

Corporate Sustainability Reporting in Central and Eastern European Companies

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Chapter 6

Sustainability Reporting in Hungary

A Study of Sustainability Reporting Compliance with the Prescribed Requirements

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6 Sustainability Reporting in Hungary

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Introduction

In the contemporary era, the scope of information presented in conventional financial reports is becoming increasingly inadequate to satisfy the evolving informational requirements of stakeholders. The traditional accounting paradigm was already the subject of criticism in the 1970s. To address the information asymmetry resulting from the shortcomings of the accounting rules, additional reports were introduced in Heinen's 1978 model (Lakatos, 2013).

One of the most prominent global trends in recent decades has been the growing focus on the environmental and social impact, as well as the embedding and effective functioning of companies. There is an increasing tendency to complement the past-oriented approach with forward-looking aspects. In addition to past performance and financial risks, future challenges, the vulnerability of companies, their long-term prospects, and their value-creation processes are receiving greater attention. The concept of sustainability is now widely accepted, with a growing focus on the activities of companies and their impact on society and the environment. The emergence of responsible investors, consumers, and business partners necessitates a distinct approach and communication strategy from companies.

As the aforementioned issues are not covered fully by present reporting practices, businesses are publishing more and more complex and increasingly extensive additional reports; that is, the reporting process has been reformed.

Today, the development of the reporting strategy requires the coordination of complex tasks. It has become obvious that, besides the financial aspects, information also plays a very important role. Recent trends show the spread of integrated reporting, in which companies do not draw up separate financial and non-financial reports but combine the contents provided and take them into account to the same extent. Therefore, it could be said that not only the quantity and content of the reports are changing, but also the way they are published (Rowe, 2015; Zahorodnya, 2016). This trend is reinforced by the European Union regulation that requires sustainability reporting as part of financial reporting from 2024.

Apart from being a very important practical issue, non-financial reports and the effective use of the information published in them are attracting more and more attention from the academic community. More and more research is published on reporting culture in different countries. The non-financial reporting practices of listed companies have been studied by Mio and Venturelli (2013) in Italy and the United Kingdom, by Hoffmann et al. (2018) in Germany, by Sierra-Garcia et al. (2018) in Spain, and by Lippai-Makra et al. (2022) in Hungary. Albu et al. (2017) highlight the importance of studying the reporting culture of each country individually, analysing the documents available in the languages of each country, and making the results available to the international research community, thus making the trends observed in different countries comparable.

The timeliness of the issue is underlined by the fact that the Corporate Sustainability Reporting Directive 2022/2464/EU (CSRD) will replace the NFRD from the 2024 financial year.

In this study, we will first analyse the implementation of the NFRD in Hungarian legislation (with particular attention to the inconsistencies between the Hungarian Accounting Act (HAA) and the NFRD). Second, we will summarise the literature with a focus on Hungarian sustainability reporting practices and compliance with the EU regulation. Third, we will conduct a content analysis of the sustainability content of company disclosures. We will then analyse the compliance of companies operating in Hungary with prescribed requirements, looking at both the quantity and quality of sustainability reporting. This will provide a detailed understanding of the country's current state of sustainability reporting, which we will compare to the state at the very beginning of mandatory reporting. Our analysis will include examining the types of information disclosed and the level of detail provided. Finally, we provide a brief overview of the implementation of the CSRD in Hungary's legislation.

Implementation of the NFRD

With the NFRD entering into force, a previously voluntary corporate practice has become mandatory for certain entities. Changes in practices and regulations also have an impact on the theoretical background that academia associates with the study of these phenomena. It can be observed that in the past, corporate disclosure, and within it, sustainability-related disclosure, was mainly studied within the framework of stakeholder, legitimacy, signalling, and agency theories (Cormier and Gordon, 2001; Deegan, 2002; Lakatos, 2013; Pereira Eugénio et al., 2013; Shehata, 2014; Ortas et al., 2015; Manes-Rossi et al., 2018). Conversely, since the advent of regulation, there has been a growing body of research that discusses the topic within the framework of institutional economics and isomorphisms (Othman et al., 2011; Dumitru et al., 2017; Martínez-Ferrero and García-Sánchez, 2017; Lippai-Makra, 2022; Stefanescu, 2022; Pizzi et al., 2023; Posadas et al., 2023).

DiMaggio and Powell (1983) distinguished three types of institutional isomorphism. First, there is coercive isomorphism, which is the result of political forces and is typically associated with state intervention and pressure from the individuals or institutions providing the resources. Second, there is the mimetic isomorphism, whereby individual organisations seek to become like other organisations. Third, there is a normative isomorphism, which is a consequence of professionalism. In this case, changes in practice occur because of professionalism.

One of the possible effects of the regulations is that even entities that previously have not disclosed sustainability-related information will do so, and also that disclosure of entities that previously published voluntarily will become more intensive. As a result, we expect an increase in the average intensity level of sustainability reporting (Dumitru et al., 2017; Matuszak and Róžańska, 2017; Venturelli et al., 2017).

In the following, we will describe in detail the implementation of the NFRD in the Hungarian legal order and interpret which entities fall under the personal scope of the regulation.

The Personal Scope of the NFRD and the Hungarian Legislation

The personal scope of the NFRD is defined by NFRD page 4, Article 19a, as follows:

Large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year

The following section defines which companies are considered to be Public Interest Entities (PIEs) under the EU legislation referred to in the Directive. On page 16, Article 2, paragraph 1 of the European Union Accounting Directive (EU AD; 2013/34/EU):

- (1) 'public-interest entities' means undertakings within the scope of Article 1 which are:
- (a) governed by the law of a Member State and whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (1);
 - (b) credit institutions as defined in point (1) of Article 4 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (2), other than those referred to in Article 2 of that Directive;
 - (c) insurance undertakings within the meaning of Article 2(1) of Council Directive 91/674/EEC of 19 December 1991 on the annual accounts of insurance undertakings (3); or

- (d) designated by the Member States as public-interest entities, for instance, undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.

It is important to note that point (a) defines PIEs as companies whose transferable securities are admitted to trading on a regulated market of any member state. This is distinct from the definition of a listed company. The aforementioned transferable securities could include bonds. Consequently, when a research paper or national legislation defines PIEs as only including listed companies, there may be an inadvertent omission of companies.

In addition, each Member State has the possibility to extend the personal scope of the legislation under point (d). In the following section, however, we will show that the Hungarian legislator has done the opposite when transposing the NFRD into Hungarian law, by narrowing the personal scope of reporting requirements. According to § 95/C (1) of the HAA:

Large companies which are public-interest entities where:

- (a) on the balance sheet date in the previous two consecutive financial years, either two of the following three indices exceed the limit indicated below:
- (aa) the balance sheet total exceeds 6,000 million forints,
 - (ab) the annual net turnover exceeds 12,000 million forints,
 - (ac) the average number of employees in the financial year exceeds 250 persons; and
- (b) the average number of employees in the given financial year exceeds 500 persons; shall publish....¹

In contrast with the stipulations set forth in the NFRD, the size criteria are not employed for the purpose of incorporating additional entities but rather for the further limitation of those entities subject to disclosure. From our perspective, this approach does not align with the regulatory framework established by the European Commission.

From a research perspective, the interpretation of the Hungarian legislation on the scope of PIEs presents certain difficulties. However, to assess the impact of the legislation on the reporting practices of Hungarian enterprises, it is essential to be able to identify precisely which enterprises are under the personal scope of the legislation and which are not.

The concept of PIEs appears in Hungarian legislation in several places. The HAA specifies the legislation that applies the definition of a public interest entity. This is Act LXXV of 2007 on the Hungarian Chamber of Auditors, Auditing Activities, and Public Supervision of Auditors, the definition of which is in line with the EU AD. Several Hungarian laws contribute to, expand on, or restrict the definition of PIEs. The relevant acts are the following:

- Act LXXV of 2007 on the Hungarian Chamber of Auditors, Auditing Activities and Public Supervision of Auditors.

- Act CCXXXVII of 2013 on Credit Institutions and Financial Undertakings.
- Act LXXXVIII of 2014 on Insurance Activities.
- Act CXX of 2001 on the Capital Market.
- Act CXXXVIII of 2007 on Investment Firms and Commodity Exchange Service Providers and the Rules on the Activities They May Perform.

As can be seen from the above, the researcher is confronted with a challenging task when attempting to assess the scope of entities of public interest on the basis of the aforementioned legislation. The assessment of personal scope is most difficult for some high-profile banks. In addition to the legislation, legal interpretations were sought. In the opinion of the Hungarian Chamber of Auditors²:

MFB Plc. and EXIM Bank Plc. are not considered credit institutions of public interest under the Hungarian Commercial Code and the Credit Institutions Supervision Directive ... However, they are considered to be public interest entities due to their stock exchange listing.

The international consultancy Denkstatt presents an opposing perspective to that of the Chamber. Their position is that the Hungarian National Bank (MNB), MFB, and EXIM Bank are not covered by the aforementioned concept.³ In light of the conflicting interpretations of the law that we have also identified, we have conducted an examination of the general principles of legal interpretation. Our analysis is based on the work of Trócsányi and Schanda (2014), and we present the following observations.

The aforementioned legislative instruments are of equal standing within the legislative hierarchy, yet their content is somewhat contradictory. It is important to note that the courts and the Constitutional Court have the primary authority to interpret legislation. However, it is also essential that practitioners interpret the legislation in their work and make decisions based on that interpretation. Two legal principles have emerged in the interpretation of contradictions in legislation of the same level (Trócsányi and Schanda, 2014):

- (A) "*lex specialis derogat legi generali*", The special rule represents a derogation from the general rule. In practice, this implies that, in the event that a special rule exists, it must be applied as a priority to the general rule.
- (B) "*lex posterior derogat legi priori*", Therefore, the subsequent legislation should be understood as a clarification and specification of the previous legislation, which has not been repealed.

In light of the aforementioned legal principles, the following conclusions have been drawn. A comparison of these laws reveals that the concept of a public interest entity is not an exact one; rather, it must always be interpreted in the context of the law in question. For instance, the broader scope of the auditor's activity should be considered the relevant one (this is the position of the

Chamber of Auditors). However, our position is that the non-financial reporting aspects should be evaluated in accordance with the specific rules set forth in sectoral legislation. In accordance with the legislation regulating credit institutions, insurance, and capital markets, the exceptions mentioned therein do not fall under the general concept of the special rule. The explicit intention of the legislator is evidenced by the fact that it designates the MNB, MFB, EXIM Bank, small insurers, and mutual insurance associations as exceptions. In our view, this implies that in the case of credit institutions, insurance, and capital market operators, the entities named as exceptions cannot be considered to be public interest entities (*lex specialis* principle). An examination of the temporal scope also supports our assertion that the entities named as exceptions cannot be considered to be public interest entities. As previously stated, following the enactment of Act LXXV of 2007, the legislator has progressively elucidated the definition, establishing exceptions. Consequently, subsequent sectoral legislation has “eroded” the general definition set out in Act LXXV of 2007, clarifying it and establishing exceptions (*lex posterior* ...).

Hungarian Regulation on the Content of Non-financial Disclosures

Having read the NFRD, the related Methodological Guidance (MG)⁴ and the HAA, we have concluded that we need to use a comprehensive list of items to ensure objective comparability. To carry out the analysis, we chose the item list presented by Dumitru et al. (2017), as this list can be easily mapped to the text of the MG (Appendix 6.1), thus reducing the subjectivity of the interpretation of the text, as the explanation of each item is publicly available in the MG in all languages of the European Union.

It can be observed that the HAA already provided for certain environmental and employee-related issues as mandatory elements of the Notes to the Financial Statements and the annual report before the NFRD entered into force (Appendix 6.1). Article 94(3) of the HAA also provides for the disclosure of information on the environment and hazardous waste in Notes to the Financial Statements. In addition, certain paragraphs of Article 95 require the disclosure of certain environmental factors and other key non-financial performance indicators as part of the content of the annual report (Böcskei, 2015).

The corporate governance statement governed by § 95/B also provides guidelines on certain diversity policies, but only in relation to the highest governance bodies of the company, whereas the NFRD requires them for the whole workforce.

However, the presentation of social and ethical issues has been newly introduced in the HAA § 95/C because of the implementation of the NFRD, so its mandatory inclusion in corporate reporting poses a new challenge for non-financial reporting entities. Although neither the NFRD nor the HAA specifies the issues to be reported, they do require companies to report on the results of their environmental, social, labour, human rights, anti-corruption, and antibribery policies. In summary, companies can comply with the legal requirements

regarding the content of non-financial reports even if they do not follow an international non-financial reporting standard, but the MG mentioned above. Based on the above, it can, therefore, be concluded that the requirements related to the content of the reports set out in the HAA cover the content topics set out in the Directive.

Sustainability-Related Hungarian Researches

Several Hungarian research groups have addressed ESG and sustainability issues in their research. Hajdu et al. (2023) and Jámbor and Zanócz (2023) have published articles on the methodological diversity of ESG data and ESG ratings, as well as the challenges involved; Siklósi et al. (2023) used secondary research methodology to explore the links between sustainability and accounting valuation. Tamásné Vőneki and Lamanda (2020) focused on ESG risk implementation at nine large Hungarian banks. They used content analysis as a methodology, and their results confirmed that ESG risks were not integrated into the risk management process, were not defined as independent risks, and that the ESG framework did not have a dedicated organisation.

A search of the literature revealed only two studies that used content analysis to examine the extent to which Hungarian entities comply with national and EU regulations on sustainability-related disclosure practices.

Lippai-Makra et al. (2022) investigated the non-financial reporting practices of the listed Hungarian PIEs for 2016–2018 in terms of the required disclosure content based on the NFRD. The authors found that the NFRD had a moderate impact on Hungary's reporting quality because the overall disclosure of the sample only increased from low to medium level. Their findings also support the effect of coercive isomorphism on Hungarian non-financial reporting practices.

Hegedűs et al. (2023) carried out a content analysis to find out to what extent the Hungarian companies listed on the Budapest Stock Exchange comply with the requirements of the HAA on the disclosure of non-financial information under the NFRD. They strictly considered only non-financial statements in the management reports as complying with reporting practices. However, in the international literature, sustainability stand-alone reports are also considered non-financial statements. Their findings indicate that only two companies' reporting practices fully comply with the HAA, as evidenced by the analysis of 35 companies.

The findings of the aforementioned studies cannot be directly compared due to the different methodologies used to assess levels of compliance. Additionally, the scope of the documents examined was defined in different ways.

Content Analysis of Hungarian Sustainability Reporting Practices

We perform a content analysis on the content of companies' sustainability-related disclosures. The content analysis methodology described in detail by

Krippendorff (1989) is widely used to analyse non-financial and sustainability disclosures of companies (Kovács, 2024). We analyse the compliance of companies operating in Hungary with the content requirements of the NFRD, looking at both the quantity and quality of sustainability reporting. This will provide an in-depth understanding of the current state of sustainability reporting practices in the country, which we will compare to the state from the beginning of mandatory reporting. Our analysis includes examining the types of information disclosed and the level of detail provided.

The implementation of the NFRD is expected to have a greater impact on the intensity of sustainability reporting provided by companies that did not apply voluntary disclosure previously, which should lead to a more uniform reporting practice. This effect is identified as coercive isomorphism (Dumitru et al., 2017; Tiron-Tudor et al., 2019).

Sample

The 40 companies selected for the study were defined according to the following criteria:

- The study included only companies that published sustainability-related reports for 2017 and 2022.
- All companies operating in Hungary that are subject to non-financial reporting obligations under the NFRD in 2017 were included.
- The companies were included regardless of their industry, but it was necessary to distinguish between those in the financial and non-financial sectors. All PIEs in the financial sector that are subject to non-financial reporting obligations under the NFRD in 2017 were included.
- The companies from the non-financial sector were selected based on their size, which was measured by annual consolidated turnover. The largest companies that had published sustainability reports for 2017 and 2022 were selected.

Of the sample of 40 companies, 65% are non-financial sector, while 35% are financial sector companies. Large companies made up the vast majority of the sample (87,5% in 2017 and 90% in 2022). In terms of the number of employees, more than 500 employees were predominant, as in 2017 82,5% of the sample and 80% in 2022. A total of 27,5% of the companies in the sample were listed companies. A total of 27 companies (65%) applied the GRI framework in 2017, while this number increased to 34 in 2022 (85%). Group reports were analysed for the majority of companies – 35 in 2017 and 36 in 2022 (Appendix 6.2). A total of 18 of the companies in the sample do not have mandatory non-financial reporting. Of the companies in the sample, 18 are not mandated to publish non-financial reports; most of them have a foreign HQ, while the majority of those with a Hungarian HQ are mandated to publish a non-financial report (Table 6.1).

Table 6.1 Breakdown of the Sample by Their Group

	2017		2022	
	Mandatory	Not Mandatory	Mandatory	Not Mandatory
Foreign HQ	12	14	12	14
Hungarian HQ	8	1	9	1
Individual report	2	3	1	3
Total	22	18	22	18

Methodology

The quantification of the reporting practices, that is, the measurement of disclosure intensity or compliance with the reports, was carried out through qualitative, manual content analysis. The documents examined were always sustainability-related reports for a given financial year (2017 and 2022), regardless of their specific designation. For entities where a group-level report was available, the consolidated report was analysed. In our study, our aim was to investigate how disclosure intensity has changed between different types of businesses. To measure this, we created two indicators, as follows:

- Disclosure Intensity 1 = (Environmental + Social and employee + Respect for human rights + Anti – corruption and bribery) * Are the disclosures by the matters entity specific, not general?⁵
- Disclosure Intensity 2 = (Business model + Policies to the matters + Outcome of the policies + Principal risks related to the matters + Non – financial KPIs) * Are the disclosures by the matters entity specific, not general?⁶

Results

Looking at the sample as a whole, we find that both disclosure intensity variables have increased in value and decreased in standard deviation (Table 6.2). In other terms, on average, more information was disclosed by the companies analysed in 2022, and the decreasing standard deviation indicates increasingly similar practices. It is, therefore, not the case that the disclosure practices of a certain group of companies have improved and pulled up the average, as the variance would then have increased, but that the majority of the companies

Table 6.2 Change in Disclosure Intensity across the Sample

	Disclosure Intensity1				Disclosure Intensity2			
	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.
Total	6,00	2,75	7,43	1,57	8,03	3,65	9,43	2,10

included in the analysis have improved. This finding aligns with our initial hypotheses and supports coercive isomorphism.

In addition to identifying the change that occurred, we searched for an answer to the underlying reason for the change. Therefore, we also examined the mean and variance for different groups. For those characteristics where a significant proportion of the sample was made up of members of the same group (e.g., large enterprises with a large number of employees), the calculations were not carried out, as the development of one group would explain the phenomenon overall, and the marginal size of smaller groups would not allow us to draw a valid conclusion for the particular group of enterprises. Consequently, the characteristics of the subsamples were analysed along the following lines:

- Change in Disclosure Intensity among companies from different industries.
- Change in Disclosure Intensity among listed companies and non-listed companies.
- Change in Disclosure Intensity among companies where we analysed group reports and where we analysed individual reports.
- Change in Disclosure Intensity among GRI-user companies and non-GRI-user companies.

A review of the data reveals that both financial and non-financial firms have experienced an increase in the mean and a decrease in the variance, with these changes occurring across the majority of industries (Table 6.3). It should also be noted that in 2022, companies in the financial sector achieved an average of 7.86 out of a maximum of 8 for the Disclosure Intensity1 variable, while all companies achieved the maximum value for the Disclosure Intensity2 variable. The scores achieved by non-financial companies were also high, although slightly lower.

A comparison of listed and non-listed companies reveals a significant increase in disclosure intensity for each group, accompanied by a decrease in standard deviation. In 2017, non-listed companies demonstrated superior

Table 6.3 Change in Disclosure Intensity among Companies from Different Industries

	<i>Disclosure Intensity1</i>				<i>Disclosure Intensity2</i>			
	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.
Non-financial sector	5,62	2,93	7,19	1,88	7,54	3,96	9,12	2,57
Manufacturing	5,78	3,53	7,44	1,67	6,33	4,69	9,33	2,00
Trade	5,60	2,61	8,00	0,00	8,20	4,02	10,00	0,00
Services	5,13	3,09	7,00	2,14	7,25	3,99	8,75	3,54
Other	6,25	2,36	6,00	2,83	10,00	0,00	8,25	3,50
Financial sector	6,71	2,30	7,86	0,53	8,93	2,89	10,00	0,00
Total	6,00	2,75	7,43	1,57	8,03	3,65	9,43	2,10

Table 6.4 Change in Disclosure Intensity among Listed Companies and Not Listed Companies

	<i>Disclosure Intensity1</i>				<i>Disclosure Intensity2</i>			
	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.
Non-listed	6,83	1,87	7,59	1,24	9,17	2,22	9,76	1,30
Listed	3,82	3,52	7,00	2,24	5,00	4,92	8,55	3,36
Total	6,00	2,75	7,43	1,57	8,03	3,65	9,43	2,10

Table 6.5 Change in the Intensity of Disclosure between Group and Individual Reports

	<i>Disclosure Intensity1</i>				<i>Disclosure Intensity2</i>			
	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.
Foreign HQ	6,77	1,95	7,69	1,23	9,08	2,33	9,73	1,37
Hungarian HQ	4,44	3,57	7,50	1,58	5,67	5,15	9,40	1,90
Individual report	4,80	3,63	5,50	2,52	6,80	4,60	7,50	5,00
Total	6,00	2,75	7,43	1,57	8,03	3,65	9,43	2,10

performance compared to listed companies. However, the latter group demonstrated continued improvement, even as the former group maintained its lead (Table 6.4).

On initial examination, the higher disclosure intensity of non-listed companies may appear surprising. However, this is due to the fact that they include a significant number of companies with foreign parent companies, for which the group report was analysed. The analysis revealed that companies with foreign headquarters exhibited a higher publication intensity in both years under review. However, there was evidence of convergence between companies with Hungarian headquarters and those publishing an individual report. Furthermore, the decrease in standard deviation indicated convergence within groups (Table 6.5).

In line with the previous two tables (Tables 6.4 and 6.5), we can also conclude that non-mandatory financial reporting companies have a higher disclosure intensity (Table 6.6). As mentioned above, these results are also likely to be driven by the better disclosure practices of the foreign parent company. These results suggest that a possible future research direction could be to investigate the maturity of disclosure of different regions.

By grouping companies according to the applied framework, we can observe that companies that do not apply GRI have come very close to the high-performing GRI companies (Table 6.7). However, companies that used the GRI

Table 6.6 Change in Disclosure Intensity among Not Mandatory and Mandatory Reporting Companies

	<i>Disclosure Intensity1</i>				<i>Disclosure Intensity2</i>			
	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.
Not mandatory	6,56	2,12	7,44	1,50	8,94	2,58	9,61	1,65
Mandatory	5,55	3,14	7,41	1,65	7,27	4,24	9,27	2,43
Total	6,00	2,75	7,43	1,57	8,03	3,65	9,43	2,10

Table 6.7 Change in Disclosure Intensity among GRI-user Companies and Non-GRI-user Companies

	<i>Disclosure Intensity1</i>				<i>Disclosure Intensity2</i>			
	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.	2017 Average	2017 Std. Dev.	2022 Average	2022 Std. Dev.
GRI	7,48	1,05	7,71	1,12	9,85	0,77	9,71	1,71
non-GRI	2,92	2,63	5,83	2,71	4,23	4,34	7,83	3,37
Total	6,00	2,75	7,43	1,57	8,03	3,65	9,43	2,10

framework still had a significantly higher disclosure intensity in 2022. This outcome may be indicative of either mimetic or normative isomorphism. Nevertheless, further studies would be required to ascertain this.

The preceding results indicate that the observed progress in disclosure is not attributable to the development of a single company or a group of companies. For most groups, there is a discernible increase in disclosure intensity and a corresponding decrease in standard deviation. Therefore, it can be concluded that this is a general phenomenon. The findings demonstrate that the intensifying impact of regulation on disclosure is pervasive, with companies' disclosure practices becoming increasingly aligned with the expectations of regulation, thereby exhibiting greater homogeneity. The findings provide support for the coercive isomorphism.

CSRD Implementation

The most significant change in recent years is expected in the near future, with changes to the annual disclosure requirements for companies and the related audit tasks. The CSRD was implemented through the CVIII Act of 2023, which modified the HAA and the related Audit Act also.

In the first wave, the first sustainability report for the financial year 2024 must be issued by large enterprises that are considered to be PIEs and for which a) any two of the following three indicators exceeded the following thresholds on the balance sheet date in any two consecutive financial years preceding the financial year:

- (aa) The balance sheet total is HUF 10.000 million,
- (ab) The annual net turnover is HUF 20.000 million,
- (ac) The average number of people employed during the financial year is 250, and
- (b) The average number of people employed in a given business year exceeds 500.

The thresholds set by the HAA are in line with the CSRD, where the thresholds are set at EUR 25.000.000 for the balance sheet total and EUR 50.000.000 for turnover. The two values would be equal at an exchange rate of 400 HUF/EUR. At the time of writing this chapter, the current exchange rate is 395 HUF/EUR, according to the report of the Hungarian National Bank.

The content and format of the reports should be aligned with the ESRS, which are available in all official EU languages and have a total length of 332 pages in Hungarian. Therefore, the content and format requirements have also been accurately transposed into the HAA.

Conclusions

In this research, we first analysed the implementation of the NFRD in Hungarian legislation. Second, we summarised the literature with a focus on Hungarian sustainability reporting practices and compliance with the EU regulation. Third, we conducted a content analysis on 40 Hungarian companies' disclosures regarding sustainability.

It can be seen that sustainability disclosure practices have improved under the NFRD. Our results show that corporate disclosure practices have improved in all groups surveyed and have become increasingly homogeneous. The results obtained support the unifying effect of the regulatory practice, that is, the coercive isomorphism. Given that the reporting practices of non-regulated firms have also improved, the effect of imitative or normative isomorphism is also suggested, but further studies are needed to prove this. A further research question is raised by the better performance of foreign groups compared to domestic ones, which raises the need for cross-regional comparisons.

Based on the research, it can also be concluded that although the implementation of the NFRD into the Hungarian legal order has not been without problems, the implementation of the CSRD has been well achieved.

Due to changing regulations, companies should base their disclosure strategy on the new ESRS standards and be prepared to reliably measure, generate, collect, and store the data needed to produce sustainability reports. In practice, companies will need to build an information system that can handle both qualitative and quantitative information on the various sustainability topics, in addition to the accounting information system. It is expected that the biggest challenge for companies will be the transition to ESRS-compliant and audit-proof reporting practices.

Appendix 6.1. Environmental, social and ethical issues in regulation

<i>Dumitru et al. (2017)</i>	<i>NFRD</i>	<i>EC Methodological Guide</i>	<i>HAA</i>
I. Business model, policies, and risks related to CSR issues	Article 19a(1)	4.1.	Article 95/C (2)
1. Business model – brief description	Article 19a(1)(a)	Chapter 4.1(a)	Section 95/C (2) (a)
2. Policies related to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters	Article 19a(1)(b)	Chapter 4.2.	§ 95(4)(e) and § 95(5) and Section 95/C(2)(b)
3. Principal risks related to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters;	Article 19a(1)(d)	Chapter 4.4.	Section 95/C (2) (d)
4. Non-financial KPIs.	Article 19a(1)(e)	Chapter 4.5.	§ 95 (3) paragraph
II. Environmental matters	Article 19a(1)	Chapter 4.6(a)	§ 94 (1-3)
1. Impacts on the environment		Chapter 4.6(a)	§ 95 (5) paragraph
2. Impacts on health and safety		Chapter 4.6(a)	§ 94 (2)
3. Use of renewable energy		Chapter 4.6(a)	
4. Use of non-renewable energy		Chapter 4.6(a)	
5. GHG emissions		Chapter 4.6(a)	
6. Water use;		Chapter 4.6(a)	
7. Air pollution.		Chapter 4.6(a)	
III. Social and employee-related matters	Article 19a(1)	Chapter 4.6(b)	95/C § (1)
1. Actions taken to ensure gender equality;		Chapter 4.6(b)	
2. Implementation of fundamental conventions of the International Labour Organisation;		Chapter 4.6(b)	
3. Working conditions;		Chapter 4.6(b)	
4. Respect for the right of workers to be informed and consulted;		Chapter 4.6(b)	
5. Respect for trade union rights;		Chapter 4.6(b)	
6. Health and safety at work;		Chapter 4.6(b)	
7. The dialogue with local communities;		Chapter 4.6(b)	

<i>Dumitru et al. (2017)</i>	<i>NFRD</i>	<i>EC Methodological Guide</i>	<i>HAA</i>
8. Actions taken to ensure the protection and the development of the local communities		Chapter 4.6(b)	
IV. Ethical matters	Article 19a(1)	Chapter 4.6(c)	95/C § (1)
1. Prevention of human rights abuses, instruments in place to fight corruption and bribery		Chapter 4.6(c)	

Source: Based on (Dumitru et al. 2017, Lippai-Makra 2022).

Appendix 6.2. Characteristics of the sample

<i>Industry</i>				
	<i>2017</i>	<i>% of total</i>	<i>2022</i>	<i>% of total</i>
Non-financial sector	26	65,00	26	65,00
Manufacturing	9	22,50	9	22,50
Trade	5	12,50	5	12,50
Services	8	20,00	8	20,00
Other	4	10,00	4	10,00
Financial sector	14	35,00	14	35,00
Total	40	100,00	40	100,00

<i>Size</i>				
	<i>2017</i>	<i>% of total</i>	<i>2022</i>	<i>% of total</i>
small	3	7,5	2	5,00
medium-sized	2	2	2	5,00
large	35	87,5	36	90,00
Total	40	100,00	40	100,00

Number of employees

	<i>2017</i>	<i>% of total</i>	<i>2022</i>	<i>% of total</i>
under 50	3	7,5	2	5
50-249	2	5	2	5
250-500	2	5	4	10
above 500	33	82,5	32	80
Total	40	100,00	40	100,00

Stock-exchange				
	2017	% of total	2022	% of total
non-listed	29	72,5	29	72,5
listed	11	27,5	11	27,5
Total	40	100%	40	100%

Framework used				
	2017	% of total	2022	% of total
GRI	27	67,50	34	85,00
non-GRI	13	32,50	6	15,00
national framework	2	5,00	1	2,50
other	11	27,50	4	10,00
UN Global Compact			1	2,50
Total	40	100%	40	100%

Group report analysed				
	2017	% of total	2022	% of total
No	5	12,5	4	10
Yes	35	87,5	36	90
Total	40	100%	40	100%

Notes

- 1 Hungarian Acco unting Act: Act C of 2000. C. translation: https://focusaudit.hu/wp-content/uploads/2019/04/Act_C_of_2000.pdf Downloaded: 2024.06.28.
- 2 https://mkvk.hu/hu/szervezet/tagozatok/ptt/tagozatihirek/kozerdeklodes_rotacio_szolgaltatasok_20181105 Downloaded: 2020.03.10.
- 3 <https://denkstatt.eu/szolgaltatasaink/nem-penzugyi-jelentesek/?lang=hu> Downloaded: 2020. 03. 8.
- 4 European Comission: Guidelines on non-financial reporting (methodology for reporting non-financial information) (2017/C 215/01).
- 5 Environmental, social and employee, respect for human rights, anti-corruption, and bribery are dummy variables where the company received 1 point if they disclosed related information. The value of "Are the disclosures by the matters entity specific, not general?" can be 0 if they are disclosing general information only, 1 if the company disclosed both general and specific information, and 2 if the company disclosed specific information. The value of the indicator can vary between 0 and 8.
- 6 Business model, Policies to the matters, Outcome of the policies, Principal risks related to the matters, and Non-financial KPIs are dummy variables, where the company received 1 point if they disclosed related information. The value of "Are the disclosures by the matters entity specific, not general?" can be 0 if they are disclosing general information only, 1 if the company disclosed both general and specific information, and 2 if the company disclosed specific information. The value of the indicator can vary between 0 and 10.

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