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HUNGARIAN AND SERBIAN COMPANIES ESG PRACTICES AS MARKET COMPETITIVENESS TOOL FOR WESTERN BALKAN COUNTRIES

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ABSTRACT

In the business world, efficiency and sustainability are essential for the companies to survive the strong market competition. Optimized processes can help companies minimizing their losses and negative environmental externalities and improving the quality of their products, services. In addition to efficiency, companies can only operate sustainably in the long term if they take into account the needs of people, society and the environment. In this context, the Lean philosophy and the Environmental, Society and Governance (ESG) approach are two important tools to achieve efficient and sustainable operations. Its application in the business world is important not only because of the Corporate Social Responsibility (CSR), but also because it is becoming increasingly important for the future investment decisions as well. ESG investment strategies take into account the performance of companies in the pillars mentioned above and allow investors to choose the ones that will deliver the best results over the long term. The authors presenting a Hungarian and Serbian company ESG practice and its impacts on their business processes. These can serve as recommendation for the Western Balkan Countries (WBC), in which adoption ESG criteria and incorporating into the business strategies would be inevitable to reach significant breakthrough in the globalizing business environment.

KEYWORDS

business operation, efficiency, sustainability, ESG criteria, Western Balkan countries

INTRODUCTION

Currently, the Environmental, Social, and Governance (ESG) principles adopted in many sectors becoming one of the most prioritized pillar in investment decisions. ESG makes assessment the indicators of enterprises scoring their business performance from three non-financial dimensions: environment, society, and corporate governance, and evaluates the contributions of enterprises (investment objects) in promoting sustainable economic development and fulfilling social responsibilities. Many countries and regions have implemented ESG related policies and regulations to encourage improvement of the companies competitiveness by ESG actions. These programs not only strengthens the attention of all sectors of society to ESG, but also provides favorable environment for ESG investment optimizing the investment decisions and minimizing their risks (Ma, 2023).

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Large environmental disasters, such as the oil tanker Exxon Valdez ran aground in Prince William Sound, Alaska (US), spilling 11 million gallons of oil in 1989 or the explosion of the BP Deepwater Horizon oilrig in the Gulf of Mexico in 2010, indicated the negative impacts and risks of corporate activities. Due to these events, initiatives and standards have begun to put into forefront focusing on the environmental impacts of companies and sustainable management. Furthermore, human rights, employee welfare, workplace diversity and fair working conditions have become also societal issues that have increasingly shaped business decision-making. In addition, financial crises, such as the bankruptcy and criminal charges scandal of American energy company Enron Corporation located in Houston, Texas, due to accounting abuses, investor misrepresentation, ethical failures, fraud, lack of transparency, exploiting loopholes in legislation, demonstrated that the main reasons can be in failures of corporate governance and accountability (Li, 20210, Zulauf, 2011, Boddy, 2023).

Over the past decades, the United Nations (UN) Framework Convention on Climate Change (UNFCC) entered into force to regulate the environmental protection actions promoting sustainability.In 2004, the UN Environment Programme first proposed the concept of ESG investment, advocating for attention to environmental, social, and governance issues in investment. In 2006, the UN Principles for Responsible Investment (UN PRI) released, playing a crucial role in the development of ESG concepts and domain setting. In European Union (EU), there are also different directives regarding sustainable finance and ESG criteria e.g. SFDR-Sustainable Finance Disclosure Regulation; CSRD-Corporate Sustainability Reporting Directive; Non-Financial Reporting directive (NFRD). These documents have highlighted that environmental protection requires global cooperation and the companies are part of this process. The industrial and technological developments have not only led to economic progress but also to serious environmental challenges and ethical issues (PwC, 2023, Peterdy, 2024; WEF, 2022).

In 2007 by Goldman Sachs Group released an ESG research report, integrating the concepts of "environment, society, and governance", marking the formal formation of the ESG concept taking into consideration in decision-making processes, reducing non-financial risks in investments. Afterwards, international organizations, investment institutions and other market entities continuously deepened the concept of ESG and gradually formed a complete set of ESG concepts. At the same time, international investment institutions have successively launched ESG investment products, continuously improving and enriching ESG concepts and products. ESG aspects coincide with the United Nations Sustainable Development Goals (SDG). It is an important basis for socially responsible investment, and accepted criterion for international community to evaluate whether companies are in line with the level of green and sustainable development. Nevertheless, the ESG criteria emphasizes the unity of corporate business and social value. These one requires enterprises to conduct systematic design to do a good job, encourage companies to adopt new technologies and approaches to increase sustainability, while technological innovation also creates opportunities for sustainable solutions, such as the development of alternative energy sources. Companies need to focus not only on their financial results, but also on environmental, social and governance aspects of their business operations. Different frameworks and indicators help them to assess and report on their sustainability performance in a measurable way (Alessandrini, Jondeau, 2021, Gao et al. 2023, United Nations, 2015, CFI, 2023, Peterdy, 2024).

This paper aiming to provide an up to date ESG landscape about Hungary and Serbia via two selected company ESG practice and its impacts on their business processes case study. These can be reference best practices for the other Western Balkan Countries (WBC), how can help integration of ESG aspects into the business strategies to strengthen tangible way the competitiveness in this region.

ESG ASSESSMENT AND REPORTING FRAME SYSTEMS

ESG factors not only affect the reputation and competitiveness of companies, i.e. not only financial results, but also have a major impact on business performance and long-term sustainability. For the interested companies providing a real, tangible contribution to sustainable development and social progress, it is important that they communicate their ESG performance clearly and transparently to investors, customers and other stakeholders. Appropriate and reliable communication of information on these factors helps companies to take greater responsibility and customers and investors to be better informed about companies' business practices and commitments. In this context, reporting frameworks play an important role in defining a structured way to collect, analyze and communicate ESG.

The complexity and diversity of aspects covered by the environmental dimension "E" includes the environmental impacts of different business activities. The issue of energy use and emissions includes elements such as carbon emissions that directly affect the greenhouse effect and climate change. Companies need to take measures to reduce emissions and increase energy efficiency, thus helping to maintain the ecological balance. Another key area is water use and water quality. They need to look at their water sources and their sustainability, as water scarcity and poor quality have become a global problem, and need to take measures to reduce water use, minimize water damage, helping conserve water resources. Waste management is also an important element: waste from production and operations has to managed properly, minimizing environmental impact, promoting recycling. It also includes the management and conservation of natural resources, so that deforestation, soil degradation and other responsible management of natural resources is part of the corporate duty to maintain ecological balance. The "S" as in social aspects focuses on the responsibility of companies and organizations to contribute to social well-being, human rights, workers' welfare, equality and justice.

Respecting human rights, employing workers in decent conditions, and promoting human diversity and inclusion are all principles that defined under the social pillar and ensure the dignity and rights of workers in the workplace. Companies have to not only fulfil their legal obligations, but also promote the development of workers, the workplace environment has to be inclusive and supportive for workers with different backgrounds and abilities. Promoting equality and diversity has not only ethical but also business benefits, as it contributes to creativity and innovation. Health and safety in the workplace is also a priority, maintaining and protecting the physical, mental health of employees is not just about compliance, but also about long-term employee effectiveness and satisfaction. In addition, aspects of this pillar also cover companies' links with their social communities, i.e. they must take responsibility for developing and supporting local communities.

Through these people-centered and sustainable business practices, companies significantly contribute to the positive social and economical development. The "G" dimension as last pillar is the management aspect, it attaches great importance to corporate management and control practices, which are key to long-term successful operation and stability. It emphasizes that efficient corporate governance and transparency are essential for its sustainable development. The companies have to ensure appropriate governance structure and processes, empowering the organizations for effective decision-making and responsible business conduct. Corporate governance practices, such as ethical business behavior and the appropriate distribution of board roles, can also be crucial factors. This helps to avoid abrogation the ethical norms and standards, conflicts of interest, which can have a negative impact on credibility and reputation. It also covers leadership skills and training, as they need the right knowledge and empowerment to effectively navigate the changing business environment and manage the challenges they face. It is also an important element of shareholder rights and the involvement of interested parties. Companies have to focus on feedbacks from the interested shareholders making decisions that benefit them. It also prioritizes the fight against corruption and ethical business conduct, which not only serves to preserve corporate values, but also increases the credibility and attractiveness of the company for investors and stakeholders. Through these principles, companies can achieve long-term stability and success while maintaining corporate values, demonstrating responsible leadership (Alessandrini, Jonddeau, 2021, Zhan, 2023).

ESG Reporting Frameworks offer tools for companies to communicate transparently, clearly, unambiguously their ESG performance and sustainability results to investors, customers and other stakeholders. Environmental, social and governance factors do not only affect the reputation and competitiveness of companies, since these ones not only represent financial results, but also have a serious impact on business performance and long-term sustainability. In this context, reporting frameworks play significant role, which define a structured way of collecting, analyzing and communicating ESG information. The developed indicators and guidelines help to give a comprehensive picture of their performance and progress, but not only help to collect and present information, but also encourage continuous development and transparency.

These ESG Reporting Frameworks represent not only a business trend, but also an essential tool, which enables companies to communicate and measure their sustainability efforts in a complex way. Multiple ESG-related information disclosure systems have been established internationally for satisfy these requirements, including the International Sustainable Development Standards Board (ISSB), Global Reporting Initiative (GRI), Climate Change-Related Financial Information Disclosure Working Group Guidelines (TCFD), CDP Environmental Disclosure Framework. The two widely applied ESG Reporting Framework from these are the International Sustainable Development Standards Board (ISSB), Global Reporting Initiative (GRI).

The GRI has a long history, having been launched in the early 1990s, and has evolved to meet the needs of businesses and society. The system that is being introduced consists of three main steps that together help companies to develop more balanced and environmentally friendly business practices, while providing a realistic representation of their performance. In the first phase, the involved organisations focus on strategic planning, analysis, and then they need to think in depth about how they can integrate ESG factors into their business strategy. This process includes thorough exploration of sustainability challenges and opportunities, which will help companies to develop a core structure that harmonises sustainability with long-term growth and development objectives. The second step is a period of selection and focus, where the companies need to select the issues that are most relevant from their perspective and from the perspective of stakeholders. It is important to highlight not only on quantitative information but also on qualitative information, so that reports should written concisely and simply. In addition, at this stage that they select the specific indicators and guidelines that will allow them to assess and present their performance.

These indicators cover a broad range of financial and non-financial areas, such as environmental impact, workforce diversity and ethical corporate governance. Finally, regular reporting and continuous monitoring are important, e.g. companies should report regularly on their performance in relation to ESG factors. The GRI Framework has the enormous advantage of being a widely accepted and used tool in the corporate environment, providing comparable and reliable information to help stakeholders make informed decisions and responsible choices. One of the most prominent groups of decision-makers is the management. Management plays a key role in reporting, as the integration of ESG factors into business strategy is the basis for long-term success. Management is responsible for determining the relevance of the factors and the content of the report, which can have an impact on business reputation and competitiveness. Investors are also key stakeholders, so these reports help them to make their decisions. Customers are also active stakeholders in the reporting process. This information will enable them to make informed decisions about which companies to do business with or buy products from by enabling them to see the environmental and social impacts, which can be a key determinant of customer loyalty and brand loyalty.

In addition, employees and society means an other essential stakeholder groups and can help colleagues understand companies' commitment to employee well-being and human rights, as well as provide society with information on corporate social responsibility and its impact, which is relevant to their customers and the community. Lastly, reporting is also relevant to regulators, helping companies to comply with ESG rules and regulations, which contributes to responsible and ethical operations (GRI, 2016). The other important ESG Reporting Framework is the Sustainable Accounting Standards Board (SASB), an organisation established to develop and promote sustainable accounting and reporting standards. It was established in 2011 and has since played a key role in improving corporate reporting practices, particularly in industries where ESG factors are of high importance and can have an impact on corporate performance and risks.

SASB's approach is unique in that it applies industry-specific standards, has developed a structured framework that identifies factors that are truly material and relevant to specific industries based on 11 main industries and 77 sub-categories. The standards provide detailed definitions of different factors, such as carbon emissions in the energy sector, water use in the agriculture sector or data protection in the technology sector. Accordingly, the reports aim to help investors and decision makers to better understand the financial implications of these factors (SASB, 2024). The GRI and SASB frameworks have different approaches to ESG reporting, but both are critical to effective company evaluation. While the GRI offers a more general framework that encompasses all ESG dimensions, allowing companies to report on in-depth range of environmental, social and governance issues to create reports tailored to their own priorities and environment. In contrast, SASB takes more concrete approach. It focuses on developing industry-specific standards that identify the ESG factors that have the greatest impact on financial performance and risk for each industry and aims to provide standardised indicators and benchmarks to assess the specific ESG challenges and opportunities for each industry as you can see in the below (Table 1).

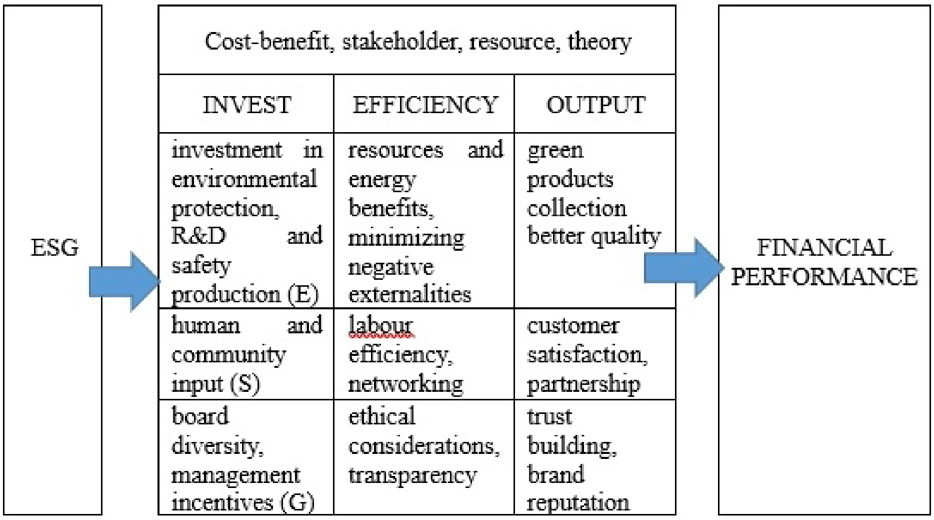
Every year, many companies publish these reports and information on their official websites or other publicly available platforms, known as "sustainability reports". However, communities such as WikiRate (2024) have also been created, which is a dynamic and collaborative online platform that uniquely combines indicators and data from the GRI and SASB frameworks to help make information more transparent and to improve understanding of ESG factors. Through this pioneering platform, the community is actively engaged in corporate sustainability and social responsibility, contributing to the standardised collection of data from corporate reports. One of the key aspects is that it not only adopts the indicators, but also transforms these indicators into its own indicators to convey information on corporate sustainability performance in a simplified and easier to understand format. This approach makes it easy for those less familiar with the complex data to understand it. In addition to transparency and data sharing, WikiRate also encourages community data collection. Users can also publish their own company data derived from GRI and SASB indicators and thus contribute directly to the expansion and enrichment of information. In doing so, it has a tremendous social impact in that presenting sustainability news in an easy-to-understand format helps consumers, investors and stakeholders to make informed choices and support companies that are performing well in the ESG field. Tracking corporate responsibility strengthens corporate accountability and transparency.

The below picture 1 summarizes the possible correlations between the organisational financial performance and taking into business practice the ESG principles and approaches.

Table 1. Differences between GRI and SASB indicators

GRI	SASB
Environmental dimension (Conservation of the natural word): - greenhouse gases (GHG) emissions - energy consumption - water use - waste management - biodiversity conservation	Energy industry: - carbon emissions - share of renewable energy sources - energy efficiency
Social dimension (Consideration of people & relationships): - employee satisfaction - workplace diversity - respect for human rights - community support - health and safety	Pharmaceuticals and healthcare: - ethics in clinical trials - patient safety - product safety
Corporate governance dimension (Standards for running a company): - board structure - ethical corporate governance - shareholder rights - stakeholder communication - bribery and corruption - lobbying	Financial services: - risk management - client data protection - prevention of financial manipulation
	Technology and communication: - data protection - intellectual property protection - software security

Source: Own edition based on (CFA Institute, 2023, GRI, 2016, SASB, 2024)



Picture 1. Linkages between company financial performance and adoption of ESG principles
Source: Own edition based on Shen, 2022, Friede, Busch, 2015, Ziolo et al., 2021

However, there is a lack of consistency among the different ESG disclosure systems. At the same time, there are over 80 ESG rating agencies worldwide, and there are significant differences in the methodology, caliber, and coverage of their evaluations (EC, 2021; Ma, 2023; Shen et al., 2023). The sources of ESG rating agencies primarily fall into four categories: company disclosure, media reports, alternative data and modeled data (Lee, 2021). While ESG data sources are more or less consistent, the rating methods used by different agencies vary because of divergences in scope, measures and weighting (Brandon et. al., 2021; Berg et al., 2022). Table 2 makes comparison among some ESG rating agencies.

Table 2. Comparison major, selected ESG rating agencies

Rating agency	Data sources	Rating Scheme
Bloomberg	Listed companies' websites, announcements, sustainability report; News and public opinion	0-100
FTSE Rutshell	Listed companies' websites, announcements, sustainability report, News and public opinion, Regulatory authorities, Industry associations	0-5
MSCI	Listed companies' websites, announcements, sustainability report; News and public opinion, Regulatory authorities, Industry associations, Corporate communication channels	7 levels, from low to high: CCC, B, BB, BBB, A, AA, AAA
Refinitive	Listed companies' websites, announcements, sustainability report; News and public opinion, Regulatory authorities, Industry associations	12 levels, from low to high: D−, D, D+, C−, C, C+, B−, B, B+, A−, A, A+

Source: Own edition based on Shen et. al. 2023, Zhang, Yuan, 2021

THE HUNGARIAN ESG LANDSCAPE

In recent years, there has been a global demand for companies to consider natural and environmental values and the impact of their products and services on society. These considerations have led to the development of the ESG (Environmental, Social, Governance) framework, which has now been enshrined in EU legislation. The Hungarian government aims to create the most independent system for Hungarian businesses to comply with EU obligations, reflecting national specificities. The timely development of domestic practice will prevent domestic firms from competitive disadvantage in the EU internal market. The government submitted the so-called ESG Act (CVIII Act 2023) at the end of 2023, which was adopted by the Hungarian Parliament, establishing the national ESG framework to guarantee the competitiveness of Hungarian companies in the transition to a sustainable global economy.

According to the ESG Act, the Minister of National Economy is responsible for establishing the National ESG Council, which has a decisive role in defining the minimum requirements for ESG reporting, which should be implemented in such a manner that minimizes the administrative, financial burden on the actors of the Hungarian economy. The Council is chaired by the Minister for National Economy. The Council members delegated by the Prime Minister's Office, the Cabinet Office of the Prime Minister, the Ministry of Energy, the Ministry of Culture and Innovation and the Regulatory Authority for Regulated Activities, as well as the Hungarian Chamber of Commerce and Industry, the National Association of Entrepreneurs and Employers, representing the business and civil society sides including e.g. IFKA Industrial Development Non-profit Ltd. (About Hungary, 2023; Government of the Hungarian Republic, 2024).

BDO Hungary's ESG business branch conducted a forward-looking, insightful ESG survey involving 5,500 clients from 9 EU countries (Czech Republic, Croatia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Poland). 83% of the companies surveyed believe that ESG will be extremely or very important for their business in the future. However, the integration of sustainability considerations into corporate decision making is most often driven by the regulatory requirements of the European Union and national governments. Other important motivating factors are reputation enhancement and the expectations of owners and stakeholders (e.g. banks). According to the results of the questionnaire, more than 40% of companies are willing to spend more on ESG in the future than they have done so far, while half of companies (52%) would spend the same amount as last year. 77% of respondents are focusing on energy efficiency and green energy investments, while 18% are focusing on collecting sustainability data.

The research revealed some differences in how SMEs and large companies integrate ESG measures into their operations. Half of large companies have a high or very high focus on carbon emissions and carbon neutrality, with a greater emphasis on ethical behavior and transparency than SMEs. On social issues, on the other hand, SMEs are more motivated, placing 8% more importance on employee well-being and 15% more on education, training and human rights than large companies. The Corporate Sustainability Reporting Directive (CSRD) ensures that companies disclose appropriate information on their sustainability risks and opportunities and their impact on people and the environment, based on the principle of dual materiality.

This Directive also requires companies to apply standards to comply with legal obligations for sustainable reporting. In line with the CSRD, the European Commission has adopted common reporting standards (European Sustainable Reporting Standards - ESRS), which are mandatory for companies covered by the Directive. The ESG law adopted last year transposed this Directive into Hungarian law. Although the survey shows that 20% of companies have already prepared an ESG report and a further 40% plan to do so in the near future, 40% of respondents do not plan to prepare an ESG report (two thirds of SMEs and one third of large companies). Among surveyed Hungarian companies, similar proportions observed: 33% have already produced an ESG report and 44% plan to produce their first sustainability report. More than half of the Hungarian companies surveyed (56%) are covered by the CSRD legislation, but only 20% of these companies are aware of it, so it is important that companies are well informed (BDO, 2024; HRPower, 2024).

Hartmann Hungary Packaging Ltd. and its ESG practice

Today, the Hartmann Group is the world's leading manufacturer of moulded paper fibre packaging with 15 production sites and around 2,500 employees. It is also a market leader in design, engineering development and dipped fibre production technology. ESG principles are integral to Hartmann's business model and strategy. Biodegradable moulded fibre packaging, produced from recycled paper, forms the foundation of our business. The company committed itself to take into practice positive impacts by reducing CO_2e emissions by 50% by 2030. Equally important for the company the human and labor rights across its entire value chain. ESG in Value Chains is a new collaborative project where the Danish Industry Foundation and the Confederation of Danish Industry focus on manufacturing companies' collaboration on sustainability in the value chain. The aim is to strengthen business development and increase the competitiveness of Danish SMEs.

The Danish-based group's Hungarian subsidiary was established in 1991, and thanks to increased investment, the egg packaging industry has boomed, opening up new market opportunities. Since its establishment, the Hungarian company has undergone dynamic development in several phases. Due to billions of euros in investments over the past 5 years, the factory has continuously increased its production output, optimised logistics processes and created new organisational units. These improvements ensure a stable future for the company in Ács (Komárom-Esztergom county, Hungary).

The technology developed by Hartmann based exclusively on the use of recycled paper. The packaging material they produce is 100% environmentally friendly and fully biodegradable, setting an example in the field of recycling. In addition, the moulded paper pulp technology is environmentally friendly and can be fully adapted to the shape of the objects to be transported. The volume of goods produced in the Hungarian factory exceeds several million units a day, most of which are sold on the European market. All this reflects the size and reputation of the company and the high quality of the goods produced. While in the 1990s, the company employed 100 people, today it employs between 550 and 600. Many have been with the company for 15-20 years and 90% of the employees are local.

It is therefore not surprising that Hartmann's operations strongly intertwined with the life of the town of Ács and the surrounding region. In their social responsibility, they have set out guidelines that serve the interests of their immediate and wider communities. As for future plans, Hartmann intends to expand its domestic activities with additional tasks based on the talented Hungarian workforce, while at the same time looking forward to a further increase in production volumes. Looking back into the history of the company, we can see a dynamic development, and accordingly the management of the company can look to the future with the same optimism as the founders did in 1917 (Hartmann, 2023a; Hartmann, 2023b; Hartmann, 2023c).

The Hartmann's main ESG priorities including: combat against the climate change (reducing GHG emission, optimizing energy consumption and protecting the company production facilities), strengthening circularity (circular and green economy, waste management); investing in people (fair and equal handling of human and labor rights, focus on diversity and inclusion, food safety, occupational health and safety) and protecting water (water consumption, water pollution, water scarcity). According to Torben Rosenkrantz-Theil CEO "*In 2023, we expanded our dedicated Group Sustainability and ESG team to drive and accelerate our efforts and we completed our first double materiality assessment outlining future main impact areas and focus points. Our science-based carbon reduction targets were validated, and we strengthened our competency centre to fuel the development of new energy reduction technologies. We also continued helping customers converting from single-use plastics products to bio-degradable moulded-fibre packaging*" (Hartmann, 2023c, 7).

CURRENT ESG SITUATION IN SERBIA

In generally, comprehensive ESG Reporting is not mandatory in Serbia and does not have ESG scoring for the time being, the regulatory bodies have made efforts to adoption ESG criteria into their regulatory frameworks, reflecting the growing consensus on the role of sustainable development in different economic activities. There is a non-financial reporting requirement for all large companies and legal entities with more than 500 employees. ESG data generated by companies themselves, which are not always accurate, complete and reliable. In order to support small and medium enterprises in Serbia to advance their operations, the United Nations Development Program (UNDP) has organized trainings entitled "ESG Practitioner" in partnership with the Development Agency of Serbia and the Smart Collective. These trainings take into practice as a part of the project "Promotion of Sustainable Investment", which UNDP carries out in close coopertion with the Government of the Republic of Serbia, supporting by the United Nations Peace and Development Trust Fund (UNPDF) and the UN Department of Economic and Social Affairs (Rakocevic, Benkovich, 2023).

The Center for Green Economy established in April 2023 at the University of Kragujevac, with the support of the Serbian Chamber of Commerce and the German Organization for International Cooperation (GIZ). To make easier understandings of non-financial reporting's aspects for the public, the Center for Green Economy, the Sustainable Development Platform for All, and the Faculty of Economics of the University of Kragujevac organized a panel on June 17, 2024, titled "Standardized Non-Financial Reporting – Experiences and Perspectives."

The panel discussed the Corporate Sustainability Reporting Directive (Directive 2022/2464), European Sustainability Reporting Standards (ESRS), the development of ESG strategy, non-financial reporting (ESG reporting), the role and importance of civil society organizations in ESG reporting and improving ESG performance, as well as examples of good practice (e.g., Atlantic Group). In addition, "ESG Leaders" awards established and presented by PwC. The awards given to those Serbian companies and organizations that have committed strongly themselves to achieve successfully ESG principles across 4 main categories and 13 subcategories. The jury consisted of experts in ESG, responsible management and philanthropy, financial markets, science, and innovation. The awards represent crucial phase toward achieving the vision of sustainable results that protect the environment and improve society in Serbia (Center for Green Economy, 2024).

BOSIS, THE SERBIAN PACKAGING COPMANY ENTERED INTO INTERNATIONAL MARKET BY IMPLEMENTING ESG CRITERIA

Bosis packaging company, the family-owned business established by Bogoljub Pantelić in 1982, located in Valjevo, 100km south of Belgrade, Serbia, employs 140 employees, classified among the 1% of global companies serving as role models in sustainable business. It has been producing printed and laminated carton packaging and blister cartons exclusively made of ecological materials and is 100% recyclable, ranging from consumer goods packaging (biscuits, chocolate, coffee, and tea) to boxes for shoes, the car industry, home cleaning and cosmetic products, toys, textiles. The company is included in the supplier chains of large companies such as Henkel, Atlantic Group, Bambi, Heineken, Geox, and many others across Europe. The packaging produced by Bosis is. Increasing energy efficiency, digital transformation, transferring from an entrepreneurial to a corporate model of organisation and management, introducing the circular business model – some typical examples how to take into practice in the company strategy the ESG considerations. Bosis always focused on long timescale. A company's success depends on every individual involved. In practice, we refer to this as "MRIT—*My Role in This"*, where everyone should benefit from everything we do but also have responsibility for it. Bosis organisational culture also includes responsibility and sustainability. The company aimed at goal-based operation focusing on ESG criteria, implemented through programmes:

- Bosis ART: a program of support for creativity and art,
- Bosis Eco: projects and activities that concern environmental management, responsible use of energy and natural resources, as well as responsible waste and emission management,
- Bosis Knowledge: permanent education, progress, and development of professional staff as well
- Bosis Family and Bosis Babies: all the activities of support for our employees, their families, and their children.

The company demonstrates responsibility in the entire supply chain, which is evidenced by the EcoVadis Platinum award, classifying us among the top 1% of global companies in all categories that fulfil the demanding requirements of social responsibility. The ESG application also opens new business opportunities since many investors and banks assess enterprises using these exact criteria (Bosis Doo, 2022; UNDP, 2023). Due to adopted ESG criteria in its business operation, Bosis packaging company merged with the British DS Smith, a leading sustainable packaging provider operating, which has been present in more than 30 countries and employing over 30,000 people and began its operations in Serbia in 2004.

Furthermore, the company is present in Bosnia and Herzegovina, Bulgaria, Croatia, Romania, North Macedonia, Slovenia, Greece and Turkey as well. Plastic replacement is a main field for DS Smith, and the business recently achieved the milestone of over 762 million units of plastic replaced since 2020. Miles Roberts, Group Chief Executive, DS Smith, commented: "*We are seeing significant growth in demand for sustainable packaging and for plastic replacement in East Europe, especially in Serbia, and are delighted to announce our agreement to acquire Bosis".* After completion of the acquisition process of Bosis, DS Smith's total packaging operations in Eastern Europe will comprise 29 box plants and additional facilities, employing more than 7,000 people in the region. As a future ambitious, prosperous plan, DS Smith intends to invest 16 million euro in new innovative packaging equipment for fast-moving consumer goods and automated packaging lines at its existing production plant in Serbia (DSSmith, 2024, Pavlova, 2024).

ESG FRAMEWORK IN THE WESTERN BALKAN COUNTRIES

According to the EU ESG regulations, the EU Member State candidates Western Balkan countries also will have to create favorable regulatory and business conditions for the ESG Framework. In this context, the WBC banking sector is ready to adopt ESG criteria, elaborate ESG scoring system, and the actors are aware that their mission and responsibility to facilitate and monitor the ESG criteria adoption in the business sector. These can mean new, unprecedented opportunities building new value propositions, getting strategic competitive advantages in the EU markets, developing new innovative solutions for the customers. Nevertheless, there is a lack of highly qualified ESG professionals and experts, no consensus-based ESG indicators for regular reporting and no elaborated, validated ESG scoring system in the WBC banks and shortcomings in the ESG regulations. In addition, connections between E, S and G criteria are not harmonized in the ESG Framework, there is serious ESG risks and ESG data gathering difficulties from company side and the applicability of the ESG metrics for the SME sector can be challenges at the same time.

WBC banks will have to take more concerted actions to overcome difficulties and eliminate administrative and technical burdens in front of implementation ESG Reporting system, providing sustainable finance and investment for those businesses, which integrate ESG principles in their business operations. This can be the only way to exploit the future hidden opportunities for this region. The previously mentioned illustrative business case studies can mean adoptable and "tailor made" best practices , how would it be worth realising this one (Rakočević et al., 2022, Rakočević, Benković, 2023).

CONCLUSION

Sustainable and green finance and investments, business operations with ESG criteria, have rising significantly in financial and investment decision taking into practice sustainable projects. The importance of sustainable finance and investments is even more relevant for the Western Balkan countries. Those countries facing incredibly challenging issues and struggle with necessary resources to finance sustainable and green projects. Currently, application of ESG principles is modest in scope in those countries. Available financial instruments in those countries are banks' and national and international funds' loans for energy efficiency, renewables, agriculture, air pollution, waste and water management.

The lesson learnt from the Hungarian Hartmann and the Serbian Bosis ESG story can be that the company's future is also a better future for its employees and their families, and this is beneficial for the local community and the entire society. By implementing the ESG criteria, we make a difference in our micro-environment and, step by step, work on being better. The ESG is not reserved only for big corporations; it should become an obligatory element in all SMEs' operations. On the other hand, Bosis can serve as reference for the Western Balkan countries (WBC) promoting the wide spreading the ESG approaches, metrics in this region contributing the social cohesion, wellbeing, sustainability and the economic competitiveness.

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