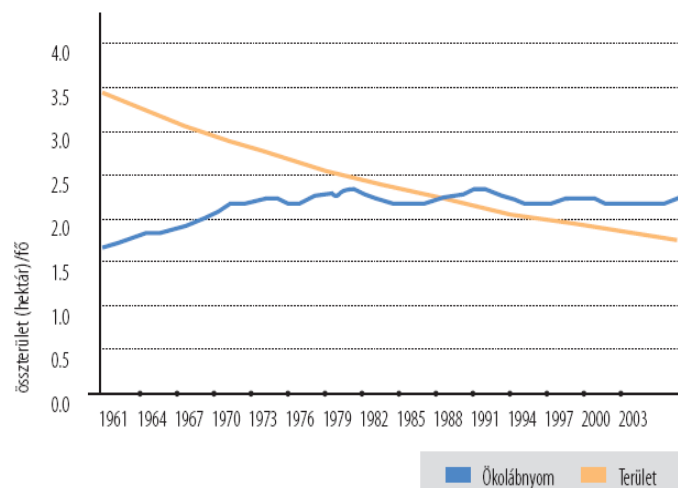
The most important recommendation of the participating experts and working groups for the Hungarian government is the **introduction of the ecological footprint indicator as a second major indicator of the national economy besides GDP** thus making a truly significant step towards the sustainable development of Hungary.

„The ecological footprint measures – expressed in land size – how much a human population impacts its natural environment. Using this special method, all kinds of environmental impact can be measured (in acres/person): in case of consuming agricultural products, or other activities using land (building roads and buildings). In case of emission of waste, the footprint shows the size of land (green surface) needed to neutralize (i. e. capturing carbon dioxide) that certain waste. According to most calculations, the biological capacity of the Earth provides with 1,8 acres/person, but our actual ecological footprint is 2,3 acres/person globally, hence each person is overusing half an acre. This overuse is primarily generated by developed countries, while at a lower level of development, the ecological footprint is proportionally smaller.” (Environmental and Natural Protection Lexicon II. Akadémiai Kiadó, Budapest, 2002)

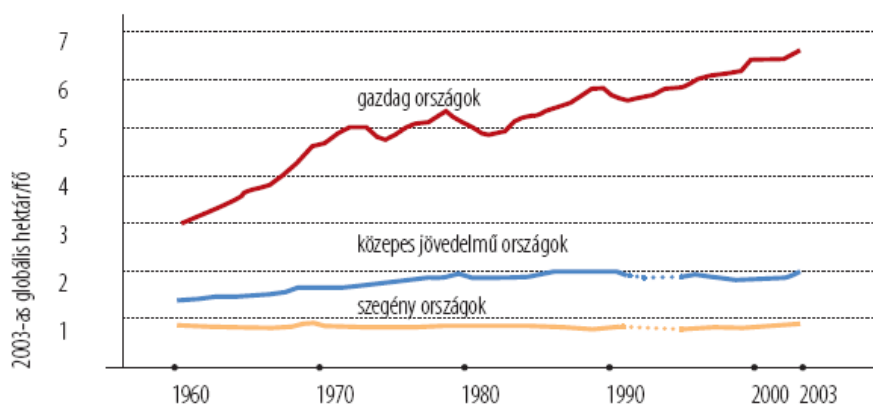
Among several attempts to measure and quantify ecological effects caused by economic activities, the calculation of the ecological footprint seems to be the most successful. The concept was created by William Rees (Canadian professor) and Mathis Wackernagel (Swiss researcher working in the US). The indicator is able to measure how much land is able to provide the necessary raw material and energy at a

Forrás: GFN, WWF, ZSL [2007]: Living Planet Report 2006.

given level of development. Fundamentally, the ecological footprint is a sustainability indicator, but it can also highlight those unproportionalities that currently exist between the use of resources of developed and developing regions. Its value shows, how fast can our biosphere recover from the use of land or water area, reproducing the resources needed by a given population annually, applying mainstream technologies and resource management. Using land as a measure is based on the fact that ecosystems are defined by those parts of the Earth's surface where photosynthesis happens (Kerekes [2007]).

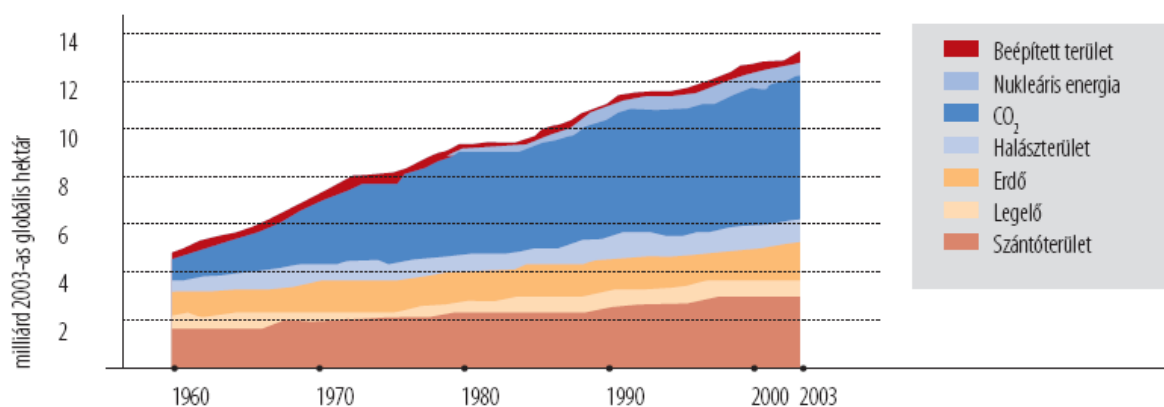
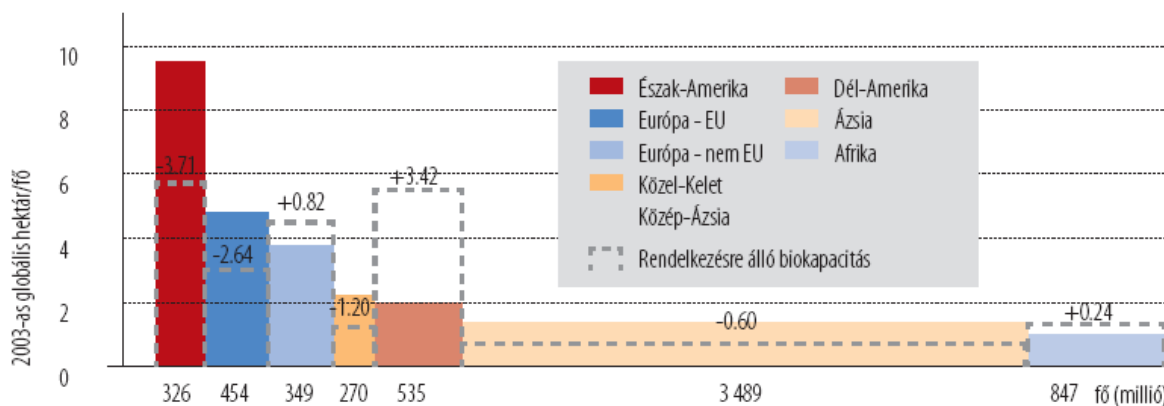


There are two possible methods used in calculating the indicator. One of them constructs the footprint from the elements of the consumption and waste production of the population, going into fine details. This method is highly complex and therefore very accurate; however, it requires such a huge amount of information that makes this method very expensive. The other, more recent methodology uses national statistics and builds up the ecological footprint from aggregated data, therefore it is a lot less complicated. Today, we have records of 11,1 billion acres of productive area, which can be considered as the basis for renewable resources. Of this, 2,3 billion is constituted by water (seas and lakes), 8,8 billion is land area (Kerekes [2007]).



**Everybody has a deficit?
Half of it is CO₂**

- Ecological-footprint of developing and developed nations and the composition of the footprint



Fordás: GFN, WWF, ZSL [2007]: Living Planet Report 2006.

We have known for a long time that developed countries overconsume, but earlier, the underuse of poor countries has counterbalanced our overuse. Even in 1960, – considering the world average – bio capacity (productive land) was still two or three times larger than consumption per head. According to table 1. above, this has changed for the worse around 1985. Our deficit grows even though in the world average we also consider hundreds of millions who are starving and billions who live on less than 2 USD a day. This is primarily due to the overconsumption of wealthy countries (see table 1.), since those countries which lead in population growth but belong to the group of medium or low income countries, the ecological footprint remains the same. If you also look at the composition of the ecofootprint, it clearly shows that, carbon-dioxide emission is responsible for most of the growth, which can be tracked back to transport and individual mobility. This is called the carbon-footprint (Tóth [2007]).

If our ecofootprint is larger than the bio capacity of the Earth – which is 1,8 acres per person (and it does: in Europe, our average footprint is 5 acres, in the US it is 9 acres, meaning it is several times larger than that⁴), then our world is not sustainable. The ecological footprint of Hungary according to current calculations is approximately 4,5 acres.

The sustainability of a country is constituted of the activities of people and their organizations, enterprises, therefore this indicator is suitable for influencing business organizations: by using the indicator wisely and communicating our overconsumption, we should be able to motivate businesses to be more responsible. Along with GDP that can merely measure economic activity, but is unable to measure how unsustainable our world has become, introducing the ecofootprint in the measuring of our country's performance makes bad tendencies highly tangible and hopefully changeable.

Our current economic model focusing on GDP and constant growth is clearly unsustainable. Therefore, it is urgently necessary to shift towards a new economic model, and using the ecological footprint indicator as a tool along with education, awareness raising and information sharing seems to be a helpful tool in that process.

GDP is suitable tool for the quantitative measuring of economic performance, but unfortunately it is entirely blind to certain important differences. Because it was not designed so, it is unable to measure such major factors – deeply defining our way of life – as clean air and bio capacity of land. GDP – although we continue to use it for what it is suitable for – was designed in an era, which considered natural resources endless, and the quality of life was simply measured by economic activity, therefore major accidents, diseases and other catastrophes were also measured as activities, which contribute to the ultimate goal of growth. By now, things have changed: we know a lot more about the world, therefore the mere calculation of growth without considering ecological, cultural and other social effects seems highly improper. It could be compared to a race, where a blindfolded driver's performance is not measured by how many persons he hits or misses, but what speed records he beats (while perhaps running straight into a concrete wall).

A clear example for this is the accident of Exxon Valdez tanker near the coast of Alaska in 1989, which caused an oil spill of 42 million litres. And although the oil waste has almost totally killed all life form along a 2000 kilometre long coast line and destroyed the living of locals, the GDP of the region has suddenly grew, since thousands of volunteers filled up local hotels and restaurants, and sales of local shops and gas stations skyrocketed. In the mean-

⁴ Global Footprint Network, www.footprintnetwork.org

time, this disaster has caused unprecedented damage in nature, effecting life to this day, fully and finally destroying 21 species.⁵

The introduction of the ecofootprint as a second national economic indicator would turn the current profit analysis into a cost and benefit analysis. It would mean such a shift in attitude, as that of a conscious consumer that not only looks at the low price tag on a pair of shoes, but also considers how long they will last. By now, we have all know how much wiser and more effective strategy stems from the above attitudinal shift.

The ecofootprint not only corrects the torsion of GDP based measure: its introduction also contributes to the solution of the most burning climate crisis, since carbon-dioxide emission is a major component of our footprint. The dangers of climate change are now understood and are part of the public discourse; therefore, the public easily understands it. Finally yet importantly, cutting back our carbon footprint is on the agenda of national and international negotiations and agreements.

We are convinced that our proposal to introduce the ecofootprint as a national indicator – if implemented – will not only serve the environment. First because when measures are taken towards sustainability, striving to create a socially sustainable development is at least as important as reducing environmental damage. We tend to forget that sustainable development is by far not equal with environmental protection, rather a comprehensive economic development trend also seeking answers to social issues. Secondly, measuring and reducing ecological footprint is one of the most important tools in supporting local economic development, which helps in resolving the most pressing issues of local society, namely it creates jobs.

Proposed action plan for the national introduction of ecofootprint:

1. The Government of the Hungarian Republic should join in a statement to the Global Footprint Network initiative Ten-in-Ten, committing itself to the introduction of ecological footprint calculation as an equal indicator to GDP, thus creating a system of dual indicators.
2. The Government adapts the method of the calculating the ecological footprint and strive to define as precisely as possible the ecological footprint of Hungary, at the regional level by 2010, at the subregional level by 2013.
3. The Government should work out an assessment tool, a simple calculator for business and individuals and launch an intense communications campaign to make it widely available and used.
4. The ecofootprint indicator should be introduced by government institutions as well.
5. The Government should start extending the use of the ecological footprint to companies: after a certain probation period and along with lifting certain administrative burdens, it should include the ecofootprint in the annual statistical report sent in to the Hungarian Central Statistical Office. After a period, the Government should initiate and provide incentives for publishing along with the annual financial report.
6. All business entities (including both public and private) should commit to decrease their ecological footprint.
7. In order to help social consciousness and motivation the Government should launch an extensive information campaign about the calculation method and benefits the ecological footprint, so that private individuals make a conscious effort to reduce it.

⁵ William McDonough and Michael Braungart: Cradle to Cradle, HVG, 2007.

It is primarily the question of political will whether such a practical tool can be introduced in the everyday practice of actors in the Hungarian economy and through this, the introduction of a cost-benefit analysis and the prudent management of ecological asset – which is more and more measurable in financial terms. We believe that major disapproval and protest cannot be expected on behalf of the business sector, since this legal requirement would also be in the most basic interest of companies.

We often experience that ordinary people fall into apathy understanding the immense challenges of global climate change and the unsustainability of the current economic growth, poverty, unfairness and corruption since they can feel overwhelmed by the problems compared to their ability to act. On the other hand, political will can move a country – and people, businesses making the economy working – from frozen inactivity. This political will is the foundation of our proposal.

It is an important task of the Hungarian Government in connection with the introduction of the ecological footprint to motivate companies to calculate and reduce their ecological footprint. If we give concrete, helpful tools in the hands of businesses, it will be able to influence their operations more successfully than before.

2. Labour issues and equal opportunity: increasing employability through the enforcement of equal opportunity guidelines

One of the most pressing issues of the Hungarian economy is the low level of employment. Therefore measures recommended in the area of equal opportunity are not only key because of theoretical, human rights considerations, but are also the key in enhancing our competitiveness, which is a most basic economic need. Therefore, we strongly recommend the following measures to the Government. Even the most committed companies will only be able to employ people belonging to various disadvantaged groups, i. e. the disabled or members of a minority, if their employability is enhanced.

Establishing the institutional background and education in order to increase responsible employment and inclusiveness

In order to be able to manage the various issues in this area in a comprehensive way, the position of a Government Secretary (ombuds person) responsible for labour issues must be established. Such a position may be able to design and implement complex governmental measures, especially in cooperation with the government officer responsible for CSR.

In order to increase the employability of disadvantaged groups, it is important to train these groups – especially the Roma, women and other strongly affected large groups – about their rights and opportunities, under the scheme of strengthening stakeholders, recommended earlier. Parallel with that, it is also important to encourage the responsible employment practices of companies. If pressure coming from enlightened, well-informed legally conscious, well-trained potential employees, commitment from employers and the the recognition of

economic interest meets government incentives – than we can make a meaningful contribution to the increase of employment.

Increasing employment through the integration of those who were forced out of the employment market

In order to strengthen social cohesion and integration, measures aiming at increasing employment should focus on the following groups forced out of the market or threatened: the Roma, women, the elderly, the young people and those living with disability.

Often a negative attitude towards these disadvantaged groups further contributes to their difficulties in the labour market. The acceptance of these groups can be enhanced with the help of mass media. In order to enhance the general attitude going against the realization of equal opportunity, as part of the public service requirement of public media, representatives of the largest Hungarian ethnic minority, the Roma must appear in news programs, advertisements and series. We recommend implementing this through incentives to commercial media, and as a requirement and enforcement towards the public media.

Based on the above, we suggest that in case of the groups most affected by non-equal opportunity (the Roma, women, older employees, youth and disabled), the government should support those business efforts, that aim at the implementation of equal opportunity principles in line with the special needs of these special groups – and thus contribute to employability. Such worthy efforts may include the following:

In the area of the employability of **the Roma**, scholarships, internship programs, reduction of discrimination through special partnerships (i. e. with NGOs) or in the case of Roma women, helping mothers with young children especially in underdeveloped regions.

In order to enhance equal opportunity of **women**, the government should enforce the principle of equal pay for equal work and regularly monitor and control it. It should provide tax incentives to create conditions for work-life balance, especially in the case of mothers with young children.

Concerning the equal opportunity of **older** employees, it should prevent discrimination based on age through regular monitoring.

As for the equal opportunity of **youth**, we propose to research the situation of young people dropping out of vocational training and harmonize training programs with the possibilities of practice opportunities.

Finally, for the equal opportunity of people living with **disabilities**, the government should open a competition among companies to recognize those championing in accessibility. It would be also important to broader support opportunities for rehabilitation work, in order to have more and more companies, which are able to hire people with disabilities.

In labour issues, to enhance equal opportunities, it would be important to make it a requirement of human resource and labour education the introduction of an equal opportunity management module. There is a best practice example for this: at the adult education faculty of the University of Pécs, a new credit was introduced recently called „HR with special groups”.

Besides EU funds, it would be important that also government funds can only be attained if the principles of equal opportunity are practiced. An excellent tool for this is the horizontal requirement system and application tool created by the National Development Agency, which could be easily adapted and used in other areas as well.

The motivator role of the government can only be truly put in practice if the government does not change in an unexpected way the regulation of responsible employment practices (i. e. employment of disadvantaged groups). In other words, companies leading by outstanding examples in this areas, should not find themselves in a position where the incentives provided by the government at the beginning of a certain employment program is fundamentally changed by the government without the necessary negotiation and adaptation period. It is important for companies that this threat does not prevent them from launching employment programs for special groups, since only long-term programs can prove that employing groups with special needs can actually work out for the benefit all parties.

Flexible and family friendly employment practices, healthy and safe workplaces

Awards and labels are suitable for the public recognition of those forerunners in atypical employment and other responsible and innovative employment schemes (i. e. Family Friendly Workplace Award, Best Workplace Award, Inclusive Workplace Award). But they are only credible if applications are screened by outside, independent organizations and come with a regular follow-up and monitoring, even including sanctions in case the result are not kept up (losing the title, award, label).

We recommend that in the area of employment and equal opportunity, departments join forces in working out an employer CSR label, that is awarded in a publicly controlled way to companies and institutions spearheading change in responsible employment, healthy and safe workplaces and equal opportunity employment.

Going beyond the circles of those obliged by the law to produce an equal opportunity plan (public institutions and companies), the responsible department should launch a competition among those not required by the law, to prepare equal opportunity plans including concrete goals, indicators, solutions tailored to the company. The award of the best plans could be a free training for those staff members implementing the plans (equal opportunity managers), so that they can continue developing and using their knowledge. This competition should primarily award those who practice equal opportunity principles during selection, HR policy and employee training and devote special efforts to special needs groups.

Tele-work should be given a lot more serious incentives and motivation in order to make it more popular so that not only labour and equal opportunity effects can be significant, but also its environmental impact. Similarly, it would be highly important to reform the retirement system so that it does not motivate early retirement as the case is today.

Another concrete measure affecting the employability of another large group – mothers with young children – is the idea of supporting day-care costs by the company, motivated by a tax incentive. In addition, the government could support special training for mothers returning after maternity leave.

An important task in the effort of increasing the formal employment is the reduction of legal but unethical employment practices. Apart from a stricter control over fake employment contracts, it is also important to review the institution of loaned employees. This employment form is illegal in some countries, (i. e. in Sweden) since it provides an uncontrolled, unlimited opportunity for the employer to get rid of any responsibility towards their employees and it legalizes the dismissal of the most basic labour rights and protection. Genuine, well-founded temporary employee needs could be sufficiently taken care of by the regulation of employment services and temporary employment, since there is no real market

need for loaned employee schemes beyond fulfilling valid needs of companies seeking temporary workers.

We find it crucial to strengthen stakeholder groups. Employee representation must be strengthened so that they can work also in SMEs making up 98% of economic actors, not only in companies employing massive number of people.

The future of our strategic proposal

Our strategic proposal would like to trigger government to select these recommendations as goals and entrust its various departments with the implementation of specific steps. Thus it can make a highly significant step towards accelerating genuine CSR, stepping beyond individual corporate action and aims at the creation of public good at the national level.

We are convinced that the work of UNDP, its implementing partners and various professional experts participating in the process can contribute significantly to the process in which corporate social responsibility in Hungary means that companies striving to make sustainable development a reality.

BACKGROUND TO THE STRATEGIC PROPOSAL

The United Nations Development Programme (UNDP) has launched its first Regional Pilot Project on Corporate Social Responsibility (CSR) in January 2007 with the title of “Accelerating CSR practices in the new EU member states and Candidate Countries as a vehicle for harmonization, competitiveness, and social cohesion in the EU”. The goal of the project is to accelerate CSR, that is to motivate and help companies integrate the principles of sustainability into their strategy, and to disseminate experience gained in the area of corporate social responsibility in new member states and candidate countries. In the first phase of the program a regional as well as a Hungarian baseline study was published.⁶ The baseline studies were examining the development level of CSR in each country based on a methodology worked out by international experts: they mapped active players and their activities, and the main drivers and obstacles. During the process, the researchers recorded interviews with stakeholder groups. These interviews focused on six main issues: *strategy, involvement of stakeholders, corporate governance, performance management, the public disclosure and assurance of CSR and sustainability reports.*

During the preparation of the strategic proposal in the spring of 2008, we followed the method of action research: workgroups in five issues (economic development, environment, consumer protection, labour issues, and equal opportunity) were gathered and experts have drawn up a problem map in each, then making recommendations for solutions. We have also conducted expert discussions and studied background documents in the areas of anti-corruption and the transparency and CSR of the financial sector. They five areas were selected according to the major stakeholder groups affected by businesses. We have studied the recommendations approved by the Social and Economic Council in 2007⁷ on corporate social responsibility, and we definitely support the implementation of most. In each workgroups, the broadest range of stakeholders were represented, including the most experienced specialists of each issue, committed NGOs, and an active group of corporations and government officials. In total, more than one hundred people participated in the stakeholder consultation process (see their list in the appendix).

We are grateful to those who have worked with us as chairs of the workgroups and as authors of specific chapters: Zsolt Boda, PhD – Hungarian Academy of Sciences Institute of Political Science and Budapest Corvinus University Business Ethics Centre, Séverine Deboos – International Labour Organisation, Emese Gulyás and dr. Anikó Haraszti – Association of Conscious Consumers, György Kasza – National Development Agency, Réka Könczey – Ministry of Environment and Water, Development Directorate, Ida Petrik – Hungarian Association for Environmentally Aware Management, Ildikó Rigó – International Labour Organisation, Ágnes Simonyi – Ministry of Social Affairs and Labour, Szilvia Szántó – Ministry of Environment and Water, Gergely Tóth – Hungarian Association for Environmentally Aware Management, Andor Ürmös – Ministry of Social Affairs and Labour, Sándor Lakatos – Ministry for National Development and Economy, Katalin Ertsey – independent CSR consultant,

⁶ Materials accessible through: www.accelaratingcsr.eu

⁷ Recommendation of the Hungarian Economic and Social Council (Gazdasági és Szociális Tanács – GSZT – Ajánlása) (accepted by the plenary meeting of the GSZT on October 13, 2007.) www.mgszt.hu

author and translator of the strategic proposal, and last but not least Dr. Krisztina Kiss, the Country Liaison Officer of UNDP, who has managed the entire Hungarian project and coordinated it on the international level from the preparation phase in mid-2006 to date.

This proposal – building on the regional and Hungarian baseline studies published in 2007 –, makes recommendations to the Hungarian government on what steps it should take in order to accelerate corporate responsibility in Hungary.

The initiators and participants of the project do not wish to either repeat previous recommendations, or make such a long list of recommendations that would endanger the effectiveness of the work – instead they decided to focus on a limited number of key recommendations, which they consider of outstanding importance – along with many other excellent ideas surfaced during the process, which are also listed. The implementation of these would be a significant step in moving us closer to our goal: a balanced and sustainable development in Hungary, which is able to provide a better quality of life, and an opportunity to make a decent living through honest work. Our analysis wishes to contribute to a future where the defining value of our lives is responsible action.

We are convinced that the independent and professional work of UNDP, its implementing partners and professional experts can greatly contribute to accelerate CSR in our country so that it moves beyond the current basic phase, and arrive to a next phase of development⁸ and help the entire country to shift towards sustainable development.

⁸ Regional baseline study www.acceleratingcsr.eu

THE BIG PICTURE: THE CURRENT SITUATION OF CSR IN HUNGARY

Key findings

The previously mentioned baseline study has stated several crucially important findings regarding the ethical performance and the level of responsibility of Hungarian companies and the overall economic and legal environment: we could not agree more with them as described below.

In Hungary, the level of trust in companies is still very low, the institutions of conscious consumerism are very basic, and most civil society organizations are also not strong enough to put significant pressure on companies, to communicate the expectations and claims of consumers and broader stakeholder groups. Access to public information from companies and from regulatory bodies that would be necessary to make an informed choice is also difficult. At the same time, there is a growing group of companies that are voluntarily – without any significant pressure from consumers or government incentives – make efforts towards a responsible and sustainable operation, thus providing an example for those less active or aware. These committed companies and their partners most engaged in the issue (researchers, experts and civil society organizations) lead the public discourse on CSR, actively participating in shaping the future, including the preparation of the current strategic proposal.

Although stakeholder groups are weak, a new and decisive phenomenon should be taken into account when assessing forces affecting corporate reputation: the incredibly fast spreading of the internet, more specifically web 2.0 applications (blogs, discussion forums, video-sharing sites, community sites, etc.). On these surfaces, tens of thousands of users exchange information with an unprecedented speed about companies – among others. Furthermore, certain web 2.0 communities specialize on a consumer watchdog function, with a highly vigilant consumer and environmental activist attitude, which means that the reputation of companies can be destroyed or enhanced within hours in connection with their actions.

The most active players in CSR are multinational companies, but we often see that the goal of launching CSR programs is primarily to enhance their reputation; their CSR activities are not always strategically designed or credible. Often they consider it an (important) PR or marketing function, executed through basic means (such as sponsorship or corporate gifts), if they devote any attention to it at any level. It is a fact that CSR has become a trendy topic to discuss, but the public discourse in the past years has not really gone beyond „what is CSR and why is it important for us?“ and similar topics. Although in light of the net-based phenomenon mentioned above, any CSR action without a meaningful, credible base, providing the foundation of intense communication efforts, if only conducted as a PR exercise is actually counterproductive, generating rather cynical reaction than good reputation. Many leading companies have recognized that and they started to produce public reports – audited by independent organizations – on their responsible and sustainable activities including those that are not supported by communication campaigns.

When we look at the sustainability of small and medium enterprises (SMEs) we find that due to their size, their limited needs of transport and a lower level of profitability, they are often

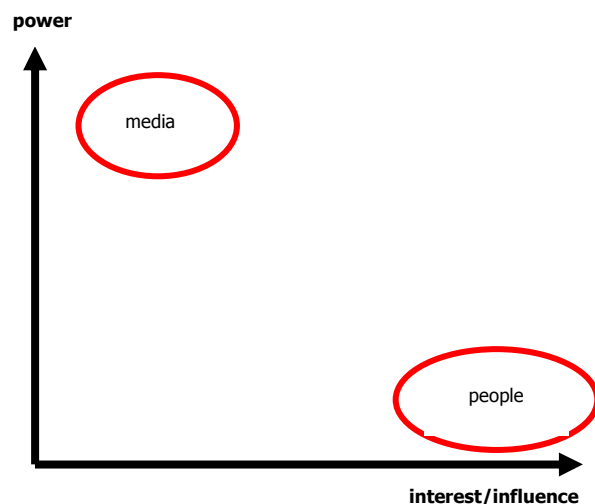
more sustainable. When they make efforts to be more responsible, it is often going against their competitiveness and therefore their efforts gain more respect and credibility among stakeholders since they do not gain PR benefits from such actions. A testimony from the CEO of the recipient of the 2007 Business Ethics Award in the SME category, Hajtás Pajtás Courier Service also reported this, while the participants of our workgroup on economic development, as well as the research findings of Gergely Tóth support this argument as well.⁹

In the countries of the region, there is a special phenomenon that of the traditionally caring company, inherited from the era of state socialism. Although this may even go back further in time – i. e. in the case of Richter or other companies with a long history, where an enlightened owner has introduced worker welfare measures even 100 years ago -, but typically, big socialist companies maintained for decades company kindergartens and holiday houses. Stemming from this, quite often, the two traditions live together, even under the roof of one company: the old, traditional welfare model, “the caring company”, and the new, foreign expectations, primarily in a multinational setting – where these companies often experience an external pressure to care.

It is important to emphasise that CSR in Hungary is definitely driven by companies and to some degree by their cooperating NGO partners and a professional circle – certainly not by the key stakeholder groups (consumers, suppliers or the local community). We are not witnessing a development driven by business associations eliminating marketing aspects, or by conscious and strong civil society pressure groups, and certainly not central or local government bodies. This has several consequences to the current situation.

The responsibility of stakeholders

CSR is not a one-way street; stakeholders have enormous responsibility in the realisation of CSR strategies: business organizations will be as responsible as much as stakeholders need it and claim it. Consumers have to understand that their money is a vote: and all other stakeholders, that their behaviour influences companies. Of course, the level of power and the level of interest in each stakeholder group is very different: quite often, the most affected stakeholder groups have the lowest power, just think about the local, unorganized, uninformed community in case of an environmentally harmful new investment. They are affected vastly, but their ability to influence decisions is low. On the contrary, usually the affectedness of the media is low, but their power is huge (see table below)



⁹ Tóth Gergely: The Truly Responsible Enterprise, KÖVET, 2007

Consequently, the credibility of CSR has even greater importance, it is even more important to examine what attempts the company made to involve stakeholders during a given corporate initiative.

In Hungary, we can only hope that if stakeholder groups become stronger, then companies will not only launch CSR efforts with a marketing agenda behind, but rather make well-designed investments aiming at sustainability. Currently, the various forms of social participation are underdeveloped, even well-organized groups experienced in civil techniques are facing major obstacles while unorganized local stakeholder groups – whose affectedness is huge in case of such developments – are even more limited in making their voice heard. Therefore, it is crucial to strengthen the direct participation rights of stakeholders that are unable to stand up as organized players.

In the workgroups, most people shared the view that many stakeholders are often cynical or suspicious towards CSR activities if those are supported by loud communication campaigns. This unfortunately can also harm the public acceptance of those genuine, credible, deeply responsible programs as well, that are aiming at sustainability and quality development and eventually this prevents the spreading of truly responsible corporate behaviour and attitude.

There are only a few initiatives in which several companies join forces or a business association takes measures affecting all its member companies, or makes public commitments towards a more sustainable, more ethical, more transparent operation and thus gives up the marketing gain around individual brands. These are certainly the most credible and successful initiatives.¹⁰

Although mainstream media could and should play a key role in both information sharing and opinion forming, our expert participants agreed that the media is often both uninformed and suspicious about CSR. They simply regard CSR as charity, and they expect companies to give anonymously, therefore they are sceptical about all kinds of CSR communication, even beyond the truly problematic credibility deficit that is also observed by professionals involved in CSR.

An important lesson of the action research discussions is that the Hungarian experts have different opinion on how much and to what extent the government should intervene in CSR. Although on a theoretical basis the government should only provide a regulatory framework and incentives, at the same time, due to the weakness of stakeholder groups, and their limited access to information, many find it absolutely verified to expect the government to take a more proactive role as well as lead by example.

Since the past 14 months, since the publishing of the baseline study in 2007 none of the above key conditions has changed significantly. On the other hand, the economic and political environment has significantly become worse, (in 2007 the GDP growth rate was 1, 3) and the political situation continues to be tense. At the level of certain companies, it is an unfortunate but typical situation that in an unfavourable economic climate, sustainability, CSR budget is

¹⁰ Such an initiative is the Romaster Program of the Hungarian Business Leaders Forum, which serves for equal opportunities, via business scholarships and traineeship programs. According to the companies participating, this is the first initiative of this kind to improve the employment of the Roma. It is wholistic and unique in terms of helping competitiveness of the the disadvantaged, based on real business and social needs, solving a deep and painful social problem, and not „greenwashing” of the individual company.

cut first, which also highlights the problem that responsible and sustainable operation is not integrated in the corporate strategy, but rather is an add-on.

The activities labelled as CSR in Hungary contribute to sustainable development at such a low level, that it threatens with companies being stuck at the current initial stage of CSR, especially if the economic environment stagnates and the role of the government continues to be unclear. **In case we are unable to place sustainability as a primary goal to companies and the economy as a whole, it can easily happen that the general public, getting all their information about CSR from the media, will only look at CSR as some kind of a luxury business of ill-reputed or well-off companies, or another gold mine for consulting companies.**

The experts participating in the preparation of this proposal support activities that make it clear for all stakeholders that CSR eventually is an important tool in shifting towards sustainable development, and as such, it is far from being self-serving. After all, it has been proven in the past 20-30 years that the current economic model based on a continuous growth of the economy and on the unsustainable use of resources will lead to environmental, social, and eventually an economic crisis even earlier than expected.

DEVELOPMENT AREAS AND RECOMMENDED SOLUTIONS

Recommended action plan¹¹

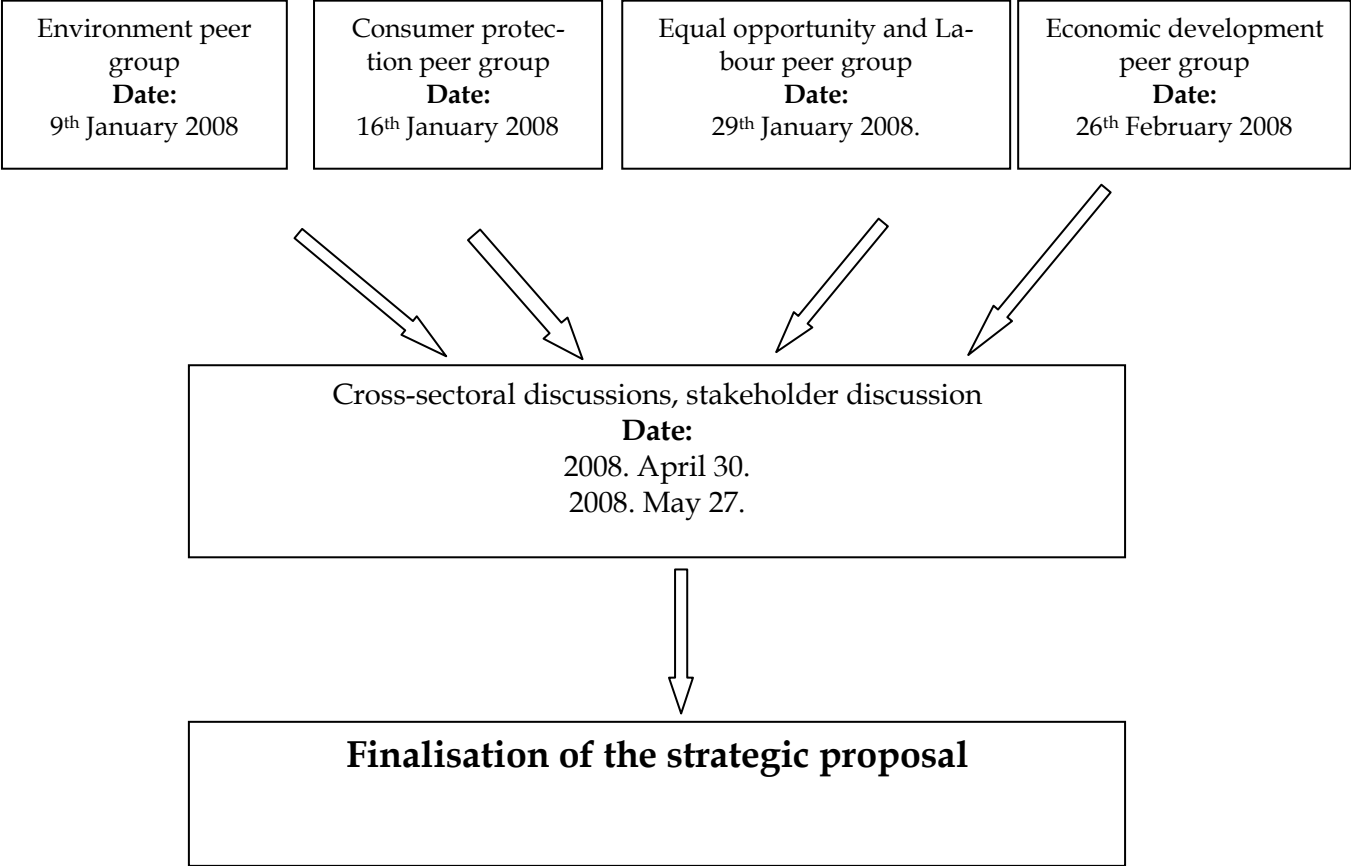
Measure	Responsible	Time frame
General recommendations		
1. Create a CSR Forum	All affected ministries, esp. Ministry of Social Affairs and Labour, Ministry for National Development and Economy, Ministry of Environment and Water, UNDP	Short term
2. Preparation for introducing ecofootprint indicator, data collection	Expert team, Social Affairs and Labour, National Development and Economy, Environment and Water Ministries, UNDP, CSOs and researchers of the issue, National Sustainable Development Council, ombudsman of the future generations	Mid term
3. Strengthening of stakeholders	Ministry of Social Affairs and Labour, Ministry of Environment and Water, CSOs	Long term
4. Government leads by example: prepare for introducing GRI based responsibility reporting	Ministry of Social Affairs and Labour, Ministry for National Development and Economy, CSOs	Long term
5. Supporting employability by enforcing equal opportunity principles	Ministry of Social Affairs and Labour, Ministry for National Development and Economy, CSOs	Long term
Economic Development		
6. Strengthening CSR of SMEs through publications, spreading best practice	Ministry for National Development and Economy, CSOs	Short term
7. Training for decision makers on sustainability as part of green procurement process, accept green public procurement national action plan	Ministry for National Development and Economy, Ministry of Environment and Water,	Mid term
8. Tax incentives, carbon taxation system and preparation for green budget	Ministry of Finance, Ministry of Social Affairs and Labour, Ministry for National Development and Economy, Ministry of Environment and Water, CSOs	Mid term
9. Support climate friendly communities movement	Ministry for National Development and Economy, Ministry of Environment and Water, Ministry of Local Government, CSOs, HAS Institute of Sociology	Long term

¹¹ In our study we understand the tasks of government agencies twofold: as organizations and as regulators. As a competent „body in charge“ we always specify an organization, which means that the Ministry (for instance) is not only responsible for making or implementing regulation, but also some internal tasks for example for greening the building.

Environment		
10. Incentives for greening (eco-mapping training, reforming public education, communication campaign)	Ministry for National Development and Economy, Ministry of Environment and Water, Ministry of Education and Culture, CSOs, Business associations	Mid term
11. Credible and extended green labelling and promotion	Ministry of Environment and Water, CSOs, label owners	Short term
12. Promotion of good practice, strengthening the legal obligation promoting green information	Ministry of Environment and Water, Environmental authorities	Mid term
13. Government lead by example, EMAS assurance and GRI reporting	Ministry for National Development and Economy, Ministry of Social Affairs and Labour, Ministry of Environment and Water	Long term
Consumer Protection		
14. Full publicity for consumer protection sanctions	Ministry of Social Affairs and Labour, Ministry of Justice and Law Enforcement	Short term
15. Motivate participation in mediating processes (arbitration)	Ministry for National Development and Economy, Ministry of Social Affairs and Labour	Mid term
16. Motivate consumer friendly corporate behaviour and labelling	Ministry for National Development and Economy, Ministry of Social Affairs and Labour	Long term
Responsibility of the Finance sector		
17. Promoting responsible lending within the sector and beyond	Ministry for National Development and Economy, Financial service providers, CSOs, authorities	Mid term
Labour and equal opportunity		
18. Creation of ombudsperson position for labour issues, strengthening three-party cooperation	Ministry for National Development and Economy, Ministry of Social Affairs and Labour	Short term
19. Training for special groups for the unemployed (attitude, best practice)	Ministry of Social Affairs and Labour, CSOs	Long term
20. Equal opportunity control on government fundings	Ministry for National Development and Economy, Ministry of Social Affairs and Labour	Mid term
21. Flexible, responsible and family friendly workplace label (assurance systems for awards, labels) and competition. Tax incentives for family friendly benefits.	Ministry for National Development and Economy, Ministry of Social Affairs and Labour, label owners, Business associations Ministry of Finance	Long term
22. Further legalization of employment market: review employee loaning, preventions of abuses	Ministry of Social Affairs and Labour, CSOs	Mid term
Anti-corruption, transparency		
23. Regulation of political party financing (prevention of further frauds)	Ministry of Justice and Law Enforcement, CSOs	Mid term

24. Ability to track funds from public procurement process	Ministry of Justice and Law Enforcement, CSOs, Business associations	Long term
25. Support three-party initiatives in responsible corporate governance, business ethics and transparency, involve stakeholders and government example	Ministry for National Development and Economy, Ministry of Justice and Law Enforcement, CSOs, Business associations	Mid term

The process of developing the strategic proposal



Key areas of accelerating CSR in Hungary

In the following we summarised the most urging problems that might be solved with CSR activities in five areas: economic development, environment protection, consumer protection, labour issues and equal opportunities, and corruption and transparency. In each chapter we make suggestions for governmental actions that might motivate more responsible corporate behaviour in relation to the highlighted problems. Both descriptions and solutions are based on the outcomes of the peer group expert discussions and on the independent background research of the author of this document.

I. Economic development

Sustainability instead of growth

1. Area to be developed

The unanimous view of experts in the economic development peer group was that the current growth-oriented way of economic development leads to further problems since it only concentrates on GDP, as the indicator of economic growth and it focuses on major corporations that account for only a small portion of players in the economy.

Even the current definition of CSR is not suitable for capturing its connection to sustainable development: it should be used or interpreted so that we do not only mean corporations under the term, but we also include SMEs and the various institutions of the government.

It is an important note that we define CSR in a way that all actors of the economy striving to halt the current unsustainable development.

2. Recommended solutions

Some results of responsible contribution to the performance of the economy is already apparent in a few industries where the nature of the industry makes it easier to become sustainable: creative, knowledge based industries, and innovation as a renewable resource actually serve sustainability and constant value creation. These companies provide examples for a new type of development: they prove that their development can be described not with mere numbers, and that sometimes limiting growth is actually the right kind of development.

An important recommendation in this area is that the government should encourage the **responsible operation of SMEs** which account for 98% of all economic actors. For them to give up some of the profit (ie. in order to employ responsibly and legally), is harder, it requires more sacrifice on their side to make voluntary CSR efforts, since even compliance with legal regulations means a disadvantage against competitors. They need training and continuous support to be able to keep their role in the community in creating jobs, developing the local economy and that they do not necessarily want to grow at any price.

Due to their lower level of profitability, transportation needs and higher employment rate, smaller companies are less harmful to the environment and society than larger ones, in other words, they are more sustainable. It is a strategic goal that within the Hungarian economy, local economy and local consumption should grow. To enhance this, it is important to support innovative and alternative solutions, such as production and consumer cooperatives or

local systems replacing money, direct barter – in other words destroy administrative barriers. The key players of such innovative models can be local SMEs.

It is important to collect and publish the best practices of SMEs, so that they not only quote multinational success stories since it may even be counterproductive by creating an impression that only multinationals can make CSR efforts. It is important that the government supports the publishing of “what can I do?” type of publications on sustainable development and climate change and adapting them to SMEs, in a government-business-NGO cooperation.

The key to competitiveness for SMEs is the reduction of administrative burdens and the cost of employment. It should be also considered in their regulation that 95% of these so-called companies is not a real company but a self-employed private person. It is key to make responsible operation attractive for them, provide incentives that are not hindering but enhancing their competitiveness.

In order to support responsible investment within the Budapest Stock Exchange (BUX), it would be important to create a sustainability index similar to the Dow Jones Sustainability Index¹² (DJSI). For this, of course it would be necessary to have more audited responsible investment opportunities, in other words, responsible and sustainable corporations that meet the requirements of DJSI.

According to the economic development peer group, the main focus of the current strategic proposal, **the introduction of the ecological footprint** would help in a comprehensive way to shift economic development to a new direction.

Beyond that, a significant support to **green public procurement** is needed, especially through sustainable development training that would help tendering companies not only in preparing a better tender, but also to integrate sustainable development aspects into their work.

In order to help the spreading of a sustainable development approach, incentives for companies should be more and more fiscal ones: tax breaks and other hard financial incentives are the ones that can truly make companies interested. In addition, definite steps should be taken towards creating a **carbon based tax system** which on the long term would make companies focus on reducing their emission rather than increasing their income.

We definitely support and urge the implementation of the governmental decree 2233/2007. (XII. 12.) that calls on the Ministry of Environment to work out a **green state budget**. Since the deadline of that task is attached to that of the overall tax reform, it has become a vague and uncertain goal, therefore we find it key that the proposals helping to create a green budget continue under any circumstances in a cooperation of companies and NGOs and any delays in the more complex issues do not hinder the preparation of the green budget.

Similarly important is to support the movement of „**Climate friendly communities**” which is also effective if motivates the development of local strategies and helps implementation through concrete technical means such as tax breaks efforts that are taken for attaining the label of “Climate friendly community”.

¹² The Dow Jones Sustainability Index was the first institutional analysis in 1999, keeping track of the economic performance of sustainable development of leading sustainability oriented companies.

We propose that funding applications open as part of the National Development Plan that support efforts specifically aiming at the development of responsible corporate operation through projects supporting stakeholder groups.

II. Environment

The peer group on environment agreed that our key recommendation on introducing the **ecological footprint** could be the most effective step towards creating sustainability. We summarize all other issues and recommended solutions below.

Motivation and trendsetting

1. Area to be developed

The level of environmental consciousness is low on both the production and consumption side. The number of companies who are willing and able to make long-term investments to reduce environmental hazard, except for mandatory compliance measures (i.e. IPPC directive¹³). Because of the lack of commitment, many companies even fail to introduce measures that would provide a return on investment within 1 or 2 years, besides making a lower environmental impact.

Only a very small segment of Hungarian consumers is environmentally conscious (in their behaviour), instead, a “value for money” consideration is overwhelming in most consumer choices.¹⁴ The number of environmentally conscious consumers is low: in the age group of 15 and over, it is between 4 and 12%, based on their 1% gifts¹⁵, and statistics of EURO-BAROMETER. In a corporate survey¹⁶, 28% of their own customers say that the environmental product range can influence their choice. Companies do not feel consumer pressure that would motivate them to create a green product line. In Hungary, there are only 31 companies that have any products with any kind of green label.

2. Recommended solutions

Encourage environmental thinking and attitude on both the production and consumer side.

In order to help this, the responsible government institution should:

- launch a campaign to enhance environmentally conscious consumer attitude, introducing the advantages of an environmentally conscious lifestyle and the quality of life
- review the current labelling system of the ‘environmentally friendly product’ label and reorganize it so that the number of assured products can significantly grow,
- communicate strongly to business leaders the importance of environmentally conscious thinking, and the spreading of Life Cycle Analysis and LCA based thinking
- motivate state-owned companies and government authorities to lead by example in the area of environmentally aware operation,
- speed up the measures on introducing electronic signature, so that e-administration can make a meaningful contribution to lowering environmental impact and reduction of cost for society and the entire economy.
- establish awards or cooperate with NGOs to recognize outstanding examples,
- in harmony with the National Sustainable Development Strategy, change the national budget so that it supports the reduction of environmental impact.

¹³ Directive 96/61/EC - Intergrated Pollution Prevention and Control

¹⁴ Nielsen survey 2008

¹⁵ Number of active environmentalists (aware and active)

http://ec.europa.eu/environment/barometer/pdf/report_ebenv_2005_04_22_en.pdf

¹⁶ Development institute (Min. of Env.) representative corporate survey in 2007. Of those interviewed, 28% think on their main market the environmental feature of products is a key factor in consumer choice. However, 46% think that is absolutely not a factor in consumer choice.

As in all CSR activities, in environmental programs must provide communication opportunities for companies to keep them motivated. The fact that all green advertising is highly successful, the green issue has a very good image, is promising and may motivate greening initiatives. The fact that climate change has suddenly become a hot topic – media appearances has grown five fold on the topic from 2006 to 2007 – and it has become a part of everyday conversations¹⁷ – is truly motivating companies.

Credible green information

1. Area to be developed

Public environmental information on the production and use of various goods and services is not sufficient. The simplified information on environmental qualities (labels) is important for consumers. Currently however, **green labelling is confusingly diverse, and the credibility of the various labels is very different**, consumers are unable to differentiate independent, audited, and regularly monitored labels and self-declared labels without any control.

2. Recommended solutions

According to the relevant principles of the Aarhus Convention on the publicity of environmental information access to green information grows, but it is an important task for the government to increase accessibility of all kinds of green information, the stressing of the importance of environmental information, **and in general, strengthening green perspective as a consumer and investor attitude and the communication support to green choice.**

A solution would be a „green label PR campaign”, which would motivate companies and organizations, communities to go through assurance and apply for various labels. However, it is true for all segments of environmental protection that trendsetting requires serious competition, intense PR campaigns and tax breaks. The government has to make it clear that our most important national goal, competitiveness can be well advanced by environmental investments, development, and assuring products and services to gain green labels.

The development of the following labels carrying strong sustainability content is crucial: Environmentally friendly product label, Fair Trade product label, EMAS, and Eco-school labels.

Besides trendsetting and other encouraging, positive incentives it is crucial to develop regulation compliance standards and rigorous monitoring, and the intense communication of controls and non-compliance. It would be an important incentive to stop irresponsible behaviour to publish cases of abuse and exclude offenders from accessing resources. It is important to strengthen norm following in general and we suggest considering raising environmental fines as well. It would be interesting to introduce both positive and negative international examples: stories like „criminal changing into policeman” are not unknown in the world, and could serve as attractive role models for companies, if they have the chance to learn, how major polluters can turn around to move towards sustainable and become champions of environmentally friendly production, based on enlightened self-interest, business motivation in order to keep their competitiveness.

¹⁷ Weber Shandwick Hungary, 2007

Strengthening stakeholders and government examples setting

1. Area to be developed

To accelerate and spread CSR, it would be important that stakeholders play their role and put pressure on companies, make their expectations known and represent their interests. In Hungary, **stakeholder groups are typically weak and lack access to information**, although the most developed segment of civil society is the green movement. It is well organized, and subsidiarity work well within its groups, there are various existing interest groups cooperating with green authorities – but this is not true for others. **Government offices and companies – with the important exception of the presidential office** – are not yet leading by example in green operation, consumption and production.

2. Recommended solutions

To strengthen stakeholders, it is necessary to intensively support and cooperate with trainings and civil awareness building campaigns that build on best corporate practice, maintaining credibility, and growing public interest. Environmental responsibility must be made trendy in the good sense of the word.

We propose that government actors responsible for CSR do their best to bring about this mission, through leading by example, shaping their administrative procedures to be environmentally friendly. It is especially important to leverage the wide acceptance of electronic signatures, as this would bring about very concrete environmental savings for the whole economy and society.

The “green commitment” of the Office of the President of the Republic of Hungary is of high importance. As it is known, the Office has a full-fledged waste recycling program, controlled by an NGO, committed itself to fair-trade procurement (representation purposes only), which means that the guests of the President are offered fair-trade coffee and tea only. Such actions make extraordinary influence in shaping public opinion and setting mental standards.

The EMAS¹⁸ verification of the European Commission offices in Brussels, and the mere fact that the National Development Agency (NDA) has set itself the target of obtaining an EMAS registration, make us optimistic, but these remain exceptions, rather than common policies. We need such further efforts in the public – civil arena. **Other ministries should be urged to introduce the EMAS Scheme**, lead by the NDA and the Ministry of Environment and Water (MEW).

It is an important development, that the Hungarian Parliament unanimously ratified the National Climate Change Strategy, which shows real commitment by the government, provided the Green Procurement National Action Plan is accepted and implemented, especially in the focus product lines, where quantified targets are set. The horizontal sustainability criteria of the proposals submitted to the National Development Plan I. and the “New Hungary Development Plan” influence such activities, and thousands of enterprises are involved in the very near future. The required Sustainable Development guidelines¹⁹ effect environmental awareness and learning at the company, organizational decision makers.

¹⁸ Eco-Management and Audit Scheme, EC, 1993

¹⁹ http://www.nfu.hu/download/7083/Fenntartathat%C3%B3s%C3%A1gi%20%C3%BAtmutat%C3%B3_GOP_2008.febru%C3%A1r.pdf

III. Consumer protection

Issues and recommended solutions in consumer protection are very similar to those of the environmental segment. Lack of consumer information creates an obstacle for stakeholder groups to be able to advocate effectively.

Information on the market behaviour of companies and their consumer protection activities and performance

1. Area to be developed

Today, consumers have limited or no access to information about which companies mislead or cheat consumers and are fined by consumer protection authorities. Authorities in Hungary are not keen to share information on the fines and other sanctions; such information is only partly or not at all accessible.

In lack of public access, the preventive power of consumers will not be able to fulfil its potential. In addition, a consumer protection authority's fine in the amount of a few million sanctioning a giant food store chain making hundreds of millions a day will not have a preventive effect on others - especially if we know that they are hardly willing to actually pay fine amounts. The company simply transfers the cost of these fines to consumers by spreading the amount on slightly increased product prices and thus eventually customers pay the price.

In case of irresponsible behaviour, publishing sanctions and fines can harm the competitiveness of companies, and they may lose customers, therefore it may motivate companies to be more careful and considerate. Costs associated with the damage or loss of reputation cannot be transferred to consumers, since they do not harm the actual financial performance of the company, but the book value. The law currently does not require companies to disclose fully what fines consumer protection authorities sanctioned the company with, and companies can pressure authorities not to publish them saying the it would be wrongfully destroying their goodwill, thus making meaningful work is quite impossible.

2. Recommended solutions

In order to learn about the market behaviour and consumer protection performance of companies, it would be important to review and coordinate **rules regarding the publicity of such data**, taking into consideration the data protection ombudsman, Dr. Attila Péterfalvi 's recommendations from 2006²⁰, which say: even currently, without any special modification on the regulation, it is a public interest to publish such data, and the harm to public interest caused by holding back information is greater than harm caused by publishing it.

We recommend to follow the practice of the Hungarian Competition Authority, which consequently applies the principle of full and immediate disclosure, which is the right tool against misconduct.

Besides regulation of disclosure, to reduce information gaps it is imperative to make information actually reaches consumers on a clear and user-friendly form. Therefore, it would be useful to work out practical samples of disclosure (formal and content requirements) of con-

²⁰ Ombudsman of data protection recommendations on the publicity of data regarding consumers, Office of the Ombudsman Budapest, 2006

sumer protection and market supervisory bodies that comply with legal requirements and are also easy to understand for consumers, NGOs and the media. Such requirement can be to publish online, or build a database that is searchable on company name or type of case, connecting the data of various authorities, or publishing the full text of the resolution or ensuring the necessary media is notified.

The publicity of consumer protection authorities' resolutions contributes to

- the effectiveness of consumer protection work,
- increasing the rule-following behaviour of companies,
- increasing the capacity of consumers to protect their interest,
- increasing the legal knowledge of consumers through public awareness,
- the growing significance of the role of NGOs in holding companies accountable,
- increasing the awareness of mediator bodies, their methodology and recognition,
- the introduction of consumer education within companies, and
- the creation and compliance of ethical standards of chambers and professional organizations.

The difficulties of consumer dispute settling

1. Area to be developed

Consumer protection and market supervisory authorities are able to sanction illegal behaviour and to enforce the following of rules, but they do not have the right to decide in disputes between businesses and consumers. According to current regulation, disputes over so-called consumer contract parties can arrange in three ways: (a) outside court, between themselves; (b) on the court; (c) using alternative dispute settling methods, involving a mediator or mediatory bodies.

Most of the consumer complaints – due to unproportional difference between the low value of the disputed goods or services and the costs and time requirement of court procedures – never get to the courtroom. Some cases never will, even if the length of court cases would significantly shorten in Hungary.

Mediation can be successful depending on whether the business accepts the resolution to be compulsory²¹. Current experience shows that most businesses do not subject themselves to the resolutions, or do not show up, or do not cooperate, and we can rarely talk about voluntary compliance to non-compulsory recommendations. In the current system, consumers have no chance to reach a meaningful solution with companies that are consequently refuse to cooperate.

We do not have data on how many consumers tried to arrange disputes with traders and service providers successfully or unsuccessfully. Consumer complaints submitted to consumer protection authorities reach an annual number of 10 000 in concrete cases (in which authorities have no right to act), the popularity of consumer forums, the use of civil society organizations' services is a good indication that most disputes do not reach mediation forums.

²¹ 1997. CLV. Law on consumer protection 32.§

2. Recommended solutions

Besides increasing consumer awareness, strengthening government market supervision and publishing the misconduct of companies, which can push them towards more responsible behaviour, we also think that various forms of incentives could be used motivate companies to take part in the process of mediatory bodies and that they voluntarily (preferably before the process) subject themselves to the resolution. Mediatory bodies and civil consumer protection groups, using the power of publicity and working out incentives (communication campaign, labelling, public demonstrations, negative and positive communication) can ensure that business operations participate in an accountable way in the procedures of mediatory bodies and voluntarily obey their resolutions. We propose that the government supports this effort through regulation, financial means, so that companies cooperate (currently only mediatory organizations are funded by the government), and that the government also works out a system of incentives.

Lack of consumer friendly businesses

1. Area to be developed

Today, in the Hungarian market, authorities and consumers face difficulties even holding companies to basic norms. The regulation only defines the minimum of compliance. One of the areas of competition could be the search for higher consumer satisfaction. Currently, very few companies are trying to enhance its market position through additional services provided to consumers. Few take on such extras when currently competition is limited to price, and additional services would require additional resources meaning serious risk. In fact, to the contrary: the huge price competition means cutting consumer services and lowering quality.

Today, consumers are lost in the phone customer service of companies, they can hardly compare prices even within the same company, and most firms only offer extra services to new entrants, retaining current customers is not valued, servicing of goods can last for months and companies often deny customers the most basic return or warranty rights. This is often conscious, but experience shows that sometimes it is only just lack of priority, bad organization and lack of caring.

2. Recommended solutions

Businesses must be motivated to operate in a way that takes into consideration of their stakeholders' (consumer groups) interests and needs, from product development through promotion to customer service systems. The goal would be to increase the number of companies whose policy focuses on customer satisfaction, and who develop their activities on the medium and long run according to this principle.

Tools of a value-oriented corporate behaviour can be the introduction of various corporate (consumer) assurance systems, the inclusion of consumer issues in codes of conduct, or participation in labelling programs. Such systems exist around the world, but locally adapted versions could also be developed adjusted to local needs. The success of such systems greatly depends on how much company resources can be involved (financial, infrastructure and human, ie. employees understanding consumer issues) and how accountable the system is publicly and whether these are meaningful measures or well-communicated but weightless steps. To ensure credibility, it is useful to involve civil society organizations or independent assurance organizations.

There are a number of examples of businesses moving beyond legal compliance and providing additional services to customers. Return policies often go beyond the legally required minimum of 12 months, offering satisfaction guarantee for three, ten, or even thirty years, with unlimited options for returning goods, or ensuring parts and servicing is available. The competitive advantage for companies making such offerings is that they can adapt these policies fully to the business profile and opportunities, providing excellent promotion opportunities and good positioning over competitors. Ideally, customers could claim these extra services during disputes and competition can move from focusing on price to a quality oriented, customer focused competition. We suggest that the government, involving NGO initiatives in the adaption and development of consumer protection assurance systems and that the same standards are required in the public procurement system. We also propose that professional support is devoted to such initiatives, meaning that government experts are delegated to participate in these development initiatives.

The social responsibility of the financial service sector

A special area within consumer protection is the sector of financial service providers. Financial service providers heavily influence market and the entire flow of the economy, since they are financing it, but they are also in touch with the most consumers through consumer services. Therefore, their CSR activities have a major importance, especially because they often play a motivator role for others. According to a survey in 2006, they named their customers as their number one key stakeholder²², thus their responsible operation is highly important from a consumer protection and transparency perspective.

Their supervisory body, the Hungarian Financial Supervisory Authority is one of the strongest and most effective governmental supervisory institutions. Among the most important issues surfacing in the sector are responsible marketing, responsible lending, and the correct information of customers (i.e. small print, publishing Total Credit Cost, etc.), the enhancement of financial literacy and the motivation of self-financing retirement. However, the most pressing issue is actually spreading way beyond the borders of the sector: and that is the **illegal usury loans**. The nature of the issue is such that even the best government control or the self-regulation of the market or the enhanced social responsibility of the players could solve it. Usury is so wide spread in the most impoverished regions of Hungary, that thousands of families find themselves in extremely abusive situations and they try to get by month by month as hostages of organized groups of criminals. The solution would be a joint national information campaign supported by all legal market players warning potential victims about the dangers of taking up usury loans from illegal lenders. This campaign could build on currently running (branded) campaigns on general financial education. In addition, legal actors should lower the threshold of their services, moving legal, controlled financial services closer to these highly disadvantaged, "bottom of the pyramid" population groups, so that they can have access to decent, regular financial services through mainstream financial service providers.

²² GFK Hungária and Braun & Partners survey on the CSR of financial sector, 2006
<http://www.gfk.hu/sajtokoz/articles/200609151200.htm>

IV. Labour issues and equal opportunity

One of the most pressing issues of the Hungarian economy is the low level of employment. Therefore measures recommended in the area of equal opportunity are not only key because of theoretical, human rights considerations, but are also the key in enhancing our competitiveness, which is a most basic economic need. Even the most committed companies will only be able to employ people belonging to various disadvantaged groups, i.e. the disabled or members of a minority, if their employability is enhanced.

Increasing responsible employment and the number of inclusive workplaces

1. Area to be developed

The strategic goal of labour issues in Hungary is to increase employment. The most pressing problem of the Hungarian labour market is the low level of employment. Although the unemployment rate (7.5%, 2006, Hungarian Central Statistical Office) is relatively low, the employment and activity rates are constantly low in an international comparison (employment rate male: 58%, female: 44.4%; activity rate: 55%, male: 62.4%, female: 46.2% 2006, CSO)²³.

2. Recommended solutions

In order to be able to manage the various issues in this area in a comprehensive way, the position of a Government Secretary (ombudsperson) responsible for labour issues must be created. Such a position may be able to design and implement complex governmental measures, especially in cooperation with the government officer responsible for CSR.

In order to increase the employability of disadvantaged groups, it is important to train these groups - especially the Roma, women and other strongly affected large groups - about their rights and opportunities, under the scheme of strengthening stakeholders, recommended earlier. Parallel with that, it is also important to encourage and motivate the responsible employment practices of companies. If pressure coming from enlightened, well-informed legally conscious, well-trained potential employees meets commitment from employers, the recognition of economic interest and government incentives - than we can make a meaningful contribution to the increase of employment statistics.

Increasing employment through the integration of those who were forced out of the employment market

1. Area to be developed

Increasing employment is the most important economic policy and competitiveness issue, therefore the government has to examine opportunities of how can those who were forced out of the labour market in the past 15 years be reintegrated. In order to strengthen social cohesion and integration, measures aiming at increasing employment must focus on the following groups forced out of the market or threatened: the Roma, women, the elderly, the under aged those living with disability.

²³ While unemployment rate shows the proportion of the registered unemployed and the economically active population (employed and unemployed combined), employment rate shows how many people work officially of those who are in the age group capable to work.

2. Recommended solutions

Often a negative attitude towards these disadvantaged groups further contributes to their difficulties in the labour market. The acceptance of these groups can be enhanced with the help of mass media. In order to enhance the general attitude going against the realization of equal opportunity, as part of the public service requirement of public media, representatives of the largest Hungarian ethnic minority, the Roma must appear in news programs, advertisements and series. We recommend implementing this through incentives to the commercial media, and as a requirement and enforcement to the public media.

In labour issues, to enhance equal opportunities, it would be important to make it a requirement of human resource and labour education the introduction of an equal opportunity management module. There is a best practice example for this: at the adult education faculty of the University of Pécs, a new credit was introduced recently called „HR with special groups”.

Besides EU funds, it would be important that also government funds can only be attained if the principles of equal opportunity are practiced. An excellent tool for this is the horizontal requirement system and application tool created by the National Development Agency, which could be easily adapted and used in other areas as well.

We find it crucial, that Hungarian companies develop specific employment policies regarding these special needs groups.

The motivator role of the government can only be truly put in practice if the government does not change in an unexpected way the regulation of responsible employment practices (i. e. employment of disadvantaged groups). In other words, companies leading by outstanding examples in this areas, should not find themselves in a position where the incentives provided by the government at the beginning of a certain employment program is fundamentally changed by the government without the necessary negotiation and adaptation period. It is important for companies that this threat does not prevent them from launching employment programs for special groups, since only long-term programs can prove that employing groups with special needs can actually work out for the benefit of all parties.

Based on the above, we suggest that in case of the groups most affected by non-equal opportunity (the Roma, women, older employees, youth and disabled), the government should support those business efforts, that aim at the implementation of equal opportunity principles in line with the special needs of these special groups – and thus contribute to employability. Such worthy efforts may include the following:

In the area of the employability of **the Roma**, scholarships, internship programs, reduction of discrimination through special partnerships (i. e. with NGOs) or in the case of Roma women, helping mothers with young children especially in underdeveloped regions.

In order to enhance equal opportunity of **women**, the government should enforce the principle of equal pay for equal work and regularly monitor and control it. It should provide tax incentives to create conditions for work-life balance, especially in the case of mothers with young children.

Concerning the equal opportunity of **older** employees, it should prevent discrimination based on age through regular monitoring.

As for the equal opportunity of **youth**, we propose to research the situation of young people dropping out of vocational training and harmonize training programs with the possibilities of practice opportunities.

Finally, for the equal opportunity of people living with **disabilities**, the government should open a competition among companies to recognize those championing in accessibility. It would be also important to broader support opportunities for rehabilitation work, in order to have more and more companies, which are able to hire people with disabilities.

Flexible and family friendly employment practices, healthy and safe workplaces

1. Area to be developed

Flexible and family friendly forms of employment are far underdeveloped.²⁴ Atypical employment forms must be made part of the mainstream, since the current level of home office work (tele-work currently only 4%), job-sharing, and part time work represent an extremely low proportion of the market in Hungary. In addition, any measures going beyond compliance in the area of healthy and safe workplaces is not valued and recognized by the government.

2. Recommended solutions

Awards and labels are suitable for the public recognition of those forerunners in atypical employment and other responsible and innovative employment schemes (i. e. Family Friendly Workplace Award, Best Workplace Award, Inclusive Workplace Award). But they are only credible if applications are screened by outside, independent organizations and come with a regular follow-up and monitoring, even including sanctions in case the result are not kept up (losing the title, award, label).

We recommend that in the area of employment and equal opportunity, departments join forces in working out an employer CSR label, that is awarded in a publicly controlled way to companies and institutions spearheading change in responsible employment, healthy and safe workplaces and equal opportunity employment.

Going beyond the circles of those obliged by the law to produce an equal opportunity plan (public institutions and companies), the responsible department should launch a competition among those not required by the law, to prepare equal opportunity plans including concrete goals, indicators, solutions tailored to the company. The award of the best plans could be a free training for those staff members implementing the plans (equal opportunity managers), so that they can continue developing and using their knowledge. This competition should primarily award those who practice equal opportunity principles during selection, HR policy and employee training and devote special efforts to special needs groups.

Tele-work should be given a lot more serious incentives and motivation in order to make it more popular so that not only labour and equal opportunity effects can be significant, but also its environmental impact. Similarly, it would be highly important to reform the retirement system so that it does not motivate early retirement as the case is today.

Another concrete measure affecting the employability of another large group – mothers with young children – is the idea of supporting day-care costs by the company, motivated by a tax incentive. In addition, the government could support special training for mothers returning after maternity leave.

²⁴ A successful government measure is that employers of persons on maternity leave or above 50 are exempt from paying the one-time payable health contribution.

An important task in the effort of increasing the formal employment is the reduction of legal but unethical employment practices. Apart from a stricter control over fake employment contracts, it is also important to review the institution of loaned employees. This employment form is illegal in some countries, (i. e. in Sweden) since it provides an uncontrolled, unlimited opportunity for the employer to get rid of any responsibility towards their employees and it legalizes the dismissal of the most basic labour rights and protection. Genuine, well-founded temporary employee needs could be sufficiently taken care of by the regulation of employment services and temporary employment, since there is no real market need for loaned employee schemes beyond fulfilling valid needs of companies seeking temporary workers.

We find it crucial to strengthen stakeholder groups. Employee representation must be strengthened so that they can work also in SMEs making up 98% of economic actors, not only in companies employing massive number of people.

V. Corruption, transparency

1. Area to be developed

Corruption is extremely widespread in Hungary, it is part of every day life and business practices. According to the rating of Transparency International (TI) on the 2007 Corruption Index, the corruption level of Hungary is medium. On the index listing 180 countries, Hungary scored 5.3 on a scale of ten, in 2007, similar to that of Cyprus, the Czech Republic and Italy. The perception has not changed about Hungary in the last 5-6 years it has worsened but within the error margin. It is important to add, that the index is based on surveying politicians and public servants, it signals their perception of corruption. This does not necessarily reflect the experience of ordinary citizens.

According to a survey published by PricewaterhouseCoopers entitled “Confronting Corruption” in November 2007³² between 2007 and 2006, nearly two-thirds of Hungarian companies (62%) fell victims of serious economic crimes. The number of affected companies has increased dramatically by two and a half times. In the PricewaterhouseCoopers survey top managers from 40 countries, from over 5400 companies – including 77 Hungarian market leaders – were interviewed. Based on this data, during the surveyed period, Hungarian participants fell victim to such crimes on 8.9 occasions. The most common forms of fraud are theft and flagrant misuse of funds (48% of companies), abuse of intellectual property (26%), and corruption and bribery (17%).

2. Recommended solutions

A complete analyses on the Hungarian corruption mechanisms was published by TI in 2008 entitled *Corruption risks in Business in Hungary*. The goal of the research was to serve as a basis for anti-corruption measures and reforms. In our strategic proposal, we urge the implementation of recommendations listed in that document.

In order to reduce corruption, radical and highly visible measures must be taken, since corruption harms competitiveness, destroys trust in democratic institutions and thus it is closely connected to our topic. According to the two main recommendations of TI, the government must:

- *immediately regulate the overdue issue of political party financing, since this leads to several further frauds; and*
- *make it possible through regulation that funds flowing through public procurement can be tracked.*

Based on the initiative of the Ministry of Justice and Law Enforcement, with the participation of NGOs and professional expert, an Anti-corruption Coordination Body was founded. This new organization’s goal is to shift government anti-corruption activities to a new direction and make sure that a strategic approach is applied.

This is an area where a lot stronger activity is needed to strengthen transparency and accountability of companies. Currently, there are mostly voluntary initiatives to do this, therefore it was a pioneering work on behalf of the American Chamber of Commerce in Hungary

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[http://www.pwc.com/extweb/pwcpublishations.nsf/docid/EE3A2B7A07DF1085802570F50039C266/\\$file/Crime_Survey_HUN_FINAL.pdf](http://www.pwc.com/extweb/pwcpublishations.nsf/docid/EE3A2B7A07DF1085802570F50039C266/$file/Crime_Survey_HUN_FINAL.pdf)

(AmCham) to publish a position paper in 2005³³ on Responsible Corporate Governance, which made general recommendations to companies and which called the attention to the fact that the lack of transparency strongly limits the competitiveness of the Hungarian economy.

Further efforts are made by the Anti-Corruption workgroup of the Hungarian Business Leaders Forum. Based on their survey, at the participating companies, anti-corruption activities are very basic and formal, and in lack of tools and practice, only well meaning but not very effective steps were taken.

Since among the practical forms of ethical business conduct, anti-corruption efforts are the easiest to tangle and they could be enhanced using best practice examples, we find it crucial that the government continues to participate in the three-party initiatives started by AmCham, HBLF and TI Hungary, and build their recommendations into its regulating program as fast as possible. Since transparency and business ethics are not regulatory but cultural issues, we have a long way ahead of us, and we believe that and this area has special significance.

Corporate social responsibility cannot exist without the solid foundations of corporate governance. Those companies will really move the issue of responsible business conduct further, which not only launch highly visible CSR program, but who meet the most fundamental transparency and accountability expectations of various stakeholders, including their shareholders. Those, whose Codes of Conduct are not born through translation, but through a stakeholder dialogue. Moreover, where an internal system of checks and balances as well as a continuous, correct, two-way information flow ensures that the key facts of a company's operations, the issues affecting its stakeholders and the boarder economy are known, and that the company is fully accountable before the broadest possible public.

This is where we see the most important role of the government, as an organization providing the framework and the control of the economy, as well as an owner. It is crucial that the strictest rules of corporate governance are applied and practiced at state-owned companies thus also demonstrating their commitment towards fighting corruption.

³³ <http://www.amcham.hu/uploads/AmChamPositionBrief5CorporateGovernanceHungarian.pdf>

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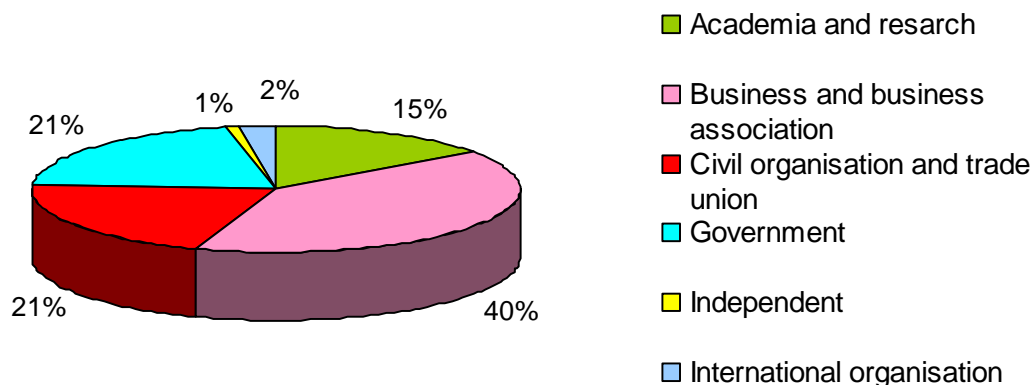
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