

ESG in Czech organisations

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* *1. Introduction*

Sustainability has become a key topic for companies in recent years. Gradually, CSR activities, which were based on voluntariness, have been replaced by ESG, which is a much more widely used acronym for sustainability and responsibility. ESG involves integrating environmental, social, and governmental aspects into a firm's business models (Gillan, Koch and Starks, 2021). It is already common for ESG to develop strategies that incorporate sustainability across all pillars into the operation of the business. In the Czech environment, however, we still meet conflicting views, with one part accepting the ideology of sustainability in the form of ESG and the other rejecting it. However, the number of ESG reports in the database of reports managed by the Czech non-profit organisation Impact Metrics is slowly increasing. ESG is not just about reports, but also about the strategies that precede them. For this reason, our article wants to find out which of the three ESG fields, Czech organizations perceive as the most important and whether companies also create strategies where ESG principles are reflected. To the research, we have included organizations that are members of the Corporate Social Responsibility Association and are expected to deal with the topic

of sustainability in a long-term and more in-depth manner.

2. Development of ESG (reporting)

The incorporation of environmental, social and governance (ESG) issues into investment and other decisions by companies and organisations has seen rapid development in recent years. Between 2010 and 2020, U.S. under ESG investment strategies saw an increase from \$3 trillion to \$17 trillion. Similarly, one in three dollars invested has been used according to ESG principles (Berg et al., 2020). This brings with it questions about the quality of ESG strategies, their measurement and verification of outcomes (Gyönyörová et al., 2021). However, the trend of expanding ESG reporting is already irreversible. According to the Governance and Accountability Institute's annual report, 92 percent of S&P 500 companies already have ESG reports (Rau and Yu, 2023).

There are usually three dimensions of ESG reporting: the Environmental dimension deals with data on climate change, greenhouse gas emissions, biodiversity, deforestation, energy efficiency or water management. The social dimension focuses on data on employee safety, working conditions, diversity, inclusion, or crisis assistance. The gov-

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ernance aspect deals with data on corruption prevention, bribery, management rewards, cybersecurity, or privacy.

We can distinguish several different ESG frameworks. Voluntary disclosure frameworks are the most common. These provide a platform and mechanisms for ESG disclosures that are applicable to organisations in different industries and regions. Others are guidance frameworks. Similar to standards, these provide specific topics, methodologies and metrics that companies can use to report their ESG performance. There is no single standard for ESG reporting, but several standard-setting bodies have come together and are consolidating their frameworks, so the list of relevant frameworks is fluid.

These include IFRS Standards for Sustainability Disclosures. These are the standards developed by the International Sustainability Standards Board (ISSB), which was established in 2021 by the International Financial Reporting Standards Foundation (IFRS). They are also set out in the CDSB Framework. It was developed by the Climate Disclosure Standards Board (CDSB) to promote the integration of ESG reporting into mainstream corporate reporting. In addition, there are the GRI standards. The standards developed by the Global Reporting Initiative (GRI) enable any organisation – large or small, private or public – to understand and report on its impacts on the economy, the environment and people in a comparable and credible way, thereby increasing transparency about its contribution to sustainable development. Furthermore, there is the United Nations Global Compact. Established in 2000, the UN Global Compact is the world's largest corporate sustainability initiative and emphasises the alignment of business strategies and activities with a set of 10 principles on human rights, labour practices, the environment and anti-corruption.

ESG research is continuously expanding. Bibliometric comparisons show that the most common topics that are researched in the context of ESG are happiness, transparency, shareholder value, or

organizational performance, corporate philanthropy, organization, and institutional theory (Li et al., 2021). Existing research on ESG ratings most often covers the areas of sustainability, corporate social responsibility, disclosure, finance, and ESG ranking analysis (Clément et al., 2023). Various ESG ratings have been developed since the 1980s. Gradually, rating market leaders emerged and the main reason for the development of ratings was financial. (Isachenkova, 2012) At the same time, the emphasis on different aspects of ESG still varies across countries (Syed, 2014).

In the context of the European Union, the Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD), which regulate ESG reporting, are crucial. Since 2017, companies have been governed by the NFRD, and reports according to it are published by large banks, insurance companies and listed companies with more than 500 employees. From 2024, large companies will follow the CSRD. The reporting obligation will only apply to companies already subject to the obligation under the current NFRD conditions, reporting data for 2024 in 2025. Subsequently, the obligation applies from 2025 to large companies that meet at least two of the three requirements: more than 250 employees, net turnover of more than €40 million, total assets of more than €20 million. From 2026, it also applies to listed SMEs, with public reporting in 2027 (European Commission, 2023).

In the Czech Republic, non-financial reporting now concerns about 20 companies, in the whole European Union about 11 thousand. The tracking of ESG data according to the CSRD will significantly expand this circle.

2.1 ESG and small and medium-size enterprises

Currently, ESG (non-financial) reporting applies to only a very small percentage of companies that meet the reporting requirements. As noted above, over time this obligation will expand to other busi-

nesses and may eventually affect small medium-sized enterprises not exhaustively mentioned in the CSRD, as ESG data will be required from their suppliers or customers. In general, the topic of the impact of ESG principles on SMEs is still weak in the literature (Chen et al., 2022).

For SMEs in the EU, the implementation of ESG principles is often poorly understood. A questionnaire survey in Germany showed that SMEs do not have much knowledge about ESG principles, are relatively furthest away in environmental aspects and the motivation is mainly external, i.e., the desire to comply with regulation (Mengelkoch, Rute, 2023). Some studies suggest that improving in ESG assessment may not be as beneficial for SMEs in terms of performance and profitability as for large firms (Gholami et al., 2022). However, other studies suggest that even though SMEs often adopt ESG principles under pressure from external regulation, they improve their performance not only in environmental terms, but also subsequently in economic and management terms (Khoja et al., 2022).

The uncertainty of SMEs in accessing ESG is evident in the Czech Republic. According to an IPSOS survey for the Association of Small and Medium-sized Enterprises and Tradesmen of the Czech Republic, two thirds of enterprises do not know what they understand by ESG. However, many companies have already implemented ESG elements based on intuitive and natural company behaviour without knowing it. Almost three quarters of firms plan to develop a plan or strategy for ESG adoption within three years. They do not reject

ESG completely, on the other hand they are reticent about the bureaucratic burden that comes with it. (IPSOS, 2023) Thus, the survey results suggest that SMEs lack specific and unbiased information about ESG and what ESG reporting entails. Up to half of the companies also see a problem in unclear return on investment.

3. Methodology

Quantitative data collection in the form of a questionnaire survey was used in this study. The data collection was done through the research agency IPOS. The data collection was conducted using CAWI method with the help of telephone reminder from November 2 to November 22, 2022. a total of 401 enterprises (all are members of CSR association at the time of data collection) were contacted. The response rate is 27% (n=108). CSR association members are:

- companies,
- non-profit sector,
- public sector,
- social enterprises and
- education sector.

We can find many organisations that are market leaders. They are introducing innovative projects in production, trying out new agricultural or production methods, winning national and international awards for their actions. They are known not only on the Czech market, but also abroad.

Their representation in the questionnaire survey is shown in Table 1. The reason why members

Table 1 » *Composition of respondents*

Subjects	Count
Enterprises and Social Enterprises	49 + 11
Non-profit organizations	37
Universities	6
Municipalities and public sector	5
Total	108

Source: author (based on the data information)

of the CSR Association were approached is that these entities are expected to actively apply sustainability and ESG principles in their daily duties, ESG reporting, deep knowledge of this ESG issue and spread awareness among the public as well as modern approaches to conservation,

The main goal of this study is to find out how companies' attitudes towards sustainability have changed and how they perceive ESG??

There were stated these research questions:

- RQ1: What is the attitude of companies towards sustainability issues? – *This question covers many sub-questions: Does the company address sustainability? What is fundamental for them? And are they addressing the issue out of their own conviction or because of pressure from the environment?*
- RQ2: How much do respondents understand the concept of ESG? – *Do they know it very well? And which area do they pay most attention to? – Here we can infer that firms are familiar with ESG issues and that the areas they pay primary attention will correspond with those they declare as areas addressed in sustainability.*
- RQ3: Do the respondents have or are they preparing ESG strategies? – *Here, it is likely that only a small percentage of the respondents will already have such a strategy in place.*

4. Findings

The survey asked 15 basic questions and 13 sub-questions. The results shown here are divided into thematic sections that relate to the individual research questions.

4.1 Sustainability in Czech organisations

Firstly, we have searched what are areas of focus in relation to sustainability in organisations?

According to Table 2, social topics such as impact on society, relationship with employees dominate, followed by biodiversity, circular economy and others. The prioritisation of topics in the case

of ESG corresponds to this division, as we will see below in the text.

Interesting and important question is why organizations started to take care about sustainability. Individual reasons are shown in Figure 1.

There may be several reasons why organisations choose to pay attention to ESG issues. In our surveyed sample, it is most often from their own decision and the evolution of society towards sustainability issues. The desire to be better than the competition is also a significant influence. In this case, it is confirmed that the competitive environment is important in the market. There is still relatively little pressure from investors and financial institutions, but this should increase over time. As well as the impact of directions and other regulations. On the other hand, pressure from customers appears to be insignificant here, with only 3.39%. In addition, pressure from investors, customers and suppliers and parent company requirements only appear in the case of enterprises. We can presume that in other organizations this pressure also appears, but it is named differently. In the case of universities, students are in the place of clients, and they too have their own needs regarding the sustainable development of the school.

As can be seen from figure 2, about half of the companies do not want to expand their sustainable activities any further, the other half is of a different opinion and wants to continue expanding them. These are mainly those organisations that have fewer sustainable activities.

4.2 The knowledge of ESG and prioritisation of individual pillars

It is interesting to see whether the companies interviewed are familiar with the concept of ESG. The results are shown in Table 3.

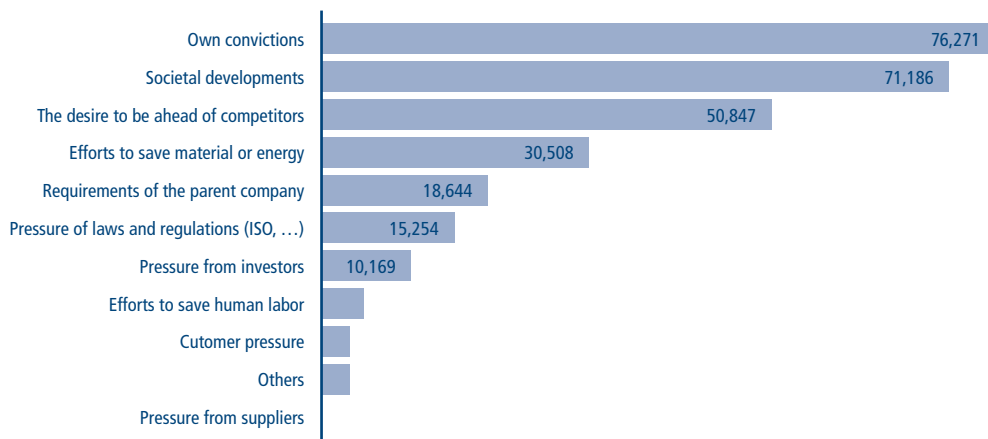
More than 60% (in total) of the respondents know ESG very well. Businesses and universities are most familiar with it. The public sector is the least familiar with it. More than 18% (in total) of the respondents are familiar with ESG but are not

Table 2 » Fields of focus in relation to sustainability

Field	Enterprises	Public sector and municipalities	Universities	Non-profit organisations	Social enterprises
Energy, climate change	35,185	47,917	60	33,333	27,027
Biodiversity	43,519	56,25	80	66,667	27,027
Circular economy, recycling, zero waste	41,667	56,25	80	66,667	24,324
Relationship with employees. (diversity, inclusion, work-life balance, education)	46,296	64,583	40	83,333	21,622
Business ethics (transparency, fairness to suppliers, supply chain control)	39,815	62,5	40	33,333	18,919
Impact on society (support for local communities, minimising the negative impact, humanitarian aid)	55,556	52,083	80	66,667	67,568
Digitalization	26,852	39,583	40	50	13,514
Support for employment of people with disabilities	28,704	25	20	33,333	18,919
Other	10,185	8,333	0	0	10,811
None of the above	0,926	2,083	0	0	0
Total	108	48	5	6	37

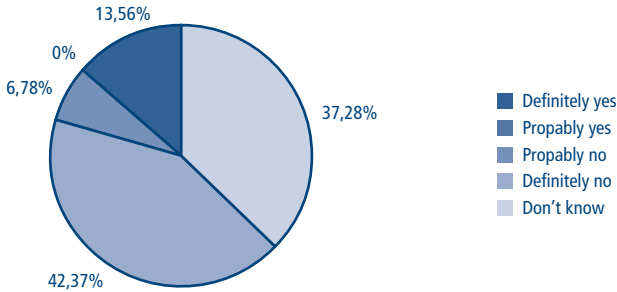
Source: author (based on the data information)

Figure 1 » What prompted organisations to start addressing the topic of sustainability?



Source: authors (based on the data information)

→ **Figure 2 » Do organisations plan to expand their sustainability activities in the next 2 years?**



Source: authors (based on the data information)

Table 3 » How familiar are companies and other organisations with the concept of ESG (environmental, social and governance)?

Knowledge of ESG	Enterprises	Public sector and municipalities	Universities	Non-profit organisations	Social enterprises
I know the term ESG well, I know what it means in the context of our organization	70,83	20	66,66	54,05	54,54
I know the term ESG rather casually, I don't know what exactly it entails in the context of our organization	10,41	40	16,66	27,02	18,18
I've heard the term ESG, but I'm not familiar with it	16,66	40	16,66	13,51	18,18
I have not heard of ESG before	2,08	0	0	5,40	9,09

Source: author (based on the data information)

sure that they know it perfectly. Only 3.7% (in total) of the respondents stated, that they have never heard of ESG before.

Figure 3 shows that the social pillar has the highest priority for companies (in 50% of cases) and medium priority in 30% of cases. The environment is the second priority for businesses and only in third place is the governance pillar.

4.3 ESG and its implementation to the business strategies

Preparing a “business strategy” can give an organization a clear direction and help it achieve its goals. It is therefore essential that companies also implement sustainability in their business strategy.

These strategies are a crucial element to an organization’s success and can help enhance pro-

fitability, expansion, and employee experience. A strategy can outline actionable steps for a company to reach a sustainable goal. It aims to create value for an organization’s stakeholders and to protect or sustain resources in the long term (Indeed, 2022). Strategy development involves the consideration of the following systems and the effect an organization’s commercial activities have on each (Indeed, 2022):

- Environmental: water and/or air pollution, carbon emissions, climate change, biodiversity, drought, zero waste
- Economic: global financial systems, income equality, and the free flow of goods and services
- Social: poverty rates, (gender) pay gap, matters of diversity and inclusion, education systems, healthcare, food security, conditions for employees, and social justice.

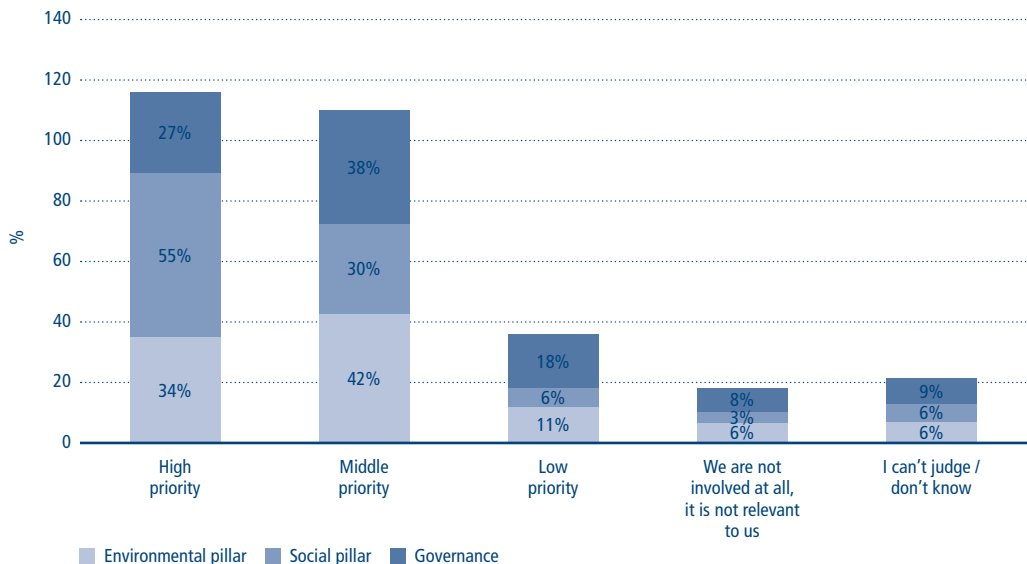
What can lead organisations, beyond their own beliefs, to develop sustainable strategies?

The desire to incorporate sustainability (especially in form) into their strategy stems in part from the recognition of consumer interest in the topics of sustainability and sustainable purchasing. While consumers can handle a lot, the pressure from the European Union is quite evident in this case, as well as the United Nations, which has set the so-called SDGs, or a set of 17 sustainable goals and their sub-goals. These goals are so well publicised that consumers are asking their brands to meet them. (Koudelková et al, 2022).

We can see two approaches among respondents; one is to develop a strategy at a global level. Its principles are then transferred down to the individual local branches. Sometimes they are strictly enforced, while at other times their implementation and compliance are very loose (see Table 5).

The second approach is that the organization develops a strategy at the local level. Often, this strategy is then better deployed to a specific country and, more importantly, its creators are more

Figure 3 » What priority do you give to the 3 pillars of ESG in your organisation?



Source: author (based on the data information)



committed to its objectives. Of course, in this case we are also talking about firms that are purely Czech and do not have branches in other states, or we can speak about public sector, very often social enterprises and non-profit organisations and universities, of course. This situation is captured in Table 4.

If we look at companies, roughly 35% already have this strategy, another 22% are working on it and almost 1/4 are planning it. Surprisingly, al-

most 7% are not planning one and 10% could not answer this question reliably. Universities are already better off, either having one or working on one.

At the global level, it is mainly businesses that have this type of strategy (almost 42% and another 16% are working on it). Only for 12.5% it is not relevant, that is, they are not internationally operating businesses. However, the public sector responses are interesting. Here it can be assumed

Table 4 » Sustainability strategy and targets in companies (At the local level)

	Enterprises	Public sector and municipalities	Universities	Non-profit organisations	Social enterprises
Yes, we have	33,33	20	66,66	0	0
We are currently working on it	22,91	0	33,33	0	0
We don't have one, but we are planning to develop one	25	60	0	0	0
We don't have it and we don't plan to — it's not relevant to us	8,33	0	0	0	0
Don't know (no answer)	10,41	20	0	100	100

Source: author (based on the data information)

Table 5 » Sustainability strategy and targets in companies (At the global parent company level)

	Enterprises	Public sector and municipalities	Universities	Non-profit organisations	Social enterprises
Yes, we have	41,66	40	0	0	0
We are currently working on it	12,5	0	0	0	0
We don't have one, but we are planning to develop one	6,25	20	16,66	0	0
We don't have it and we don't plan to — it's not relevant to us	12,5	20	50	100	100
Don't know (no answer)	27,08	20	33,33	0	0

Source: author (based on the data information)

There are usually three dimensions of ESG reporting: the Environmental dimension deals with data on climate change, greenhouse gas emissions, biodiversity, deforestation, energy efficiency or water management. The social dimension focuses on data on employee safety, working conditions, diversity, inclusion, or crisis assistance. The governance aspect deals with data on corruption prevention, bribery, management rewards, cybersecurity, or privacy.

that they are influenced by the European Union and adopt its directives and regulations.

5. Discussion

Sustainability can be seen very broadly as the preservation of resources for the use of our own and future generations. It is usually divided, like CSR into three pillars, social, environmental, and economic for sustainability and CSR (Elkington, 1999). ESG has a similar terminology and speaks about social, environmental and governance pillar. We may also encounter the label People, Planet and Prosperity. From the research conducted, we can get the above research questions. RQ1: the results of the questionnaire survey show that for two thirds of the respondents (members of the CSR association), sustainability is one of the key aspects they consider when making decisions about the direction of the organization.

The activity where they focus their attention is mainly the community – positive impact on society (this is a priority especially for social enterprises) and then also building relationships with employees. Building relationships with employees is about work-life balance and the associated part-time and flexible working hours, as well as offering various benefits, training and, of course, a pleasant team environment. This is an interesting solution because until a few years ago, companies commonly associated sustainability with environmental care, circularity, etc. However, the COVID-19 pandemic and the subsequent war in Ukraine brought about major changes and the focus started

to turn towards people, i.e., the social pillar. A positive finding is that the impetus to start addressing sustainability is their own beliefs and society-wide developments.

RQ2 focused on ESG issues. The results show that the term ESG is well-known to 60% of the representatives of the organizations surveyed. If we take a closer look at the ESG pillars, we find that the priority topics for these organisations are impact on society and shaping relationships with employees, the same topics mentioned in the section on sustainability. Based on this, we can assume that the organisations are appropriately linking sustainability with ESG, that for them they are not two disparate terms. On the other hand, with the area of governance, many organisations are not sure. This finding is supported by a survey among SMEs conducted by the research agency IPSOS in 2022 (IPSOS, 2023). This trend is then also evident among the public. In 2021 and 2022, the emphasis on issues related to the social pillar increased (IPSOS, 2023). Something around 10% of the social enterprises surveyed had not heard of ESG, while for commercial entities it is only 2% (these were small enterprises that do not yet have ESG reporting obligations, on the other hand, these are the ones that are taking significant steps in sustainability, they just do not communicate them publicly, they do not label them as “sustainable activities”, often they do not even know that what they are doing has a label “sustainable”. According to the Association of Small and Medium-sized Enterprises, some entrepreneurs consider ESG to be an additional bureaucratic burden (IPSOS, 2023).

→ The last research question (RQ3) focused on the development of a sustainability strategy/implementation of sustainability into business strategy. Half of the companies have strategy for sustainability and another quarter plan to develop a local strategy for sustainability. 19% have both a local and a global strategy. However, we should note that 3% (in total) do not yet have a strategy at either local or global level. In the future, a strategy will be a necessary tool to give companies a clear goal and against which they can evaluate the results achieved and produce non-financial reports. As companies integrate sustainability principles into their business strategies and measure their progress against the ESG pillars, the isolated complementary CSR activities that stood at the beginning are becoming a thing of the past. In addition, there is now a range of ratings that consider various indicators under the E, S and G pillars.

5. Conclusion

This paper was a probe into Czech organisations and their relationship to sustainability and ESG. It showed that Czech organisations are willing to engage in these activities, although some think of ESG reporting as another unnecessary administrative burden. Compared to other research, this also shows the change that occurred after the COVID-19 period and the war in Ukraine, namely the prioritisation of social issues over environmental ones.

However, this research has its limitations. The main one is the number of companies because the response rate was really low. Even so, this survey shows the current setting of the Czech economic sphere. It will certainly be useful in the future, in another three years or so, to do another survey on the same topic, ideally on the same basic sample, to see how the topic is evolving.

RESOURCES

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ABSTRACT

The paper focuses on ESG and sustainability in general in Czech organisation. The reason is that ESG is very important topic for investors and government. The next reason is that, in the near future, companies will be required to make a non-financial report. We therefore looked at how organisations perceive sustainability, how familiar they are with ESG issues and whether they are already integrating ESG into their strategies. Organisations that are members of the Corporate Social Responsibility Association were selected for the survey. The results show that Czech organisations are open in adopting sustainability. However, Czech organisations lag behind in implementing ESG strategies, but there is space for improvement.

KEYWORDS

ESG; sustainability; responsibility; non-financial reporting; SMEs; CSR

JEL CLASSIFICATION

M14; M10; M20; M39

