The ESG Reporting in the Czech Republic

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Abstract: The paper deals with the evaluation of approaches to the ESG reporting used by chosen companies. Apart from companies that report by law or completely voluntarily, some companies are forced to create sustainability reports by their business partners and end customers, who are increasingly interested in this area. The evaluated group of companies also includes representatives of the TOP 10 large companies in the Forbes ESG rating 2023. The objective of the paper is to critically evaluate the approach of a selected group of companies to the creation of sustainability reports.

Keywords: sustainability, ESG, reporting, statements, ESG ratings
JEL Classification: Q56, M41, G30

1 Introduction

The necessity of ensuring a sustainable future for generations to come has emerged as a dominant theme in recent years. Individuals and organisations are increasingly engaged in reflection on a range of interconnected issues, including climate change, water scarcity, waste accumulation in nature, anti-corruption, transparent reporting, and more. It is thus imperative that all countries, from individuals to corporations, engage in efforts to address this global issue.

The concept of corporate social responsibility (CSR) has historically been associated with charitable giving and marketing strategies. However, there has been a notable shift in the way businesses approach CSR, with an increasing number of companies integrating it into their everyday operations and business strategies. Those who utilise accounting information, such as investors, banking institutions, suppliers, customers, end customers, employees, the public, and so forth, require relevant data concerning the company's performance in the domain of sustainability. The data presented in financial statements is no longer adequate to produce an ESG report, as companies now report relevant non-financial (qualitative) information, the quantification of which is often difficult. Corporate governance including environmental and social aspects is an approach to evaluate the overall performance of a company, beyond the financial point of view. The ESG criteria consist of activities and standards in three areas: 1) environmental (E) – a company’s approach to reducing the negative impact of its activities on nature and the environment); 2) social (S) – the company’s responsible approach to society, the community and individual stakeholders; 3) governance (G) – a way of responsible and transparent management of the company. As posited by Březinová (2023), users of ESG information are not content with merely descriptive non-financial information; rather, they are increasingly inclined to prioritize related financial data.

The EU Corporate Sustainability Reporting Directive 2022/2464 of 14 December 2022 (CSRD) introduces a requirement to publish sustainability reports alongside the financial statements in the annual report to standardise the format of non-financial reporting and elevate non-financial reporting to the level of financial reporting (CSRD, 2022).

The sustainability report, originally conceived as a report on non-financial information, constitutes a discrete component of the annual report, as delineated in Act No. 563/1991 Coll., on Accounting. The objective of the sustainability report is to present the information necessary for an understanding of the impact of a given entity's activities with respect to sustainability, and to demonstrate the impact of sustainability upon the entity's development, activities and position. In the context of accounting, the term "sustainability" is defined in accordance with the following criteria: 1) environmental; 2) social; 3) human rights and compliance; 4) governance; 5) employment; and 6) anti-corruption and anti-bribery. The amendment to Act No. 563/1991 Coll., on Accounting, which was adopted as part of the so-called consolidation package, introduces a new obligation for certain entities to prepare and make available a sustainability report from 1 January 2024. Because of its phased implementation, this obligation is currently applicable only to designated accounting units (see Section 32f of Act No. 563/1991 Coll., on Accounting).

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As posited by Jirková Bočáková & Vyskočilová (2024), the greater the integration of sustainability reports into the decision-making processes of companies and investors, the more crucial the credibility of the information becomes. In contrast to financial statements, sustainability reports are characterised by a number of distinctive features, the most notable of which are as follows: 1) quantitative information disclosed cannot be derived from the companies' accounting systems; 2) sustainability reports often contain forward-looking information that is subject to a greater degree of uncertainty; 3) a significant quantity of quantitative data may not be disclosed in monetary units or even in the same unit of measurement; 4) sustainability reports are designed with a general public in mind, as well as a less uniform cohort of users with disparate expectations and information requirements; 5) the significance of qualitative and quantitative information in relation to one another.

ESG reporting offers a comprehensive overview of a company's activities and their impact on society and the environment. The CSRD introduces a requirement for a more profound understanding of a company's value chain (supply and demand chain). In accordance with the requirements of greater transparency, companies are now obliged to disclose information pertaining to their value chain to a significantly broader extent than was previously necessary. Prokešová (2024) posits, the primary impacts, risks, and opportunities of a reporting company are frequently situated within its value chain. If companies only focused on their own business area, this would result in a limited and incomplete representation of the contribution of their activities to the impact on society and the environment. Consequently, the incomplete picture would not permit a comprehensive identification of risks and opportunities. It is thus imperative that all relevant actors in the value chain be considered when assessing the impact, risks, and opportunities. Pizzeti et al. (2021) investigated the phenomenon of greenwashing within value chains. The study examined the impact of greenwashing on stakeholder perceptions from both an ethical and a business perspective. It investigated how different forms of greenwashing affect attributions of blame and intentions to invest. The authors investigated the point in the value chain where there is a discrepancy between the "responsible" and the "irresponsible". In this context, the authors provide a detailed analysis of the various forms of greenwashing and investigate the investors' motivations for investing and the company's tendency to deflect responsibility.

In their sustainability reports, companies set forth their adopted environmental stance. In a recent study, Barta et al. (2023) investigated the impact of implementing environmental, social, or economic Sustainable Development Goals (SDGs) on consumer perceptions of corporate reputation and trust. The authors verified that the implementation of the SDGs has a beneficial effect on the organisation, manifested in the form of enhanced user loyalty. The authors posit that compliance with the SDGs should be fully aligned with business objectives. In the absence of genuine commitment to the SDGs, such practices can be regarded as "greenwashing," whereby companies merely present the SDGs and utilize marketing communications to enhance their public image and mislead consumers. As Hayes (2022) notes, a significant challenge for organisations that have undergone a sustainable transformation is determining whether they are engaging in greenwashing. The practice of greenwashing is proving advantageous for companies considering the increasing consumer demand for eco-friendly and sustainable products.

ESG represents a paradigm shift in the way that businesses and investors approach their activities, with a focus on responsible and sustainable practices. As posited by Horková (2024), ESG is exerting an increasingly pivotal influence on the operations of capital markets and investor confidence in sustainable products. There is a growing tendency among investors to incorporate ESG reporting into their sustainable investment strategies. ESG factors have an impact on the financial performance of companies. The relationship between ESG factors and financial performance is elucidated by Kumar et al. (2016), who discovered a positive correlation between ESG company performance and return on equity, with ESG companies exhibiting a 6.12% higher return on equity. As Dorfleitner et al. (2018) observe, the results typically demonstrate positive correlations, although the precise magnitude is contingent on the period under consideration and the specific baseline assessment. The impact on the share prices of ESG companies is most discernible in the medium to long term.

Sustainability ratings are provided by ESG rating agencies. ESG rating is a way of assessing the long-term environmental, social and governance risks that companies face. These risks are often forgotten in financial analysis, which is one of the reasons why ESG ratings can be beneficial. However, the risk is different for each company, for example due to the industry in which it operates. The ESG rating aims to measure the extent to which companies monitor and communicate their environmental, social and governance impacts. The most prominent rating agencies include MSCI ESG Rating, ISS ESG Rating, CDP (Carbon Disclosure Project) Rating, Moody's Analytics ESG Overall Score and Sustainalytics ESG Risk Rating. Czech ESG ratings are still in their infancy. One of the most important rating agencies in the Czech Republic is Forbes ESG Rating, in which the Association for Corporate Social Responsibility also participates.

The relationship between ESG practices and corporate financial performance, emphasizing the role of digital transformation. It finds that ESG positively influences financial performance, particularly in non-state-owned companies and polluting firms. The research highlights the need for effective policies to enhance ESG capabilities through digital technologies (Fu & Li, 2023). This article analyses how ESG reporting affects corporate sustainability performance, discussing its benefits and challenges. It provides a broad overview of current practices and their implications for businesses. Aziz & Alshdaifat, (2024) collectively contribute to a deeper understanding of how ESG reporting influences corporate behaviour and performance, as well as the challenges faced in implementing effective reporting frameworks.

A BARC study examines the hurdles organizations face in achieving reliable ESG reporting. It includes insights from a global survey of companies regarding their approaches and tools for ensuring trusted data flow (BARC 2023). According to a study undertaken by the BARC Institute, the main driver for ESG reporting is marketing. Employer branding and compliance with legal standards also play an essential role in Europe and the sustainable customer branding is essencial for North American companies.

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. The 17 SDGs are integrated, acknowledging that actions in one area will affect outcomes in other areas and that development must achieve a balance among social, economic and environmental sustainability. As a result, the goals exhibit some degree of overlap in areas E, S, and G (United Nations Development Program, 2024).

Figure 1 Sustainable development goals

Source: United Nations Development Program (2024) adopted by Chen (2024)

2 Methods

The main aim of the paper is to critically evaluate the approach of a selected group of companies to sustainability reporting.

Evaluation methodology – used measures (see Table 1):

The Ranking column includes almost 3 assessments of the ESG reports and activities of the companies evaluated. There is only one exception, the E-on Group, for which we do not know the value of the Forbes ESG Rating CZ 2023. The table below shows these three ratings: with the exception of the Forbes ESG Rating CZ 2023 mentioned above, the CDP and MSCI ratings are used.

First report - We consider the first publicly available ESG report that we were able to obtain from publicly available sources.

E, S, G are the abbreviations for Environment, Social and Government - the groups of Sustainable Development Goals. The individual goals are assigned to the groups only on the basis of the statements in the evaluated reports.

Report size - is the number of pages in the original report. The total volume of photos was estimated as the number of full pages. We do not consider tables or graphs as photos.

3 Research results

The quality of ESG reports varies widely. We can observe very sophisticated reports (e.g. the CEZ Group's report is 190 pages long) or companies that are just beginning to study the issue. Of course, this is related to whether it is already mandatory for a company to report ESG reports today or whether it will only become mandatory in the future. On the other hand, a significant number of companies that produce sustainability reports on a regular basis are not yet subject to mandatory reporting today but are forced to do so by their supply chains or customers.

Table 1 The overview of the basic measures

Organisation	The ranking	The first report	E	S	G	The report size / volume of photographs
ČEZ	Forbes ESG rating ČR 1st CDP – B MSCI - AA	Sustainability report 2021	7, 6, 9, 11, 12, 13, 14, 15	1, 2, 3, 4, 8, 10 6, 9	5, 16, 17, 8, 13, 9	190 pages / photos less than 3 %
E-ON	X CDP – A, MSCI . AA	Sustainability report 2022	6, 7, 8,9., 11, 12, 13, 14, 15	3, 4, 5, 7, 8, 9, 10, 11, 12, 13	3, 4, 5, 7, 8, 9, 10, 11, 12, 13	78 pages/ 26 pages of pictures – 1/3
Moneta Money Bank	Forbes ESG rating ČR 2nd CDP – A- MSCI - AA	Sustainability report 2017	2, 6, 9, 12, 13, 16	5, 8, 9, 10, 12, 13,16, 17	8, 7, 10, 12, 13, 16, 17	140 pages/12 pages (8,6%)
ČSOB	Forbes ESG rating ČR 5th CDP – A MSCI – AAA (KBC group rating)	Corporate Social Responsibility Report 2006, Sustainable responsibility report 2011, Sustainability report 2021	The report does not divide GDOs into the groups, it understand them comprehensively 3,7,8,12,13			91 pages/12 pages (13,2%)
Komerční banka	Forbes ESG rating ČR 6th MSCI – AA CDP – B	Social Sustainability report 2017, Sustainability reports from 2020	6, 7, 9, 11, 12, 13	6, 8, 9, 10, 12, 16	8, 9, 11, 12, 13, 16, 17	114 pages/ 21 photos (18,4%)

Source: Own processing

In our paper, we focused on evaluating the highest-quality enterprise reports that have been ranked by Forbes ESG Rating 2023 among the top 10 large companies. CEZ group took the first place, so we did not want to leave it out of our evaluation. Unfortunately, another company dealing with a similar area of interest did not make it into the ranking or did not even apply for the competition. Unfortunately, we do not have precise information about the process of the applications. To a better comparison, we have added E-ON group, as we believe that it is not able to find more comparable company. As far as the benchmarked banking institutions are concerned, there were 3 in the ranking and therefore there was no need to add more adepts. Since the Czech ranking may be misleading because only companies on the

Ratings

The Czech market is currently undergoing a ranking process, during which only those who have submitted an application have been included in the comparison. In order to provide a more comprehensive evaluation, the results of two additional ratings have been incorporated into the analysis. The MSCI and CDP indices. The MSCI ESG ratings divide the rated companies into three basic groups: Lagarde (grades CCC and B, representing approximately 18% of companies in total), average (grades BB, B, and A, representing approximately 59% of companies in total), and leader (grades AA and AAA, representing approximately 20% of companies in total). The companies are assigned a rating and a corresponding score, which are used to determine an index grade. This grade ranges from CCC (the lowest rating, which is given to only 6% of the total volume of rated companies) to AAA (the highest rating, which is given to about 5% of the rated companies). The MSCI rating of companies in the sample is noteworthy for its balance, with five out of six companies rated AA and CSOB rated AAA as a result of its affiliation with the KBC group (MSCI, 2024).

The CDP index of the CEZ group exhibited an increase in scores on an annual basis in both evaluated categories. The 2023 Climate Change Rating exhibited a notable improvement, advancing from a D grade in 2022 to a B grade (CDP, 2024). Furthermore, in the other rated category, namely water security, there has been an improvement from a grade of C to a grade of B-. The company is gratified by these developments and has invested considerable effort in effecting these enhancements. E.ON is among the top 8% of organisations assessed by CDP, and its rating from the year 2022 is an A grade.

The CDP index is utilised by investors, companies and governments for the purpose of comparison and comprehension of their respective environmental impacts. A CDP index reflects the extent of action, transparency and progress made by an organisation in reducing its greenhouse gas emissions. The index is scored from D- (the lowest score) to A (the highest score). In the Climate Change indicator, ČSOB, as part of the KBC group, has been rated A since 2022 and A- in the preceding five years. Moneta Money Bank has been assigned a rating of B on the Climate Change Indicator for the past two years, with grades ranging from B- to C in previous years. Komerční banka has maintained a B rating in the Climate Change Indicator since 2020.

First sustainability report

Additionally, we sought to ascertain the duration of the companies' engagement with ESG reporting. The addition of the First Report column to the table was therefore justified. The production of ESG reports facilitates the enhancement of both customer and employer branding, which is conducted in a sustainable manner. In an era characterised by a heightened awareness of sustainability, it is imperative that ESG reports not only address the concerns of legislators and capital providers, but also those of customers, potential customers and employees. It is therefore essential that ESG disclosure tools can provide ESG information that is not only in compliance with the requirements of regulators and investors, but also aligned with the objectives of marketing (BARCS, 2023). As indicated by the BARC 2023 study, over 33% of respondents from the banking and finance sector indicated that their inaugural ESG report was produced prior to 2021. A further 24% of respondents indicated that they had produced their first ESG report in either 2021 or 2022. A total of 55% of the companies surveyed have already published their inaugural ESG report prior to 2023. A further 24% of respondents indicated that they intend to publish their inaugural ESG report in 2023. This indicates that only 21% of companies intend to publish their inaugural ESG report after 2023. It is noteworthy that all companies surveyed view the production of ESG reports as a necessary undertaking.

A review of the publicly available websites of individual banking institutions reveals that the oldest report in this field is the CSOB report, entitled "Corporate Social Responsibility Report 2006." Nevertheless, it seems reasonable to posit that other banking institutions are not too far behind in this regard. It is conceivable that reports from this period are no longer publicly searchable but may instead form part of internal information systems.

Selection of SDGs

Furthermore, we sought to ascertain which groups of Sustainable Development Goals (SDGs) the evaluated companies had prioritised. It was hypothesised that a comparable approach would be employed when selecting goals within the same sector. It is notable that SDGs 7, 8, 12 and 13 are referenced in all the aforementioned reports. While ČSOB does not categorise the SDGs into the relevant groups and demonstrates a comprehensive understanding of them, other companies divide the individual SDGs into groups that align precisely with the ESG categories. Furthermore, discrepancies were observed between the representatives of the electricity companies. Notwithstanding the fact that the e-on group report lists a greater number of GDOs, the CEZ group report dedicates a greater proportion of space to their description.

Report size

The process of ESG reporting is inherently data-intensive, with many companies failing to fully recognise the challenges associated with the collection of data, particularly in the case of environmental KPIs. The implications of ESG reporting for third parties represent a burgeoning area of investigation. The information reported with respect to ESG non-financial reporting has an impact on several key stakeholders, including customers, investors, employees and suppliers. Evidence indicating that ESG reports are influencing or attempting to influence various interest groups can be observed in their visual presentation. The sample of companies under consideration is relatively limited in size, yet there is notable variation in the way photography is employed as a means of infusing emotion into claims that are otherwise relatively austere. The smallest proportion of photographs can be observed in the CEZ group ESG report, which corresponds to approximately 3% of the total length of the report. In contrast, the largest share of photo documentation is evident in the E-on group report, which accounts for almost 33% of the total length of the report. The sample of companies under comparison is relatively limited in size, yet there is notable diversity in the manner in which photography is employed as a means of infusing emotional content into claims that are otherwise characterised by a certain degree of sobriety.

4 Conclusions

The paper presented here deals with sustainability reports that were highly rated in the Czech Forbes ESG Rating 2023. Even for the sample of 5 selected companies, significant differences in the Forbes ESG rating, the CDP index and the MSCI index were found.

Non-financial reporting is currently mainly produced by companies with a focus on Western markets, where ESG values are demanded by customers and investors, and where even companies that are not yet subject to non-financial reporting are doing so on a voluntary basis. The graphic form of the reports compared suggests that they are also widely used as a marketing tool with an impact on stakeholders.

The quality of non-financial reporting varies considerably, not only between sectors but also between companies. Rating agencies are trying to respond to this by developing their own ratings. However, the current market for ESG ratings suffers from shortcomings, in particular a lack of transparency and consistency in the methodology, the source data used and the functioning of the ESG rating providers themselves, which may reduce confidence in ESG ratings. As a result, investors often prefer to rely on more than one ESG rating or to conduct the analysis themselves. The same issue is being addressed centrally by the European Commission, and until industry standards are agreed, it will be difficult to compare and even use individual ratings.

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