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Current Trends in Sustainability Reporting in the Czech Republic

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Abstract

Sustainability reporting has become a mainstream business activity. The *Amsterdam Declaration on Transparency and Reporting* of the Board of the Global Reporting Initiative from March 2009 told to global leaders from business, labour and civil society declared their belief that the lack of transparency in the existing system for corporate reporting has failed its stakeholders. It brought a new impulse to sustainability reporting on economic, environmental, social and governance performance. The new approach of corporate sustainability reporting is presented in the paper. The development in the area of sustainability reporting in the Czech Republic reflects the overall global world trends. Some large corporations are actively performing sustainability reporting; on the other hand, the relative share of these companies is rather small. The paper also indicates companies group in the Czech Republic that participate on the corporate sustainability reporting and evaluates the state of voluntary reporting in chemical industry.

Keywords: *sustainability reporting, GRI, ESG performance, KPI, ESG factors, Responsible Care*

1. Introduction

Sustainability reporting has become a mainstream business activity, as revealed by a recent International Survey of Corporate Responsibility Reporting from KPMG which shows that the majority of Global Fortune 250 companies now issue such reports (KPMG 2008). At first, we would like to mention "*The Amsterdam Declaration on Transparency and Reporting*" of the Board of the GRI - Global Reporting Initiative (GRI 2009) from March 2009. Global leaders from business labour and civil society declared their belief that the lack of transparency in the existing system for sustainability reporting has failed its stakeholders. There the Board of GRI concluded that the root causes of the current economic crisis would have been moderated by a global transparency and accountability system based on the exercise of due diligence and the public reporting of *economic, environmental, social and governance* (*ESG*) *performance* of organization (i.e. company, corporation, firm, enterprise, authority or institution, or part or combination thereof, whether incorporated or not, public or private, that has its own functions and administration).
ESG data are being monitored, codified, registered and aggregated into Key Performance Indicators (KPIs). This fact indirectly indicates that in the case of such need the company is able to aggregate these data and incorporate them into the Sustainability report (Hřebíček et all. 2009). It means that from ESG

data are determined KPIs to identify company economic, environmental, social and corporate governance performance which give overall performance, (Figure 1).

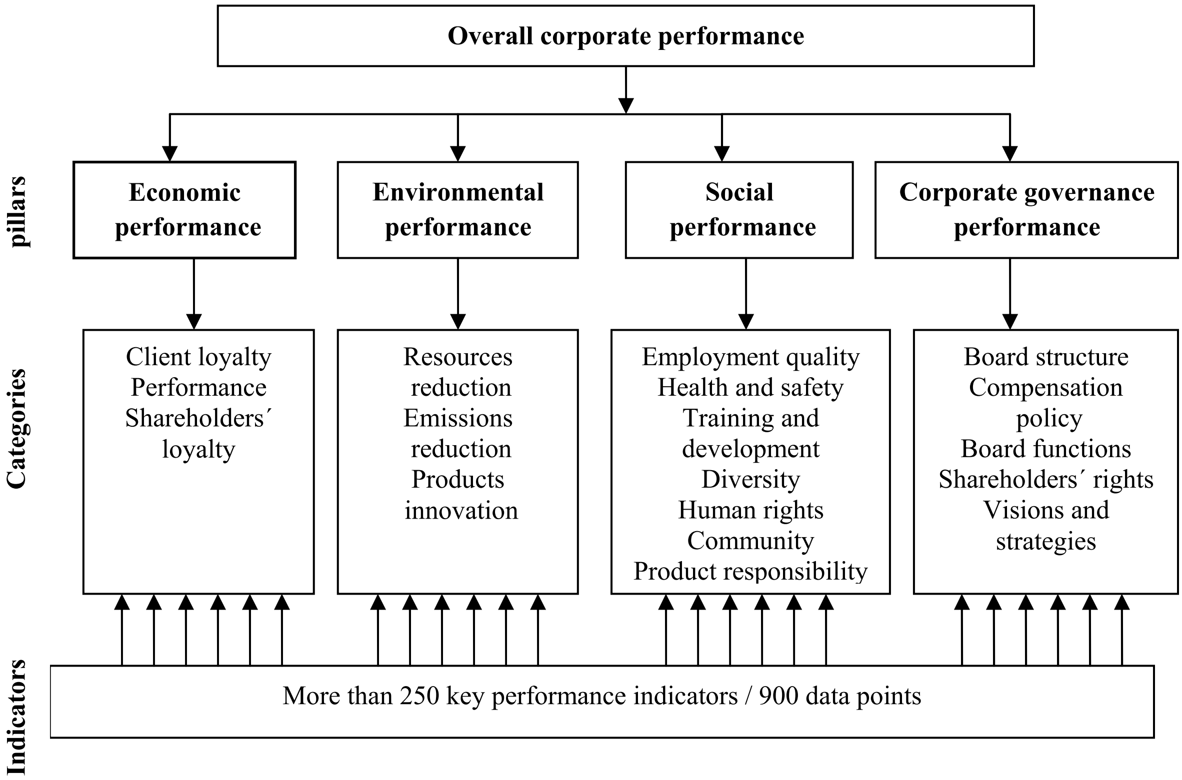

Figure 1: Example information structure framework of economic, environmental, social and corporate governance data, KPIs, and performance (Greenwald 2007)

They called on governments to introduce policies requiring companies to address publicly ESG factors. A revitalized and resilient economic system will only be sustained if it accounts for the full costs and value of ESG activity. The Board of GRI calls on governments to take leadership by:

1. Introducing policy requiring companies *to report on ESG factors* or publicly explain why they have not done so.
2. Requiring *ESG reporting* by their public bodies – in particular: *state owned companies, government pension funds* and *public investment agencies*.
3. Integrating sustainability reporting within the emerging global financial regulatory framework being developed by leaders of the G20.

Investors have been a key driver in promoting the uptake of sustainability reporting, as a result of initiatives such as the UNEP FI - United Nations Environment Programmer’s Finance Initiative (UNEP 2009), they are increasingly asking companies for ESG performance information to help them make investment decisions. Indeed, assets of over USD 15 trillion (estimated to be around 15% of total global capital markets) are now managed by signatories to the United Nations Principles for Responsible Investment (UNPRI 2009). These signatories commit to integrating ESG issues into investment analysis using information and communication technologies (ICTs). It enables them to seek appropriate disclosure on ESG issues by the entities in which they invest. Therefore, *GRI Reporting Framework* could be basic for appropriate software platform containing a basic infrastructure with currently developed methods and components for the field of sustainability reporting (Isenmann, Welter 2007), (Insemann, Marx Gómez 2008). This can reduce an effort for ESG disclosure.

However, for ESG data to be useful to investors it must be presented in a consistent way, regardless of whether in the format of a combined sustainability and annual company report or separate documents. Crucially, the link between a company's performance on ESG issues and its business strategy must be made appropriate software. Without this link investors will have no way to gage what the ESG disclosure might mean for the financial bottom line.
Insufficient reporting of ESG data is another barrier to integrating ESG issues into a decision for mainstream investing. Although more companies are publishing Corporate Social Responsibility (CSR) and sustainability reports (CSR reports 2009), the information in the CSR reports, from company to company, varies widely. The Business for Social Responsibility works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. Its report (BSR 2009) suggests that governmental regulations on sustainability reporting with mandatory ESG data by companies could help address this barrier.
A set of best-practice sustainability reporting criteria for financial services companies has been launched at the World Economic Forum in Davos at 2009 by the United Nations and the GRI, which promotes "*global corporate ESG disclosure standards*" describing in Sustainability Reporting Guidelines (SRGuide 2009). Its specialist financial services sector guide includes clear social and environmental indicators for fund managers, insurance companies and retail and corporate banks that fit with the GRI's guidelines G3 (G3 2006) standards.

2. New Approaches to Corporate Sustainability Reporting

The guidelines (G3 2006) and (GRI 2009), which were developed over five years by banking, insurance and investment members of UNEP FI, cover sustainability issues regarding company policy, procedure and product. For example, companies are expected to report on how their certain products/services bring social and environmental benefits. This might include the percentage of companies held in investment portfolios where the financial services provider is "*engaging*" on a specific social or environmental issue. It could also include the amount of assets held that are subject to positive or negative environmental screening and/or investor voting policies. On the environment, finance groups are encouraged to report both total direct and indirect greenhouse gas emissions including corporate travel and that of service providers. Other reporting areas include labour practices and investment agreements that include human rights clauses or screening. Significantly, companies are also asked to point to examples of "fair" design in the labelling and sale of their investment products. These approaches for the Czech Republic were described in new methodology of Ministry of Environment (Hřebíček, Soukopová 2008).
ESG information is most easily incorporated into investment analysis when it helps to tell more about a company performance and its future prospects. As part of overall company performance, investors want an insight into how well company management see and understand the relevance of ESG trends to its overall strategy as well as data on the ESG performance of the company. This must be incorporated into new sustainability reporting strategy. In preparing corporate sustainability reports, new software can structure their disclosures aimed at investors around three key building blocks of report (GRI 2009), which software has to generate. These are:

1. *The Chief Executive Officer (CEO) or Chair of the Board Statement block*. This should explain:
    a. The company's ESG strategy and key ESG priorities, and
    b. How market trends and issues link to the company's ESG strategy and key ESG priorities.
2. *Discussion of Risks and Opportunities block*. It should:
    c. Identify key ESG risks and opportunities facing the business, and
    d. Discuss the implications of these risks and opportunities for business strategy and financial performance.
3. *The Provision of Performance Data block*. It should:

e. Highlight key achievements, failures, and performance against ESG targets in the reporting period,
f. Be standardized and comparable through time and across companies.

There are described these blocks in following chapters.

2.1 Block: Statement from the CEO or Chair of the Board

Investors and interested party look to statements from the CEO to understand which issues company management thinks are critical and how they wish to address them. CEO statements are usually brief and therefore will not go into detail on any particular topics. However, they help investors assess the general level of awareness of senior management of major ESG trends that are important for the company and contribute to the level of confidence investors have in the management team.

Ad a. ESG Strategy and Business Priorities

Investors and interested party are most interested in understanding how a company's ESG strategy relates to its business strategy and activities. In particular, investors and interested party are interested in the link between a company's ESG strategy and its overall competitive strategy and performance.

Ad b. Market Trends and Strategic Issues Facing the Company

The statement should reference the key market trends and strategic issues facing the company where its ESG strategy is relevant to resulting business performance. For example, an apparel supplier might point to a trend amongst its buyers to consolidate their supply base around a small number of strategic partners. The apparel supplier might feel that the consolidation combined with their own strong performance on labour issues offers the opportunity to position it as the supplier best able to meet all the buyers' needs from quality control to reputation risk management.

2.2 Block: Analysis of Risks and Opportunities

Investors and interested parties expect to see a discussion of the key risks and opportunities associated with ESG strategies, and prefer to see this consolidated into a single section of a report. This discussion should touch following items:

Ad c. Identifying Key Risks to and Opportunities for the Company

Investors and interested parties want to identify the ESG factors that, in the opinion of management, are likely to present the greatest risks and opportunities for the company.

Ad d. Implications for Business Strategy and Financial Performance

In addition to identifying key risks and opportunities, the report should also discuss the implications for business strategy and financial performance. A good narrative will qualitatively discuss how ESG performance affects the primary value drivers of the business. Good reporting will also seek to explain the measurable contribution of ESG performance to operating performance.

Figure 2 shows that the traditional focus of financial reports starts with market context and how a company's products and services fit into the evolving competitive landscape. This facilitates analysis of the corporate strategies and actions and the likely financial outcomes given the market context described.

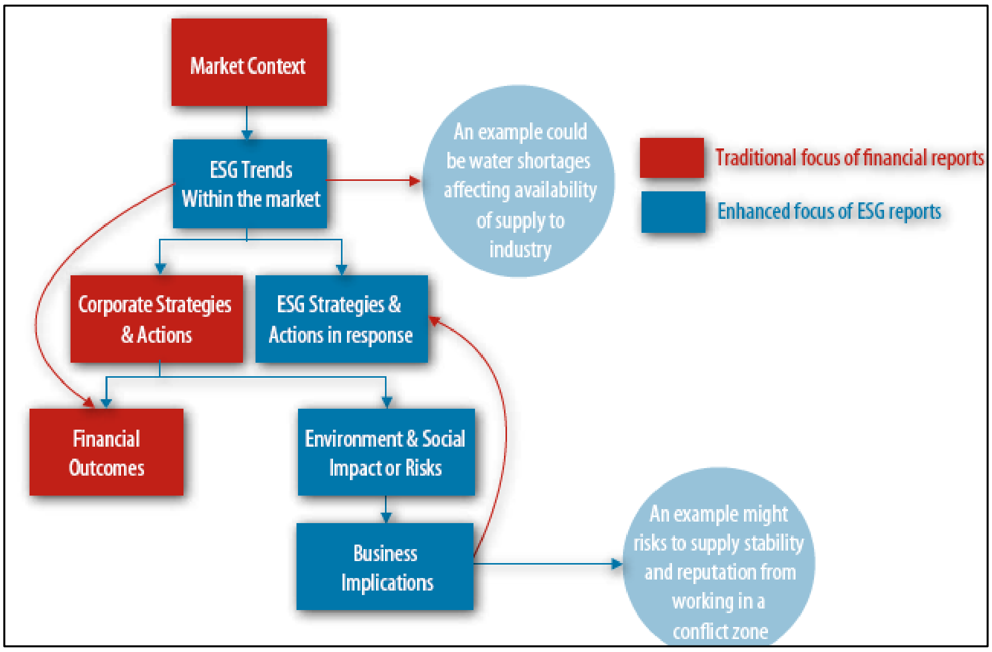

Figure 2: Identifying key ESG opportunities and risks (GRI 2009)

2.3 Block: The Provision of Performance Data

To be useful for investors and interested parties, data must be standardized and comparable over time to facilitate comparison between current performance and historic performance of company. It should also be comparable across companies as this allows investors to distinguish between the performances of different companies.

Ad e. Key Achievements and Performance against Targets

Investors and interested parties value a discussion of performance against ESG targets, including successes and shortcomings. This helps them understand how a company's ESG strategy is being executed and better understand how ESG strategy and performance might play out in the future. Companies should document the most important targets that have been set for the company with regards to its ESG performance. In addition, companies should comment on how performance is appraised and state how performance against ESG targets is rewarded (if at all).

Ad f. Data standardization and comparability through time and across companies

Techniques that can help make data useful will include:

a) *Adhering to standard definitions* (Data that do not have common underlying standards are of very limited use to investors);

b) *Providing access to raw data* (most probably via a hyperlink to the corporate website). This allows investors to manipulate the data according to their own requirements;

c) *Applying the same segmentation principles to ESG data* as used in the company's financial statements;

d) *Aligning environmental and social statistics with the key elements* of the company's business strategy;

e) *Benchmarking statistics* against internal targets and peer group performance.

3. Corporate sustainability reporting in the Czech Republic

The Czech translation of the GRI Guidelines is now ready for use. The full set of the G3 Guidelines, (the Guidelines, the Application Levels and the Indicator Protocols) have now been translated into the Czech language (G3Czech, 2009).
We can see (Figure 3) that 33 companies of the Czech Republic have corporate sustainability reports with using G3 Guidelines. Reporting leaders include chemicals, electronics, mining, food & beverage sectors and 2 companies have reports on their carbon footprint. Companies that do report most often include corporate responsibility information in a separate section of their annual report, but 14 % of companies issue a corporate responsibility report. The number of reports receiving third party assurance is still very low in the Czech Republic. 94% of the companies surveyed do not include any third party comments in their reporting.

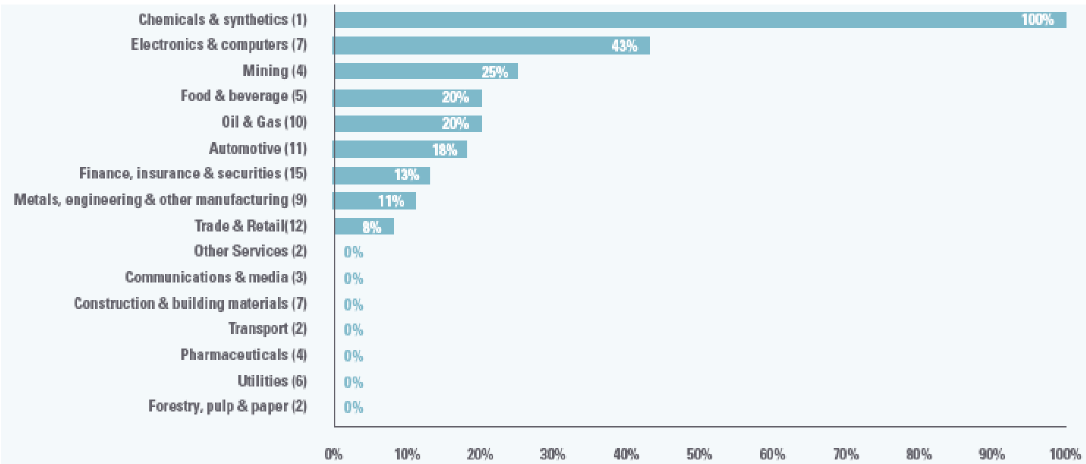

Figure 3: Corporate sustainability reporting per sector in the Czech Republic (KPMG 2008)

Although it may seem that ESG issues have not been a priority for companies in the Czech Republic, a growing awareness of the importance of CSR has been visible in the business community. There is enough awareness, so that the Czech Republic can, for the first time ever, contribute to KPMG's International Survey of Corporate Responsibility Reporting. Addressing ESG issues helps business gain credibility among stakeholders and distinguishes itself from competitors.
Reporting on environmental and financial and partly social impacts is compulsory by law in the Czech Republic, so it is with a matter of image and positive public perception that drives companies to report. As in other parts of the world, it is mainly companies in the industrial sector, followed by businesses in electronics and finance that are pioneering sustainability reporting practices (Hřebíček, Soukopová, 2008).

4. Case study for small and medium-sized enterprises in chemical industry

Within the research of the project SP/4i2/26/07 of Masaryk University addressed to the evaluation of voluntary reports presented by chemical industry organizations which have the right to use the logo *Responsible Care*, (Hřebíček et all, 2008). At present, 39 organizations of the Association of Chemical Industry of the Czech Republic (ACI CR) are entitled to use the logo Responsible Care (RC). The following qualitative indicators were subjected to the evaluation: *availability of reports; structure of reports; intelligibility of reports° and in what detail the information is provided*, etc.
The research mapped the current status of *voluntary reporting* and the *main indicators* in chemical industry organizations from several viewpoints. One of them was the implementation of an environmental management system (EMS or EMAS), which has been implemented in 26 organizations of 39, which are enti-

tled to use the logo RC. The reports were acquired from organisation web sites for the individual years, in time sequence from the moment of having been entitled to use the logo RC.
The research was conducted in the form of evaluating the particular reports according to predefined aspects which are partly consistent with aspects used for assessment based on (G3Czech, 2009). Within the framework of research, the aim was to identify the current status in the sector of chemical industry and, at the same time, to follow up with the research (Hřebíček et all, 2008) and perform updated assessment of: *types of disclosed reports; forms of reports; structure of reports; the number of indicators in particular classifications; provided information ratio; verification of reports; types of reported information; corporate approach to sustainable development described in reports, the level of reported information*.
The evaluation focused on the form of communication and type of report, where the following aspects were concerned:

1. *Type of released report*: Environmental Report; Report on Health, Safety and Environment; Report on Sustainable Development; Report on Responsible Care.
2. *Form of released report*: Separate report (only on web site or printed form); part of Annual Report (only on web site or printed form); otherwise.
3. *The number of corporate performance indicators* in the categorization according to (G3Czech, 2009), which are used in reports of the analyzed organizations, i.e.: *the number of economic performance indicators; the number of environmental performance indicators; the number of social performance indicators and the number of governance performance indicators*.¨
4. *Report certification by one of the following manners*: Certification by ACI CR, whose member the organization concerned is and has been entitled to use the RC logo; by independent third party (usually a renowned certifying organization which certified, for example, EMS system; by other manners.
5. *Reports contain information on*: corporate activity impacts on the environment, corporate products´ impacts on the environment; EMS system.
6. The level of reported information was assessed according to the following „quality“ criteria: *comparability; detail accuracy/level; timeliness; clarity and reliability*. These criteria were assessed according to the score scale of between 1 and 5, with 1 being the worst and 5 the best value, see Table 1.

Score	Comparability	Accuracy	Timeliness	Clarity	Reliability
1	2	5	4	0	4
2	2	5	0	2	9
3	5	8	0	5	8
4	2	6	0	9	3
5	15	2	22	10	2
In total	**26**	**26**	**26**	**26**	**26**

Table 1: Quality assessment of 26 analyzed environmental reports

Finally, to evaluate the quality of environmental reporting can be said that the evaluated 26 organizations of ACI CR provide interested parties information that is comparable in terms of their performance over a period of time, but this information is less detailed and balanced. Positive on the other hand, evaluated the clarity and timely publication. In 2009, there will further be elaborated the methodology of assessing the indicators, and also an expected set of the „minimal“ indicators ensuing from the performed analysis and from the Amsterdam Declaration.

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