

NON-FINANCIAL REPORTING: THE CASE OF THE CZECH REPUBLIC¹

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Abstract

The rhetoric surrounding the benefits of CSR policies for stakeholders is generally well known. Nowadays, it occupies a prominent position in discussions on how to include non-financial indicators in reports on financial stability indicators. In April 2014, the EU adopted a directive, according to which, large companies with more than 500 employees would have to issue reports on their Social Responsibility activities within the context of non-financial reporting. For Czech companies, it is likely that this requirement will take effect from 2017.

The use of CSR standards is a voluntary step for a company to take when introducing new ways of communication with stakeholders. It also helps companies to define their position in relation to CSR. The paper identifies and analyses the reporting and standards in the area of CSR from the point of view of the conditions pertaining in the CR. The outcomes of this paper may be predictions as to the prospects for non-financial reporting in the CR, as pragmatic arguments prevail within the business community.

Key words: Corporate Social Responsibility (CSR), non-financial reporting, labour relations, Czech Republic

JEL Code: JEL J01, JEL M14, JEL M21

Introduction

The rhetoric surrounding the benefits of CSR policies for stakeholders is generally well known. Nowadays, it occupies a prominent position in discussions on how to include non-financial indicators (especially the ecological and social ones) in reports on financial stability indicators. This aspect concerns integrated reporting; which is becoming a vision for politicians and state administration organs (Paliskova, 2014); so that companies have at their disposal comprehensive reports dealing with the running of a business.

¹ This paper includes research results achieved in the frame of the Program of the Competitiveness Improvement called „*Технологическая модернизация: социально-демографическое измерение*“ (Technological modernization: socio-demographic dimensions), which is solved by the Ural Federal University (Russian Federation) in the period 2013 – 2020.

In April 2014, the EU adopted a directive, according to which, large companies with more than 500 employees would have to issue reports on their Social Responsibility activities within the context of non-financial reporting. For Czech companies, it is likely that this requirement will take effect from 2017. This directive has provoked a strong reaction from experts in the field, because it contradicts one of the basic tenets of CSR; i.e., that it is entirely voluntary.

The aim of this paper is to identify and analyse, what the concurrence is within the non-financial reporting of businesses in the CR, and what attitude the companies assume as enterprises with more than 500 employees will probably have to implement this practice from 2017². The methodology of this paper covers:

- Identifying the secondary sources dealing with the reporting and standards that are applied in the area of CSR, as well as:
- Analysing the situation and trends in non-financial reporting using primary data achieved by our questionnaire research done in March and April 2014 among enterprises in the CR.

The contributions of this paper may cover predictions as to the prospects for non-financial reporting in the CR, why standards should be applied in the CR, and which standards would be applicable in the Czech business environment.

1 Concept of CSR and perspectives in non-financial reporting

1.1 Concept of CSR in the business world

The concept of CSR has a long history. CSR must have well defined policy goals and standards for the management and evaluation of measures taken (Dvorakova, Quigley, 2014). This means applying a complex system for the planning and management of CSR strategies, so that investors and stakeholders have more information at their disposal when making decisions, than they would have from traditional annual reports. The use of standards is a voluntary step for a company to take when introducing new ways of communication with stakeholders. It also helps companies to define their position in relation to CSR.

² In April, 2014, the EU adopted the Directive 2014/95/EU dealing with non-financial reporting, according to which, big companies with more than 500 employees will have to issue reports on Social Responsibility within the framework of non-financial reporting. For Czech firms it is expected that this requirement will come into force in 2017, although most big Czech companies, i.e., according to their turnover or number of employees, already issue similar reports.

The current approach to social responsibility required organizations to adjust their structure and activities in order to accommodate new initiatives, which – at the beginning of 2000's lead to a full integration of CSR practices on a corporate level. Many firms nowadays recognize the importance of CSR and are trying to incorporate it into strategic management and corporate governance. These firms actively work on 'developing management and organizational mechanisms for reporting and control on business's socially conscious policies and practices' (Crane et al., 2008).

The burning topic of the day is, more and more, the question of whether, and under what conditions will the obligation to do CSR reporting/non-financial reporting be imposed on businesses. It is evident that since the amount of stakeholders has significantly increased and issues that CSR is dealing with have multiplied several times over the past few decades, CSR reporting has gained its importance (Crane et. al., 2008). Through official CSR reports it is possible to monitor how different nations and corporations approach various issues with regards to CSR. The phenomenon has emerged mostly in developed countries (Ibid.), which is accompanied by increasing the number of CSR studies and conferences.

1.2 Standards in non-financial reporting

In the Czech Republic, the number of firms which issue CSR reports is increasing. Over the long-term, the question of the importance of including non-financial indicators into the firms' reporting has been resolved. These are mainly the ecological and social indicators, and they are given equal importance with the financial indicators of the firms' stability, e.g., about the profitability, assets, liquidity and indebtedness of the firm. This concerns integrated reporting and the demand for this springs from the asymmetry of information from the point of view of investors and stakeholders, who want to get substantially more information about the decision making at the firm, than they receive from traditional annual reports. It is assumed that businesses will use existing instruments for reporting, such as: Global Reporting Initiative (GRI), ISO 26000, SA 8000 - Social Accountability International, AA1000 – AccountAbility, OSN Global Compact, OECD directives, as well as developing their own methods. Dankova, Valeva and Štrukelj (2015) analyse the perspective of the market actors as participants who need orientation for embedding Social Responsibility into their enterprise's policy, management and practice and conclude that the GRI can be seen as one of the most influential international CSR standards. During the period 2006 – 2011, the number of companies which report on the course, and results, of their CSR activities on the basis of GRI methods, has increased from 270 to 850 (Krasnikova, 2014).

1.3 Perspectives in non-financial reporting

Current CSR programmes declare that they are linked to business goals, such as achieving profits, increasing capital value and market share. In this way, CSR has become a recognised part of business activity (Slack, Corlett, Morris, 2015). In order to illustrate this trend, we can use the results of the research, carried out by Ernst and Young; in cooperation with the GreenBiz Group; into CSR and sustainability (Krasnikova, 2014):

- Although, the significance of non-financial reporting is growing, the same instruments which were designed for financial reporting are used in non-financial reporting. At present there are instruments specifically for non-financial reporting being developed;
- The importance of financial departments' say in CSR decisions has grown, because firms have discovered in CSR the potential for growth and opportunities for increasing profitability;
- Increased interest of investors and shareholders in CSR or sustainability reports;
- Firms publish reports on CSR, or 'sustainable development', as a rule, annually;
- Employees are a key group of stakeholders for CSR; some of the motives behind developing CSR projects include employee morale, recruitment and retention, as has been confirmed in a study on management diversity (Legnerova, Fucikova, 2014), or by the analysis of the intrinsic and extrinsic motives for CSR presented in the work by Story and Neves (2015). And so firms educate their staff in CSR, and above all, use a wide range of motivational instruments for increasing their workers' performance and engagement. This trend is influenced, on the one hand, by the unfavourable demographic developments in Europe (Dvorakova, Langhamrova, 2013), and on the other hand, we see that employee perceptions of CSR toward social and non-social stakeholders strongly influence their organizational citizenship behaviour (Newman, Nielsen, Miao, 2015),
- There are a lot of new prizes, competitions and indices in the areas of CSR and sustainability for firms, because firms' ratings on the sustainability ladder have increased.

Compulsory reporting is at odds with the basic tenet of the CSR concept; namely that it is a voluntary autonomous reaction of firms to the requirements of their surroundings, and that it is independent of efforts to boost business performance. CSR is defined by external standards and demands independent action, which is prepared and managed by an organisational section (Krasnikova, 2014).

Discussions about external standards have their basis in financial reporting, as has been pointed out by several authors, for example: Busina (2014), in recommendations about human resource management in the construction industry; Stritesky (2013) in his analysis of changes in firms' human resources departments, or Tschopp and Huefner (2015). The last mentioned have carried out a comparison of the similarities and differences in how both types of reporting have evolved. They discovered that some of the moments in the evolution of financial reporting have yet to take place in the development of CSR reporting; such as an event that legitimizes a single CSR reporting standard, or which gives CSR reporting global recognition. The evolutionary process may not follow the same path as financial reporting did, due to the varying stakeholders involved. However, they argue that enough similarities exist in this area, and that the evolution of financial reporting is a useful comparative tool to analyze the development of CSR reporting. Financial reporting has evolved into a comparable and reliable market-based resource over the past 100 years. Relative to this timeline, CSR reporting is still in its infancy and early non-financial reports suffer from many deficiencies in comparability, consistency, reliability, and relevance (Agudo, Gargallo, Salvador, 2015).

2 Methods of the questionnaire survey

Non-financial reporting has become a subject of the research carried by the Department of the Human Resources Management, University of Economics, among enterprises in the CR. The research method selected was the on-line questioning. The questionnaire was complex and exclusively intended for businesses having the CSR experience. The content of the questionnaire was based on three CSR pillars, the ISO 26000 standard, general experience and recommendations. Processing and evaluation of the questionnaires was elaborated by means of the analytic-synthetic method and by the quantitative and qualitative research method (Krasnikova, 2014). The criterion crucial to the selection of businesses was the CSR themes experience. Questions were targeted at the top management of the company, and thereafter at positions, which are responsible for CSR. Respondents were addressed electronically. The Agency PubliCon, Prague, CR, has participated in the distribution of the questionnaires. Other businesses were addressed either personally, or on basis of their contact information stated in their web pages (Krasnikova, 2014).

The questionnaire survey was carried out in March and April 2014. The total number of businesses addressed amounted to 150, out of them only 25 filled in the questionnaire, i.e. the returnability reaching approximately to 17 %. In terms of the total number of respondents 90 % belong to medium-size and large-sized companies from the point of view of the number of

employees. Thereinafter, 85 % of companies reside in large cities with a number of inhabitants exceeding more than 200 thousand, whereas 48 % is formed by affiliated branches of multinational companies, and 52 % is formed by purely Czech original companies. The whole 60 % was represented by the production companies and 40 % was represented by the service sector.

3 Data of the questionnaire survey

3.1 Employment relationships and CSR

Employees are perceived as the most significant internal group of stakeholders. Satisfied employees represent a principle for the socially responsible company. Therefore, the subject of the research was to find out, whether and to what degree employers create conditions for their employees in accordance with the CSR principles. Businesses evaluated its practice within the field of eight aspects, which have the ultimate impact on employee satisfaction and loyalty. It concerns practices specified in the literature on the CSR concepts focused on employees and in the in-house reports on CSR. Respondents evaluated their significance by the scale ranging from 1 to 7, where 1 denoted the lowest priority for the employer and 7 the highest one. The role of the legislative modification of employment relationships for the corporate personnel policy characterizes what share of respondents applies to these aspects a maximum priority – see the Tab 1.

Tab. 1: Evaluation of labour conditions and employment relationships

Labour conditions and employment relationships	Maximum priority 7 (% of respondents)
Occupational safety	60
Occupational safety in production companies	100
Investments in employee education and development	44
Provision of equal employment opportunities	60
Outplacement	20
Work-life balance	20
Human rights	84
Recognition of success and excellent results	32
Fair labour performances' estimation	44

Source: Authors' own elaboration

Labour conditions and employment relationships' quality were reaching to a high level in the given sample, in general. Personnel practices modified by the legislation shall be innovated in

companies carrying out the CSR policy as a priority, and reach high above the framework of statutory requirements. There is a relatively small interest of companies in providing the outplacement and work-life balance programmes. Although, it is possible to expect that the influence of fast changes on the labour market, impacts of information and communication technologies on the job content, and values of the Generation Y have to be respected by companies when forming their personnel strategies and CSR policies. Social responsibility of the company crosscuts the whole structure of the company as well as its all activities and requires integration of every single labourer. The non-financial reporting can become a source of information about a sustainable development for stakeholders, e.g. information from GRI reports can be used for many purposes, such as:

- For following the chosen indicator, or overall performance of the firm in time;
- For benchmarking purposes and inter-firm comparisons;
- For presenting to stakeholders and for PR.

3.2 Non-financial reporting in the CR

The research has shown the state of non-financial reporting with the following facts:

- All respondents had set CSR strategies or policies;
- Respondents who are Czech companies design their own CSR policies and practices in the context of the labour market and strategic leadership, PR, HR marketing, and/or employer branding.
- Most of the respondents that are local subsidiaries of a multinational company believe that the impulse for the local CSR policies and programmes came from both head office abroad, as well as the initiative of the local leadership.
- Only 20% of firms of the total number used the standardised approaches to CSR; for instance, the ISO 26000:2010, SA 8000, and so on.
- Every one of those firms is, at the same time, certified for the integrated quality management system, environment and safety at work according to standards ISO 9001, ISO 14000, EMAS, OHSAS 18001, or other standard.
- Most respondents issue reports, or are considering doing so. Reporting according to GRI standards is not very widespread because of its complicated administration, but some Czech firms are inspired by it and selectively use its approaches in their reporting. This approach has appeared in several commentaries dealing with reporting approaches. Only 16 % of respondents use the GRI directives in their full extent; another 8 % only take inspiration from them, while other firms use their own methods.

Conclusion

The questionnaire research has shown that a big problem is the openness of information about the CSR activities of Czech firms, and an absence of contact persons on their webpages. At first glance, the ideal web presentation of CSR strategies, which contains reports, measurements, individual projects and links to cooperation with non-profit organisations, is missing contact with a person responsible for all matters connected with the CSR activities of the company. Companies present on their webpages some incentives for the submission of suggestions aimed at improving, sharing readers' opinions, the evaluation and criticism of their CSR activities, although it is not possible to find an email address or other contact which would enable communication on this topic.

The human factor limited the usefulness, somewhat, in that respondents gave their own subjective opinions to the given questions. Nonetheless, even these subjective opinions reflect the perceptions of employees of the individual areas of CSR, and enable us to find whether they engage with this topic, or if it is on the peripheries of their interests, or they completely ignore them. In order to objectively judge the answers, it would be necessary to carry out subsequent analysis of the firms activities in the area of CSR, which, however is outside the range of this research, but it could be the subject of another study. The real depth of interest in the area of CSR requires extensive analysis of the reported and actual activities of the firms, their results and impact. The results of the questionnaire must, of necessity, be taken as a probe into current non-financial reporting and CSR as the prism of the persons who, in Czech firms, are responsible for the CSR activities. Measurements and non-financial reporting, according to the standard approaches would bring invaluable benefits to the evaluation of the influence of CSR on firms and at the same time increase the transparency of CSR activities. It is evident from both the Czech and other environments, that firms are interested in the new empirical instruments for the measurement of CSR, and in measuring its contribution to the sustainability and competitiveness of the firm. Currently, economic statistics on non-financial reporting are missing. Some firms consider reporting and measurement to be mere bureaucratic activities, and cannot find any worthwhile long-term opportunities in them. Under pressure from the EU directive on non-financial reporting, it can be seen that further development will either be accepted and will adjust existing standards in the CR, or they will process and test the new CSR initiatives/standards, which were created in the context of local legislation and reflect the characteristics of the national culture.

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