

## REPORTING ON SELECTED ASPECTS OF THE CORPORATE SOCIAL RESPONSIBILITY IN THE CZECH REPUBLIC

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**Abstract:** This paper examines the extent to which the largest companies domiciled in the Czech Republic disclose selected CSR related non-financial data. The analysis covers 100 companies with the largest turnover in 2014 and considers some specific characteristics of the reporting entities, including the industry in which they operate and a geographical location of its ultimate owners.

The main objective of the research is to identify which companies if any disclose the non-financial data, using a pre-defined scoring system. The results show that the most common are data on environmental and labour aspects. The number of such disclosures correlates with the industry sector in which the company operates as well as with the country of its ultimate owner.

**Keywords:** Corporate Social Responsibility, CSR, Sustainable Business, Disclosure Quality.

### 1 Introduction

External financial reporting is primarily a product of an information-asymmetric relationship between the owners (principals) and managers (agents) of companies. This relationship stems from the fact that the owners, who bear the major risks associated with the existence of a company often have only limited access to information about the current position and performance of the net assets owned by them. The variety of entities involved in the performance of companies and their interaction with its (not only business) environment, however, is much broader and includes current, former or prospective employees, customers, debtors, government or the local communities. We can say that the standard set of financial statements required by law reflects the information needs of these stakeholders only partially, since it is focused mainly on its primary function to provide financial data required by its current or prospective owners and neglects the needs of other stakeholders.

Reports that a priori focus on the other than financial indicators may have various forms. These include so-called integrated reports, corporate social responsibility (CSR) reports, or sustainability reports. Though they differ in part in their focus, their common goal is to enrich the basic set of financial statements so that companies can provide sufficient non-financial information to all relevant material stakeholders to help them to better meet their information needs.

While in many countries especially in developed countries of Western Europe and North America such reports are quite common, there is a belief that companies in the Eastern European countries including the Czech Republic (CR) often choose the option to publish only the minimum data and information required by the law. Unwillingness to disclose any extra information is thought to be present mostly among small and medium-sized companies, however the research that includes up-to-date empirical data on this topic is still rather limited. Current practices specifically in the area of reporting on socially responsible behaviour in the CR is therefore clearly a very current and appealing topic for further analysis.

### 2 Literature review

There are several research papers and articles covering the topics related to CSR reporting practices as well as dedicated reporting on environmental, social and other non-financial aspects. These identify several factors that affect the frequency and quality of CSR reports. The results of research carried out on samples of major European companies generally confirm that the CSR reporting is commonly a domain of large companies only (Drag - Tiron-Tudor, 2012). The emphasis is often placed on corporate

governance, but much less on social and environmental issues (Bonson - Bednářová, 2015). However, there also are some proposals for specific methodology on evaluating CSR reporting of small and medium-sized enterprises (Szczenowicz - Saniuk, 2016). Differences in quantity, quality and focus of such reports are yet evident across industries and sectors in which the reporting company primarily operates (Lock - Seele, 2015). This is caused by a different environmental impacts of such companies across various industries.

Among other factors very important are specific aspects of the country in which the company operates (Fortanier - Kolk - Pinks, 2011). The quantity and quality of CSR reporting is obviously influenced by both the tradition of disclosing such information by companies in the country as well as institutional factors and a degree of regulation (Jindrichovska - Purcarea, 2011).

Some research also confirms that many CSR reports do not provide a comprehensive and relevant information particularly in high-risk or adversely developing areas (Michelon - Pilonato - Ricceri, 2015; Ditlev-Simonsen, 2014). This is partly caused by the fact that only a small number of such reports is in any way verified by an independent third party (Srivastava - Rao - Mock, 2013). The quality of these voluntary non-financial information often positively correlates with the quality of financial reporting of the company (Martinez-Ferrero - Garcia-Sanchez - Cuadrado-Ballesteros, 2015). However, if present, the external verification is sometimes of a dubious quality and often does not fulfil its desired purpose (Zori - García-Bena - Sierra, 2013).

Current research also points out that there is a different view on CSR reporting among experts on this issue and academics on the one hand and among executive management on the other. While management considers it rather to be an instrument for improving the company's image, experts accent mainly the aspect of increasing the transparency and a positive attitude towards the social environment of a company (Habek - Wolniak, 2015). The CSR and other non-financial reporting is, however, an area of increasing popularity and importance across countries (Lament, 2015), although the number of companies reporting on CSR-related aspects still cannot be considered to be significant or sufficient (Tschopp - HUEFNER, 2015).

Several studies specifically cover the reporting practices in the CR. Dana Dvořáková (Dvořáková, 2009), for example conducted a research on a sample of nineteen companies publicly traded on the Prague Stock Exchange in 2008. This revealed that even these companies, which supposed to have a very high level of financial reporting, often do not publish environmental and social information or they do so only in an inadequate form. The research also notes that if present the social and environmental information is almost never linked to the financial part and often contains only positive and favourable data. That raises reasonable doubts on whether the information is honest and complete or it serves only as a self-presentation of companies and their achievements in a given year. Other authors have focused on the medium, small and micro companies in the CR, where for the years 2013 and 2014 they examined the relationship between company size (measured by number of employees) and awareness of CSR issues respectively, based on a survey (Skýpalová - Kučerová - Dvořáková, 2016). The authors observed a significant positive correlation with the size of the company which confirms that in the CR size is an important factor in relation to the company's involvement in CSR. A similar research performed by Kunz is using a pre-defined questionnaire on a sample of about 250 Czech companies (Kunz, 2012). The research revealed a relatively high degree of awareness and commitment in the field of social responsibility of large companies, while their share decreased significantly with the shrinking size of the inquired company. While the most of these companies emphasized their dedication to an ethical behaviour and care for employees as main reasons

behind disclosing voluntary non-financial data the main motive behind such conduct identified by the management of these companies was the effort to improve the company's image and an internal integrity of the management, rather than e.g. the desire to satisfy the information needs of various stakeholders.

Conceptual content analysis of annual reports for 2006 done by Kašparová (Kašparová, 2011) on a sample of 104 companies points out the fact that companies in the CR mostly report on the internal processes and future plans of the company but the depth of the disclosed CSR related information is not very extensive. The information once published is rather descriptive in nature and lacks hard quantitative data to support the statements in such reports. The limitation of this particular research, however, is a fact that it focused only on the information disclosed in annual reports and not in any dedicated CSR reports.

A similar analysis of annual reports of 52 Czech and 30 Slovak companies was done by Kašparová and Škapa (Kašparová - Škapa, 2007) on information published in 2006. The research has revealed several differences in reporting practices between these two countries. The most frequently disclosed data in the annual reports of the Czech companies were those on environmental protection and waste management. This research is limited again by using annual reports as the only medium being analysed, and by the fact that information on environmental protection are, among other, a mandatory disclosure under applicable legislation in the CR. The results of the research also confirm the findings of other studies that large companies in the CR report about the CSR topics more frequently than small and medium-sized companies.

### 3 Research objective

A review of the literature and research papers that focus on the non-financial reporting practices specifically in the CR shows that at the moment not much empirical data is available and there is a considerable opportunity for further work that analyses the latest data. The objective of this paper therefore is to identify, analyse and critically evaluate the extent to which major companies in the CR disclose non-financial information that are not explicitly required by the applicable law (quantitative factor) and what is their content and form (qualitative factor). Given that this objective is rather general, it is useful to break it further to individual research questions. This paper specifically aims to answer the following questions:

- Among the largest companies, what is the percentage of those which voluntarily reported the non-financial information?
- Which companies the most commonly reported this information?
- About what CSR areas do companies report?
- How companies ensured the quality of this information, especially its accuracy and completeness?

Answering all these questions on a sample of the largest companies in the CR will then result in achieving the stated objective of this research.

### 4 Research method

To be able to answer each research question we will analyse external reports on a sample of 100 leading companies in the CR. The significance was assessed according to the level of revenues achieved by a company in the last financial year. Data was obtained from publicly available list compiled annually by the Czech Top 100 association that each year publishes an updated list of 100 companies located in the CR according to their per-year revenues. The information about CSR-related topics were gathered from two main sources; either from annual reports or from separate reports focusing on information about aspects of socially responsible behaviour. In all cases we considered statements for the year ended in 2014, since in the time the research was being conducted it was reasonable to assume that all companies considering reporting CSR-related

data for 2014 have already done so. The reports were obtained from two basic sources - from the electronic commercial register available on the Internet at [www.justice.cz](http://www.justice.cz) as well as from the official websites of analysed companies.

Further it is also necessary to define which data and quantitative as well as qualitative characteristics will be examined. These were selected so that all research questions could be reasonably answered using the collected data. We therefore chose the following characteristics, broken down according to the research questions:

- **What is the proportion of companies that voluntarily report the non-financial information?**

This question will be answered in dichotomy by concluding that the company either does or does not report the non-financial information. Only if it does it will be assessed further for details of this reporting. Therefore, the following two characteristics were defined:

- The company does report on non-financial information
- The company does not report on non-financial information

- **Which companies report on non-financial information?**

To answer this question, it is necessary to assess multiple variables as several factors may affect the nature of the non-financial disclosures. Examined variables will include the industry in which the company operates and the ultimate ownership of the company. The ultimate ownership will be assessed specifically to determine, whether the company is owned locally or by a foreign owner and if so, from which region. The analysed characteristics were chosen as follows:

- Industry in which the company operates
- Geographical location of the ultimate owner

- **What CSR areas the companies cover in their reports?**

In the area of non-financial reporting companies need to take into account the specific needs of users of such reports and essentially report on three key areas as defined below. These three areas are also applicable for this research. These are the following:

- Labour and employment
- Social aspects
- Environmental aspects

This categorization is inspired by the standards that have been created by the Global Reporting Initiative (GRI) non-profit organization. We use their CSR guidelines as the reporting good practice as in many studies GRI is identified as the most influential and widely acceptable standard of the CSR reporting in the world (Lim - Kiyoteru, 2012; Ronen, 2011; Lament, 2015; Tschopp - Huefner, 2015; Vukic, 2015). GRI similarly identifies three main areas of CSR, namely economic, environmental and social (GRI 2015, p. 23). In this paper, however, we focus only on non-financial aspects of reporting, thus we ignore the economic aspects recognized by GRI and many other CSR reporting guidelines. The reason is that the reporting on economic aspects has a long tradition in the CR and is to a considerable extent required by applicable law. This could lead to many companies identified as partially reporting on some CSR aspects only because they properly disclose their financial performance in line with legal requirements, thus potentially distorting the findings of this research. Separation of the labour and employment area from the social aspects of CSR in this paper is again motivated by a hypothesis that companies will report more often than not on aspects required by Czech legislation (companies are currently required to disclose information about their environmental activities as well as labour practices - without any further guidance - within their annual reports) and will more frequently omit the remaining social aspects. After separating the labour aspects from the social area this includes such aspects as the company's impacts on local communities, anti-corruption initiatives, safety of the company's products and others.

Since for the purpose of this study we categorize the companies as those who either do report or do not report on some specific areas at this point we still need to determine the circumstances under which the individual company will be identified as the one reporting on the aspect properly. It often happens that companies that formally comply with its legal obligations to disclose information about the impact on either the environmental or labour aspects, often cover these areas only briefly, in a form of vague statements. Since it is not desirable to identify these companies as the ones that do report on the examined area, we will for the sake of consistency stick with the criteria proposed by GRI. We will answer the question whether the company does report on the area (i.e. employment & labour, social, or environmental) positively, if the report contains information on at least one of the indicators set by GRI methodology. The methodology set out in this paper is therefore significantly more benevolent than the applicable internationally accepted standards of the CSR reporting. For the purposes of this paper, however, we will not apply all of the criteria under GRI literally, since some of them can be considered as rather irrelevant for companies settled in the CR (typically e.g. criteria concerning child labour, or the rights of indigenous peoples) or too strict and we have intentionally selected the criteria that we believe are potentially applicable for the most companies from the analysed sample, adjusted where deemed necessary.

▪ **How the companies ensure the quality of the non-financial data disclosed, especially with regards to their accuracy and completeness?**

Without access to inside information of companies one cannot objectively assess whether these accurately and completely present the data within selected CSR topics. Therefore, there are many different methods that allow users to be able to conclude on the reliability of the reported information. One possibility is that the company may adhere to some international CSR reporting standard (to enhance the users' confidence over completeness of such information). Another important tool to enhance the credibility of these information is to have them verified by an independent third party (to enhance the users' confidence over its accuracy). The company can thus be using the following means of securing highest possible level of accuracy and completeness of the reported non-financial information:

The report is in prepared according to the following standard of non-financial reporting:

- GRI
- Other standard
- None

The non-financial data are verified by an independent third party:

- Statutory auditor
- Dedicated independent organization
- Independent individual
- Other verification
- No external verification

A content analysis was selected as a research method in this paper. Researched data were divided based on the dichotomy of either their presence or absence in the report examined. The assessment was carried out in all cases by the authors. The research results are shown in the following section. The summary of findings is then given in the concluding section of this paper.

## 5 Data and discussion

The following section presents the results of the analysis of annual and other reports of 100 companies in the CR with the largest turnover as described in the previous chapters. Results are presented per the research questions set for this paper in part 4 - Research Method.

Tab.1: No. of companies reporting non-financial information per CSR area:

Reported aspects	Occurrence (n)	Occurrence (%) from total
Social aspects	5	20 %
Labour and employment aspects	20	80 %
Environmental aspects	17	68 %
<b>Total (companies reporting on at least one non-financial aspect)</b>	<b>25</b>	<b>100 %</b>

Tab.2: Distribution of reporting companies per industry:

Industry	Occurrence (n)	Occurrence (%) from total
Automotive	3	12 %
Energetics	3	12 %
Chemical industry	4	16 %
Other industrial production	4	16 %
Services	1	4 %
Building and construction	2	8 %
Telecommunications	2	8 %
Mining	2	8 %
Other	4	16 %
<b>Total</b>	<b>25</b>	<b>100 %</b>

Tab.3: Distribution of reporting companies per geography of the ultimate owner:

Location	Occurrence (n)	Occurrence (%) from total
Czech Republic	8	32 %
Western European country	10	40 %
Other	3	12 %
Unknown	4	16 %
<b>Total</b>	<b>25</b>	<b>100 %</b>

Tab.4: Use of CSR or other relevant reporting standard:

Location	Occurrence (n)	Occurrence (%) from total
GRI	1	4 %
Other relevant reporting standard	0	0 %
No standard used	24	96 %
<b>Total</b>	<b>25</b>	<b>100 %</b>

Tab.5: Verification of the non-financial data by an independent third party:

Location	Occurrence (n)	Occurrence (%) from total
Statutory auditor	0	0 %
Specialized independent company	1	4 %
Dedicated individual	0	0 %
Dedicated non-profit organization	0	0 %
Other independent verification	0	0 %
No verification	24	96 %
<b>Total</b>	<b>25</b>	<b>100 %</b>

Based on the collected data we will now be able to answer the individual research questions as defined in the section 3 – Research objective.

- What is the proportion of companies that voluntarily report non-financial information?
- What CSR areas companies cover in their reports?

We can observe, that although the research sample included only the largest companies in terms of turnover, i.e. companies with the largest stakeholder pressure on providing a relatively broad portfolio of non-financial information the results of the research are consistent with the older researches identified and briefly discussed within the section 2 – Literature Review. The total of

only 25% of companies disclosed non-financial information in the minimum quality and quantity in 2014 for at least one non-financial CSR aspect. Earlier we have assumed that the most common areas covered would be labour and environmental aspects as these are, however vaguely, already explicitly required by applicable law in the CR. This appears to be true as disclosures related to labour and environment occur circa twice as often as disclosures related to social aspects. The rest 75% companies though provided none or only unsatisfactory information about social, labour and environmental aspects of their business activities. This shows a low commitment to transparency and a failure of the largest companies to sufficiently meet information needs of its stakeholders. It appears that companies in the CR only slowly catch up with the current trend of an increased stakeholder engagement and clear and timely disclosure on other than finance related information that can be seen in economically highly developed countries.

- Which companies report on non-financial information?

Among the 25 companies that disclosed information from at least one relevant area most of them come from industries where higher social or environmental impacts are expected. The largest portion of the identified companies work in chemical or petrochemical industry, in diversified industrial production, automotive sector or energetics. However still many other companies from these sectors provided no relevant non-financial data at all. The percentage of companies from the total of analysed companies in that particular sector were 40%, 20%, 25% and 38% respectively. Companies in chemical and energy industries therefore disclose the information the most commonly among all analysed industries, which is linked with their obvious severe impact mainly in environmental as well as occupational health and safety areas.

In line with our expectations we can further conclude that the country of the ultimate owner is also an important factor influencing whether a company will or will not disclose sufficient non-financial information. Contradictory to what was expected, not many of such companies have the ultimate owner from western Europe. These make only 19% of all in the analysed sample of companies. Slightly higher is the share of local companies that reported sufficient non-financial data – 8 out of 30, i.e. 27%. This may be caused by a fact, that despite the companies with foreign owners are large (thus significant) in terms of local market, they are a rather marginal part of larger international groups, who prefer to publish their group reports instead of individual reports for the entities operating in the CR only. Concerning the very soft criteria used in this research these numbers are rather unsatisfactory.

- How the companies ensure the quality of the non-financial data disclosed, especially with regards to their accuracy and completeness?

The results for the last question are very unsatisfactory. Although we have concluded earlier, that there is ca 25% proportion of companies in the CR among the largest ones that report on at least one non-financial CSR area, only one of these complies with GRI or any other CSR reporting standard and again only one company had their non-financial data checked (audited) by an independent third party. That poses significant doubt on whether the data disclosed by such companies for 2014 are really complete and accurate and therefore can be used as a reliable source of information for its prospective users.

## 6 Conclusion

The analysis on the sample of 100 Czech companies shows that for 2014 only 25% of them disclosed at least very minimum information about either environmental, labour or social aspects of their activities as defined in this paper. The most common are data covering environmental and labour aspects, as these were also explicitly required by the legislation applicable for 2014. The willingness to report such data correlates with the industry sector in which the company operates as well as with the country of its ultimate owner. Companies disclosing non-financial

information mostly conduct the business in petrochemical industry, energetics, automotive sectors as well as in diversified industrial production. Most of them have Czech ultimate owner; companies with ultimate owners in other geographical areas or with untraceable owners that disclose such information are less common.

As a subject for further analysis in this area we would propose extending the sample of companies as well as the number of periods analysed. This would allow to conclude on development of the non-financial reporting in the CR over a certain time period. If the data set is large enough statistical methods could be used as means of evaluating the results allowing to find some patterns and correlations among observed variables.

The analysis can as well be performed by a wider panel of researchers. This will allow to determine, whether and to what extent can the results vary based on different judgement and perception of individual evaluators to objectivise the results.

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