Podávání zpráv o udržitelném rozvoji v českých podnicích – případové studie

Corporate Sustainability Reporting in Czech Companies – Case Studies

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Abstract:
Purpose of the article: Interest in voluntary environmental and social instruments and their communication towards company stakeholders has given rise to the Corporate Sustainability Reporting. Corporate Sustainability Reporting is a part of a trend incorporating sustainability into companies' management.
Methodology/methods: Research methods are adjusted to article's aims. To map the situation in the Czech Republic available documents on Corporate Sustainability Reporting were analysed. In order to determine the causes leading to the fact that Czech companies publish Corporate Sustainability Report in a very small scale a case study as a research method is chosen. The research was conducted in three companies. To ensure triangulation, three data collection methods were chosen: interview, questionnaire and archival data (corporate documents).
Scientific aim: The aim of this paper is to map out reporting on sustainable development in the Czech Republic and to find out why Czech companies do not publish Corporate Sustainability Reports more.
Findings and conclusions: It was found out that only a very small percentage of companies in the Czech Republic issue a report on sustainable development. The causes of low interest in Corporate Sustainability Reporting are its ignorance, personal and financial demands without short-term returns and the fact that companies do not perceive the potential benefits that Corporate Sustainability Reporting may bring. These benefits are: it can improve negotiations with state and local authorities and other subjects, it can increase positive employee relationship to their company, it can also increase attractiveness to potential investors and international cooperation and thereby achieve significant long-term economic effects and sustainability.

Keywords: Reporting, Corporate Sustainability Reporting, GRI, Czech Republic

JEL Classification: M20

Introduction

Growing interest in voluntary environmental and social instruments and their communication towards company stakeholders has given rise to the Corporate Sustainability Reporting. Thanks to Corporate Sustainability Reporting, stakeholders do not have to study environmental reports, social reports and financial and economic reports separately. Communication of all aspects of corporate sustainability in one integrated report is a recent phenomenon, it is, however, on the increase (Kocmanová, Dočekalová, 2011). Investors are willing to invest smaller amounts of money in companies that do not consider environmental and social performance, because they consider them to be riskier (Kruse and Lundbergh, 2010).

Corporate Sustainability Reporting is a part of a trend incorporating sustainability into companies' management. Sustainable development on a corporate level is seen as a complex set of strategies that allow through economic means to satisfy material, cultural and spiritual human needs, while fully respecting environmental limits. Economic, environmental and social development cannot be perceived separately and the concept of corporate sustainable development stresses harmonious and balanced development of these three pillars (Schaltegger, Wagner, 2006; Freiberg, 2007).

1. Corporate Sustainability Reporting

Probably the most sophisticated methodology for the implementation of Corporate Sustainability Reporting is the methodology by Global Reporting Initiative (GRI).

GRI is the initiative of the United Nations. GRI was founded in 1997 by CERES (Coalition for Environmentally Responsible Economies) and UNEP (United Nations Environment Programme). First GRI guideline (Guidelines 2000) was published in 2000. In 2002 there was next guideline (Sustainable Reporting Guidelines 2002). Currently the third generation of guidelines (G3 Guidelines) is used, issued in 2006. GRI organization is already working on the fourth generation of guidelines (G4-Sustainability Reporting Guidelines). G4 issue is planned for 2013.

GRI is a global initiative that is independent of other institutions. Its main objective is to develop generally applicable recommendations for reporting on corporate sustainability. GRI reporting guideline is probably the most comprehensive reporting framework on corporate sustainable development – *i.e.* economic development, respects friendly approach to the environment and takes into account social aspects of business (GRI, 2011).

The basic framework of the methodology of the GRI Guidelines is a generally accepted framework designed for reporting on environmental, economic and social profile (performance) organization. It can be applied in organizations of different sizes, industries and sectors of the national economy as well as in different locations. It takes into account practical aspects that are common to a wide range of organizations – from small and medium-sized enterprises to large corporations with large-scale business. This framework provides general and sector-specific content, which was agreed by a wide range of stakeholders to be generally applicable for use of voluntary sustainability reporting on performance (profile) of organization (GRI, 2011; Kocmanová *et al.*, 2010).

2. Corporate Sustainability Reporting in the Czech Republic

The topic of voluntary reporting and Corporate Sustainability Reporting has been discussed by Czech authors in previous articles, *eg*. (Hřebíček *et al.*, 2009; Hřebíček *et al.*, 2009; Ritschelová *et al.*, 2008).

In the Czech Republic (CR), the interest in the Corporate Sustainability Reporting increases both on the part of the companies issuing these reports, and on the part of the public interested in learning more about the operations of companies. In 2009, the Amsterdam Declaration „On Transparency and Reporting“ of the Board of GRI has brought a new impulse to reporting on environmental, social and governance performance. In the CR, the development in the field of corporate sustainability reporting reflects the overall global world trends (Hřebíček *et al.*, 2009; Hřebíček, 2009).

Despite the growing interest in the Corporate Sustainability Reporting, in CR these reports are issued by only 14% of the companies, which is, in terms of percentage less than in Romania and Hungary (KPMG, 2008). It needs to be stressed that this includes only large companies. The execution of the Corporate Sustainability Reporting in the small and medium-sized enterprises (SMEs) approximates 0% – without exaggeration.

The author has often heard the view that the reporting according to GRI is only suitable for large companies. GRI Statistics show that this is wrong and that SMEs elsewhere in the world are capable of reporting according to GRI, see Figure 1.

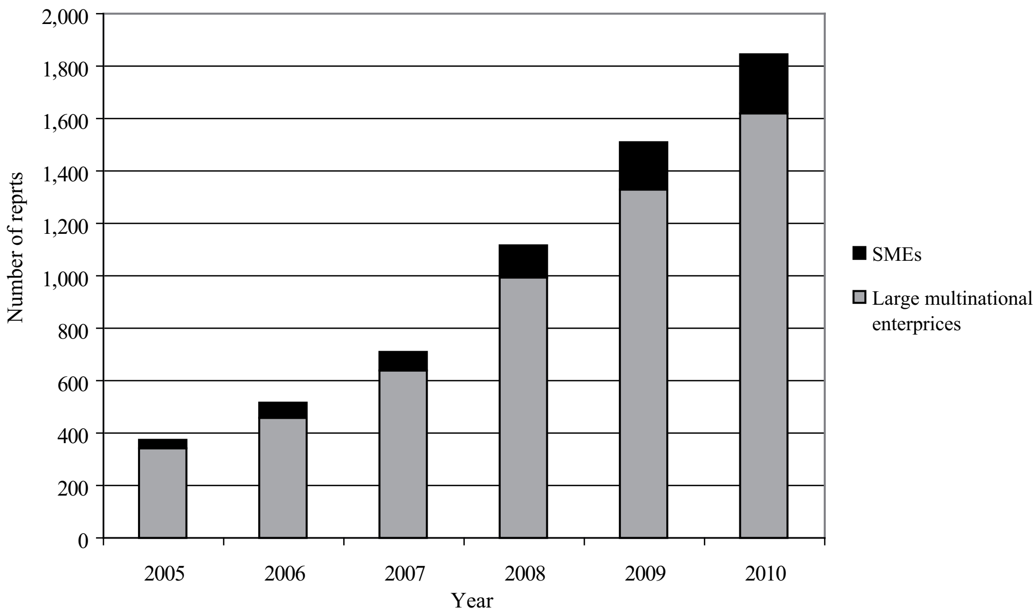

Figure 1 The share of SMEs in the total number of reports.

Figure 1 shows that SMEs are in considerable minority, but that the number of reports grows increasingly. Most SMEs that issued GRI report in the last three years are from Europe.

In 2010, 1845 organizations worldwide released a report on sustainable development according to GRI-G3 guidelines. According to GRI Statistics there were only 2 organizations in the CR, which issued such report, i.e. 0.11% of the total. Companies that issued these reports are Czech Coal and Provident Financial. Czech Coal operates in the mining sector and Provident Financial in the sector of financial services. In 2011, another report was added to these reports – a report from company CEE Bankwatch Network, which is an international NGO. Czech Coal issued its first Corporate Sustainability Report in 2005 and since then it has issued one every year. Provident Financial issued its first Corporate Sustainability Report according to GRI in 2005, then in 2006 and the last report 2009 was published in 2010. CEE Bankwatch Network issued a Corporate Sustainability Report only once, in 2010.

Provident Finacial a CEE Bankwatch Network are not Czech companies and in the GRI statistics they are assigned to the CR just because they have a branch in the CR. Their reports do not factually relate to their business in the CR but to the whole international corporation. Only Czech Coal has experience with the implementation of Corporate Sustainability Report according to GRI in the Czech environment.

The main reason why Czech Coal decided to issue Corporate Sustainability Report according to GRI guidelines was equal reporting of both financial and non-financial data and both internal and external effects. In Czech Coal's opinion the GRI methodology allows to prepare a more rational and balanced interpretation of the company's impact on the environment and on stakeholders in comparison with the purely protectionist views that focus only on negative impacts of men and technology on the environment (Kužel, 2009).

The Czech Coal sustainability report relies on the consolidated figures from annual reports and some other data taken from annual reports of the individual organisational units and subsidiaries; only a small portion of the data is prepared specifically for sustainability report. Certain information, especially social data, is prepared separately with regard to the requirements of the GRI methodology (Kužel, 2009).

3. Methodology

The aim of this paper is to map out reporting on sustainable development in the Czech Republic. After mapping the situation it was found that only a very small percentage of companies in the CR issue a

Corporate Sustainability Report. It is logical to ask why this is so. Another aim of this paper is to find out why Czech companies do not report on their sustainability to more extent. Research methods are adjusted to the aims of the paper.

To accomplish the first aim, available documents on the Corporate Sustainability Reporting in the CR were analysed. To accomplish the second aim, a case study is chosen as a research method.

Case study research is one of the approaches of qualitative research. Case study can be defined as a detailed study of one case or a few cases (Hendl, 1997).

Case studies combine data collection methods such as interview, observations, experiment, etc. Data may be either qualitative or quantitative, or both. Case studies can be used to provide a description, to test a theory or to generate a theory (Eisenhardt, 1989).

The first step in a case study is a definition of research questions. This is followed by a selection of cases. Next step is the selection of data collection methods. To make triangulation possible, it is necessary to use multiple data collection methods. After data collection there is data analysis. At first, each case is analysed separately, followed by cross-case analysis. Cross-case forces investigators to look beyond initial impressions. At this stage of research, definition or theory are preliminarily formulated. Next step is shaping hypotheses and their comparison with conflicting and similar literature (sources) which ensures validity, sharpens generalization and raises theoretical level (Eisenhardt, 1989).

For this research, this research question was developed:

“What are the reasons for Czech companies not to issue Corporate Sustainability Reports?”

To ensure triangulation, three data collection methods have been selected.

1. Data collection method – Interview.
2. Data collection method – Questionnaire.
3. Data collection method – Analysis of archival data from register of companies, annual reports, company websites, voluntary reports *e.g.* Corporate Social Responsibility Report.

Triangulation supports quality of a research, especially its validity (Reichel, 2009).

4. Case studies

The research was conducted in three companies. As the basic criteria were chosen:

- The company operates in the private sector.
- The company is head-quartered in the CR.
- The company belongs to the SMEs category.

The reason of the choice of the last criteria was that the share of SMEs in the total number of active businesses in the CR is 99.84% (2010) (MPO ČR, 2011). Enterprises are qualified as micro, small and medium-sized enterprises if they fulfil these criteria: fewer than 250 employees and annual turnover less than EUR 50 million or balance sheet total is less than EUR 43 million (European Commission, 2003). In order to answer the research question, it is logical for the selected company to have to meet another criterion and it is the absence of Corporate Sustainability Reporting.

Table 1 Description of case studies.

Company	No. of emloyees	Turnover (mil. €)	Voluntary tools
A, Ltd.	230	37,5	ISO 9001 ISO 14001 OHSAS 18001[a] MRP[b] Ecolabelling
B, Ltd.	195	41,7	ISO 9001 ISO 14001 OHSAS 18001 CSR[c] MRP LCA[d]
C, Plc.	240	10,3	ISO 9001 ISO 14001 OHSAS 18001 Ecolabelling

a – Occupational Health and Safety Assessment Specification; b – Material Requirements Planning; c – Corporate Social Responsibility; d – Life Cycle Assessment. Source: own processing.

Selected companies are further described in Table 1.

The data was collected in the third quarter of 2011. Data collection procedure was as follows: after analysis of publicly available company data, the company was sent a questionnaire and after its return, an interview was conducted. The interview took one hour.

The territory chosen for the case studies is The South Moravian Region. The South Moravian Region is a region with significant economic potential. Gross domestic product (GDP) of this region represents 10.3% of GDP of the CR (2011). Due to the industrial tradition of Brno and its surroundings, manufacturing is still dominant in the region's economy. Manufacturing makes 28.4% of the total gross value added of the Region. Developing construction makes 9.4% and services 60.3%. Another traditional branch, especially in southern part of the region is agriculture. The share of agriculture is only 1.8% (ČSÚ, 2011). 283 202 economic entities are head-quartered in this region (as of 31 December 2010) which is the third highest number among regions in the CR and it represents 10.3% of the total (ČSÚ, 2011).

4.1 Case study – company "A, Ltd."

This company operates in manufacturing industry and its production is intended for industrial market. The production range consists of electric motors and generators for nuclear industry, shipbuilding, railway industry, etc.

The company has an integrated quality management system and environmental management system; other voluntary tools see Table 1. Among other activities, which should improve social performance, are: philanthropy, support of neighbouring community, support of employee education and training, cultural events for employees and residents of a community. The company holds an open dialogue with the neighbouring community. This company tries hard to minimalise its negative impact on the environment and society, as evidenced by the number of sustainability voluntary tools. According to their own words the company contributes to all three components of sustainable development.

The company informs about its economic, environmental and social performance through annual reports and internal materials which are not intended for the public. Annual reports are only available from the Companies House Register. The company website informs neither about sustainable development nor about its individual components. After analysing the annual report, it was found that this document is entirely inadequate in terms of information about sustainable development. The company only informs about basic economic indicators and their future outlook. Financial statements and auditor's report on financial statements are attached to annual reports.

The question is why a company which actively improves its environmental and social performance does not inform about activities in these areas. An interview revealed reasons why that is so. The interview took place with a person responsible for reporting. The reason why the company does not inform its stakeholders is the ignorance of Corporate Sustainability Reporting and its potential benefits. Another reason is that reporting of such comprehensive report would be time as well as financially consuming and in their opinion stakeholders do not need this report and stakeholders would not be able to appreciate it.

4.2 Case study – company "B, Ltd."

This company operates in chemical industry and produces detergents and polishing agents. Production is intended both for industrial market and consumer market.

Efforts to ensure sustainable development are directly embodied in the company's vision and corporate values. Voluntary instruments are listed in foregoing Table 1. Among other activities are: philanthropy, charitable foundation, volunteering, support of employee education and training, cultural and sports events for employees. The company supports neighbouring community and holds an open dialogue with the community.

The company is a member of Coalition for Transparent Business. According to their own words the company contributes to all three components of sustainable development.

The company issues a voluntary environmental report. The annual report informs mainly about economic indicators and partially about social and environmental indicators. The company website informs also about social and environmental indicators and activities to improve performance in these areas.

The questionnaire and the interview revealed that the company does not issue comprehensive sustainability report for the following reasons: ignorance of the Corporate Sustainability Reporting, the current state of reporting is considered as sufficient, Corporate Sustainability Reporting would not bring additional positive effects. Another reason is the fact that the issue of integrated reports would be personnel and financially demanding.

4.3 Case study – company "C, Plc."

This company operates in manufacturing industry and produces mattresses and bed frames, the production is intended for consumer market.

Besides voluntary activities listed in foregoing Table 1, the company carries out other voluntary activities: charity donations, support of employee education and training, as well as holding an open dialogue with the community and the region.

The company does not systematically work with the concept of sustainable development and thus inform neither about sustainable development nor about its individual components. This company implements voluntary tools and activities either because they are forced to by its stakeholders (*e.g.* customers) or to improve company's position in negotiation with the municipality and the neighbouring community. The company does not issue voluntary social reports and it reports about its environmental impact only to a limited extend. Annual reports are only available from the Companies House Register and include only information about basic economic indicators.

The company does not consider issuing a Corporate Sustainability Report firstly because of its ignorance and also because it would bring additional costs and they are not sure if such investments would bring adequate effects.

5. Data analysis and discussion

Based on the performed case studies and data analysis the information reduction and generalization can be now conducted.

The reasons why Czech companies do not issue a Corporate Sustainability Report can be summarized in the following statements:

- Czech companies perceive Corporate Sustainability Reporting as resources demanding,
- Czech companies do not perceive possible advantages resulting from the Corporate Sustainability Reporting,
- Czech companies do not have knowledge of Corporate Sustainability Reporting.

To support validity, sharpen generalization and raise theoretical level it is necessary to compare these case studies results with literature.

Possible reasons that prevent more widespread voluntary sustainability tools in SMEs emerge from the literature search (Del Brío, Junquera, 2003; Pilisi, Venturelli, 2003; Venturelli, Pilisi, 2003; Friedman, Miles, 2002; Tilley, 2000; Bianchi, Noci, 1998; Borga *et al*., 2009):

- levels of resources and skills that may may be missing,
- financial investments without short/medium returns,
- low sensitivity to the potential advantages,
- limited financial resources.

These findings may be related to Corporate Sustainability Reporting, because it is one of voluntary sustainability tools. The problems shown which impede the use of voluntary sustainability tools, support the validity of the case studies findings.

Tailored reporting framework and reporting guidelines that would meet the needs of Czech companies may help to introduce Corporate Sustainability Reporting and change little interest of Czech companies in this matter. Such reporting framework should be build on existing mandatory reports and information that companies routinely monitor, and it should be on basic level. After overcoming the concerns of companies and verification of positive effects, companies would naturally move to the internationally recognized methodology (*e.g.* GRI). Czech companies should use and take the advantage of the GRI Reporting Framework and services that GRI offers.

Another solution is that Corporate Sustainability Reporting would cease to be voluntary and become mandatory by law.[1)] In companies that were forced by law to adapt mandatory sustainability reporting, bribery and corruption has been reduced, an employee training has become a higher priority and companies implement more ethical practices (Ioannou and Serafeim, 2011).

Conclusions

Despite the growing interest in the Corporate Sustainability Reporting on the part of stakeholders, only a very small percentage of companies in the Czech Republic issue these reports. This appears to be because Czech companies do not have knowledge of Corporate Sustainability Reporting, it is demanding on personnel and financial resources and companies do not perceive possible advantages of Corporate Sustainability Reporting.

Czech companies should more inform their stakeholders about their environmental, social and economic impact (performance). Czech companies should take advantage of Corporate Sustainability Repor-

1) Countries that adopted a mandatory sustainability reporting law are for example: Norway, Sweden, Australia, Great Britain, Italy, *etc.*

ting as it may bring several positive effects, it can improve negotiations with state and local authorities and other subjects, it can increase positive employee relationship to their company, it can also increase attractiveness to potential investors and international cooperation and thereby achieve significant long-term economic effects and sustainability.

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