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## **IMPLEMENTATION OF INNOVATIVE PRACTICES IN CORPORATE SOCIAL RESPONSIBILITY OF CZECH COMPANIES**

**Klára Kašparová**

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### **Abstract**

Corporate Social responsibility (CSR) reporting can be considered as process innovation. It is a way to identify opportunities for process and performance improvements company-wide. These improvements ensure its competitive advantage. However, it is valid only when content of the report respects the principle of materiality and credibility is assured. One way to determine materiality is the concern expressed directly from the stakeholders. Therefore, the research objective is to determine whether Czech companies support dialogue with stakeholders in their CSR reports. The paper uses conceptual content analysis. Results indicate that companies include in their CSR reports information on contact details, but impersonal passive forms prevail.

**Key words:** corporate social responsibility reporting, materiality, credibility, annual reports

**JEL Code:** M14, O31

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### **Introduction**

Corporate social responsibility has not been an utterly unknown term in the Czech Republic – both among the companies and the consumers themselves. This is one of the reasons why the issue of reporting on the socially responsible behaviour is getting into the focus. This is often conceived as the “practical side“ of corporate social responsibility (Gond & Herrbach, 2006), which help build up good relationships with stakeholders and support positive image of the company. Apart from the above, this type of reporting can be understood as the means by which a company can understand both its exposure to the risk of changing social conditions and expectation and its potential to profit from the new commercial opportunities (KPMG, 2013).

This way reporting on social responsibility represents a competitive advantage, allowing the company to pursue its sustainable development. This all under condition that



certain principles are adhered to during the process of reporting. This article focuses on two of them – materiality and credibility. Level of adherence to these principles was analyzed by means of content analysis on the research sample of 69 annual reports issued by Czech companies.

### **Reporting on socially responsible behaviour – literature review**

According to KPMG, reporting on socially responsible behaviour (CSR reporting) can be defined as a process by which a company can gather and analyze the data it needs to create long term value and resilience to environmental and social change (2013, p. 9). In case the company starts to implement it within its system, it is frequently forced to collect information on processes and impact of activities which the company never collected and analyzed before (Ernst & Young, 2014, p. 3). This leads to creation of new procedures, requirement on technical equipment and software. The fact above is the reason why the CSR reporting is defined as the process innovation (OECD, 2005). Collection of such data allows the company to avoid or mitigate environmental and social risks and to identify opportunities within the industry it is active in. This is why the ability to increase the company's business performance and to create a competitive advantage leading to sustainable development of the company is often stated as the key advantage of CRS reporting (KPMG, 2013).

Researches confirm that CSR reporting has been dramatically growing in this decade (KMPG, 2013; Ernst & Young, 2014). Together with this trend, there is increasing demand for recommendation of how to compose a CRS report in order to achieve the benefits above. One of the fundamental principles contained both in GRI Guidelines and in e.g. the International <IR> Framework, is materiality. Materiality in the context of CSR reporting means that CSR report is centered on matters that are really critical in order to achieve the company's goals and manage its impact on society (GRI, 2013, p. 3). Relevant issues are those that have, or may have, an effect on the company's ability to create value (IIRC, 2013, p. 18).

The recent research performed by KPMG showed that 75% of reports issued by the world's largest 250 companies identify issues that are material to their business (2013, p. 53). Nevertheless, most of them lack an explanation how material issues are identified and how often this is done (KPMG, 2013, p. 54). A recommended method of how to identify these issues is to involve stakeholders in the process of their identification. In the Czech Republic, CSR reporting is still at the beginning of its development (Kašparová, 2011). Thus, we cannot

presuppose that this principle is somehow specially taken into account by the Czech companies. Leading organization in the sustainability field The Global Reporting Initiative or the International Integrated Reporting Council started to put more focus on it in the last few years. For this reason the Author in the research presented below focuses only on the initial stage of materiality – i.e. if the companies list any information encouraging feedback from stakeholders at all.

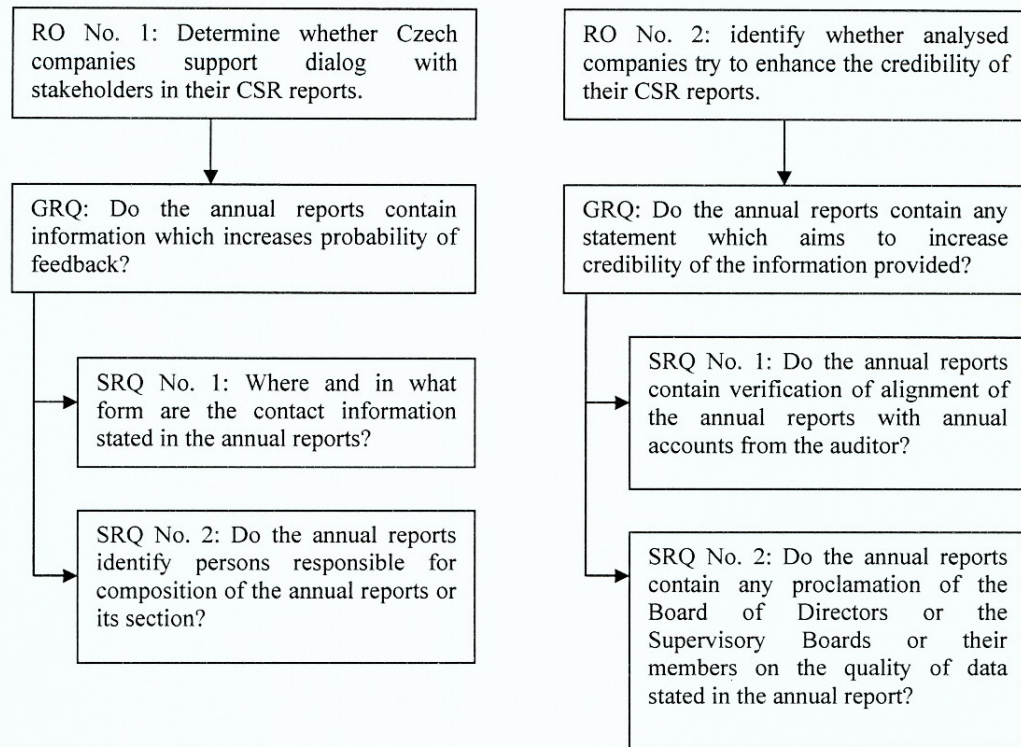
CSR report represents one of the channels of corporate communication which is generally considered less trustworthy. This fact weakens some of the benefits resulting from the CRS reporting. For this reason, another principle of composing a good CRS report is credibility, often also called reliability. Credibility of report may be enhanced by various methods. Most frequently it is by means of verification by a third party – specifically by an auditing company (KPMG, 2013, WBCSD, 2014). In majority of cases (71% researched reports) these are only so-called limited assurance statements (WBCSD, 2014, p. 17). This phrase is usually used for relatively general auditor's statement that the auditor found nothing, which causes him to believe that the reported data do not accurately reflect performance of the company in certain areas (CorporateRegister.com, 2008, p. 14). Thus, in the research presented below the Author also focuses on finding whether the reports contain some statements aiming at enhancing the credibility of presented information.

### **Methodology**

Within this research, two research objectives (RO) were determined. The first one was to find whether the Czech companies support dialogue with stakeholders in their CSR reports. The second was to identify whether the analyzed companies try to enhance the credibility of their CSR reports. In accord with the methodical procedure formulated by Punch (2008, p. 37), these objectives were consequently transferred into the general (GRQ) and specific (SRQ) research questions – see Figure 1. Integration and accumulation of answers to the specific research questions lead to answers to the general research questions. This way the set targets will be accomplished.



**Fig. 1: Hierarchy of concepts**



Source: Author

The analyzed CSR Report was made up of annual reports. The Author selected this option for several reasons. According to the recent research of KPMG, the annual reports are the most frequent place where companies tend to place information on their socially responsible activities (KPMG, 2013, p. 27). According to KPMG, this finding applies also to the enterprises located in the Czech Republic (KPMG, 2008, p. 73). The advantage of focus on the annual reports lies also in the fact that these are static documents, publicly available in the Czech Republic.

To achieve the set research objectives, the content analysis method was selected. According to Neuendorf, this can be defined as a “systematic, objective and quantitative analysis of message characteristics“ (2002, p. 1). Coding scheme was adopted from Author’s previous research– see Kašparová, 2011. Each annual report was rated independently by two raters. Consequently, a comparison of their assessment results was conducted. In case of disagreeing ratings, the raters had to come into agreement in code.

In total, 69 annual reports of the public limited companies from the processing industry (57 annual reports) and civil engineering (12 annual reports) for 2012 were analyzed. The number of annual reports and selection of industry was determined by linkage of this research to the previous work conducted by the Author – see Kašparová, 2011. In accord with the findings of the previous research, the content of the annual report was divided into three sections – introductory pages, body of the annual report and the annex to the annual accounts – which were analyzed independently. The data were processed in MS Excel.

## Results

In order to accomplish the **first research objective** (RO No. 1) the Author first researched **where and in what form the annual reports state the contact information** (SRQ No. 1). This part of analysis did not include the information published in the Auditor's Report even though it forms a part of the annual report. The subject of interest was to find which forms of contacts are provided by the corporation itself. The detailed results are summarized in Table 1.

**Tab. 1: Location and Forms of Contacts (N=69)**

Forms of contact	Introductory pages		Body of the report		Annex to the Annual Accounts	
	n	%	N	%	n	%
Contacts given	37	53.6	48	69.6	66	95.7
Telephone number excl. name	7	18.9	10	20.8	4	6.1
Telephone number of a person	1	2.7	1	2.1	0	0.0
Corporate e-mail	8	21.6	7	14.6	1	1.5
Personal e-mail	1	2.7	1	2.1	0	0.0
Fax number	6	16.2	9	18.8	2	3.0
Physical address	37	100.0	48	100.0	66	100.0

Source: Author

The results show that the information with corporate contact can almost always be found in the annex to the annual accounts (66 annual reports of 69). Nevertheless, almost exclusively it is a physical address of the subject. This finding is not surprising as the Article 39 of the Statutory Instrument on Double-Entry Bookkeeping requires the annex to the annual accounts to contain the identification data of the accounting unit, i.e. also the location of its registered seat (Government Decree no. 500/2002 Col., Article 39, section. 1).

In absolute majority of the annual reports the corporate contact information can also be found within the introductory pages of the annual report as well as in its body. The results show that if the corporation does decide to state some form of contact in these sections, such



contact is always the corporate physical address. Unlike the annex to annual accounts, these sections frequently feature information on further forms of contact. Unfortunately, these are most typically non-personal forms – i.e. forms of contact without identification of a specific person. In most cases the contact is a telephone and fax number of an electronic mail address.

Further, within the first objective Author researched, **whether the annual reports identify the persons responsible for composition of the annual report or its sections** (SRQ No.2). The results show that this information is not too frequently included in the annual reports. It was found only in 12 annual reports, i.e. in 17.4% cases. The responsible persons were in majority Members of the Board of Directors, less frequently Managing Directors and Finance Directors. In almost all cases (11) the responsibility was declared for the annual report as a whole. In just 2 cases the responsibility for the overall annual report was declared together with responsibility for the partial sections of the annual report. In majority of cases (8) there was no contact to the responsible persons presented. In two cases, the corporate address or place of residence of the responsible person was stated. No other forms of contact were mentioned with such people.

Based on the findings above we can answer the general research question (GRQ) **whether the annual reports contain information which increases probability of feedback**. The conducted content analysis revealed that the contact information is provided in all the analyzed sections of the annual report. This fact is positive as the legislation imposes the duty to provide the contact information<sup>11</sup> only in the annual accounts<sup>12</sup> and their annex. The results also show that the introductory pages of the annual report and its body feature wider range of contact forms. All sections are clearly dominated by physical corporate address. Among all contact forms in all analyzed sections, non-personal forms of contacts prevail which does not induce too active efforts to encourage the feedback. The analysis also uncovered that the occurrence of information on persons responsible for composition of the annual report is rather small. In majority of cases there is no identification what specific section the persons are responsible for. The personal contact is frequently not given and, repeatedly, it is always the physical address only. Also these findings support the conclusion that the corporations do not too actively strive to encourage the feedback from the report readers this way.

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<sup>11</sup> The duty applies only to provide information on the company's seat.

<sup>12</sup> This was obviously not entering the evaluation.

To fulfil of the **second objective** (RO No. 2) Author researched first **whether the annual report contains verification of alignment of the annual reports with annual accounts from the auditor** (SRQ No. 1). The results show that 84.8% (56 of 66)<sup>13</sup> annual reports contain a statement on this alignment. In 10 cases the authors of the annual report considered it as crucial that they place it within the introductory section of the annual report. In other cases, this statement was found in the body of the annual report.

Further, within the second target, author researched **whether the annual reports contain proclamation of the Board of Directors or the Supervisory Board or their members on quality of data stated in the annual report**. Only statements explicitly mentioning the phrase “annual report” entered the analysis. Thus, the analysis did not include proclamation on quality of data stated within the annual accounts or within the auditor’s report.

Occurrence of this information was identified only in 23.2% cases (i.e. in 16 annual reports). This fact is rather surprising. At that time applicable Commercial Code imposed both the Supervisory Board and the Board of Directors duties<sup>14</sup>, which could imply that such proclamation should be stated in the annual report in order for the annual report to be able to “generally, fairly and comprehensively inform on performance, activities and current financial standings of the accounting unit“ (Accounting Act, Article 21). An interesting fact also is that the given statement, contrary to the information on alignment between the annual report and the annual accounts, was always placed within the annual report body.

Based on the findings above we can answer the general research question (GRQ), **whether the annual reports contain any statement, which aims to increase credibility of the information provided**. The results show that the annual reports contain such a statement. External verification of the auditor prevail even in spite of the fact that such a verification is not imposed by the Law.

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<sup>13</sup> 3 annual reports contained no Auditor’s Report. This fact does not automatically mean breach of any legal obligation. The obligation to verify the annual accounts concerns only some corporations (see Act No. 563/1991 Collection of Law, § 20, section. 1).

<sup>14</sup> The Supervisory Board should supervise the execution of rights of the Board of Directors and the conduct of entrepreneurial activities of the corporation (Commercial Code, § 197). The Board of Directors is obliged to submit to the General Meeting the Annual Accounts together with the Report on the Business Activities of the Company and its Asset Status which constitute the part of the Annual Report (Commercial Code, § 192).



## **Conclusion**

In the last ten years, the volume of reporting on social responsible behaviour has been on the rise globally. Apart from exceptions in some countries, the reason for this is not the legislative duty to present such information. The companies are typically driven by benefits resulting from this reporting. The companies state that one of the key reasons is improved business performance and innovation (KPMG, 2013). In order for CSR reporting to lead to such benefits, certain principles must be respected. This article focused on finding how two of these principles are respected by the Czech companies during the process of composition of annual reports.

The first research objective was to identify, whether Czech companies support dialog with stakeholders in their CSR reports. The research shows that the creators of the annual reports in this area perform some activities which go beyond their legal obligations. In general though, their efforts cannot be marked as pro-active feedback encouragement. The second research objective was to identify whether the analyzed companies try to enhance the credibility of their CSR reports. The result of the presented research are fully in accord with the findings of KPMG or World Business Council for Sustainable Development. The most frequent method of enhancement of credibility is inclusion of verification of the annual report contents by an auditing company on a limited assurance level. The statement covers only the information occurring both in the annual accounts and the text of the annual report.

Result of this research support the assumption that the creators of annual reports so far have not realized the advantages which may be gained from this type of reporting. Perhaps this is the reason why they do not fully respect the researched principles. The next research thus should concentrate on finding whether the fact above is caused rather by the type of report or by an unawareness of the CRS reporting as a whole.

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