Corporate Performance Evaluation and Reporting

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Abstract: - Current trends of corporate performance evaluation, i.e. the measurement of environmental, social, economic and governance performance of company and corporate sustainable reporting are discussed in the paper. Appropriate tools of top management for the company strategy choice of sustainable success are necessary to develop. In doing so, the relationship between company performance and reporting its key performance indicators is important, therefore, the development of modern and advanced methods and metrics to identify these indicators mainly based on the quantification with the possibility of utilization of information and communication technology are discussed.

Key-Words: - Performance evaluation; ESG performance; Key performance indicators; Sustainability reporting; GRI; UN Global Compact; UNEP FI

1 Introduction

The research in the field of corporate performance evaluation and corporate sustainability reporting in the Czech Republic [1], [2], [3], [4] reflect the overall global world trends [5]. Corporate successful sustainability, that is the capacity of an organization to continue operating over a long period of time, depends on the sustainability of its stakeholder relationships. The available statistics show that through all objective benefits the corporate performance evaluation and corporate sustainability reporting can bring to businesses an appropriate feedback. Existing motivation is not sufficient to make this to normal business practice as compared to the financial accounting and reporting. On the one hand, some large corporations are actively using G3.1 guidelines [5] of the Global Reporting Initiative (GRI) for corporate sustainability reporting; on the other hand, the relative share of these organizations on the Czech market is rather small. Plenty of organizations in the Czech Republic have implemented and certified an Environmental Management System (EMS) as a part of integrated management system (quality, environment and occupational health and safety management).

Therefore, environmental, economical and social corporate data and information are being monitored, codified, registered and aggregated into Key Performance Indicators (KPIs) [6], [7]. This fact indirectly indicates that in the case of such needs the organization is able to aggregate these data and incorporate it into the corporate sustainability or environmental report, [4].

The GRI has pioneered the development of the world’s most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI drives sustainability reporting by all organizations. GRI produces the world’s most comprehensive Sustainability Reporting Framework [5], [10] to enable greater organizational transparency. The Framework, including the Reporting Guidelines, sets out the Principles and Indicators organizations can use to measure and report their economic, environmental, and social performance.

Although the G3.1 guidelines [5] has served as an essential and very useful tools in improving the standardization of company reporting in many sectors, companies continue to have differing degrees of compliance with the G3.1 guidelines and
sometimes differing interpretations of the best tools to apply these standards to their reporting. The integration of financial performance with environmental, social and governance performance reflects a growing desire by stakeholders for more information on a broader range of issues. To be comparable across all companies, and thus useful for mainstream investment analyses, it is important that financial, environmental, social and governance (ESG) data are transformed into consistent units and presented in a balanced and coherent manner in ESG indicators.

This is the main goal of the four years research project No. P403/11/2085 “Construction of Methods for Multifactor Assessment of Company complex Performance in Selected Sectors” of the Czech Science Foundation which is solved by the team of authors.

We summarize in the paper some results of the analysis of the state of the art on economic, environmental, social and corporate governance aspects of company performance.

Further we focus on the critical partial processes in the fields: Integration of economic performance; Integration of environmental performance; Integration of social performance; Integration of corporate governance; Sustainability of success.

Specification of possibilities for company overall performance measurements in chosen economic activities based on analyses of previous findings will be discussed also in the paper.

2 Collaboration of GRI with other organizations on common approaches to ESG performance and reporting

In this chapter we try to summarize some results of our analysis of the state-of-art on economic, environmental, social and corporate governance aspects of company performance.

In a push to strengthen the quality of sustainability reporting in the corporate sector, the United Nations (UN) Global Compact [8] and the GRI announced on 28 May 2010 the agreement to align their work in advancing corporate responsibility and transparency.

The agreement is intended to provide companies in the Global Compact with a clear set of reporting principles and indicators to meet the initiative’s compulsory annual disclosure requirement, also known as the Communication on Progress [9]. The GRI Reporting Framework [10] is applicable to organizations of all sectors, sizes and regions and also offers a series of supplements developed to address sector-specific circumstances and challenges.

In addition to creating a reporting framework that will be implemented universally, the new collaboration is also intended to provide a benchmark for financial analysts and other stakeholders to better analyze and identify risks and opportunities as they relate to ESG issues.

“The agreed collaboration, combining the expertise and efforts of GRI and the UN Global Compact, will allow us to significantly extend our outreach and support an increasing number of companies and stakeholders around the world which seek to improve their sustainability performance,” added Ernst Ligteringen, GRI’s Chief Executive.

Investors have been a key driver in promoting the uptake of corporate sustainability reporting – as a result of further initiatives such as the United Nations Environment Programme Finance Initiative (UNEP FI) [11]. They are increasingly asking companies for economic, environmental, social and governance (ESG) information to help them make investment decisions, see [12].

UNEP FI Asset Management Working Group (AMWG) and the Markets & Valuation Work Stream of the Word Business Council for Sustainable Development (WBCSD) have jointly published the new report: “Translating ESG into sustainable business value”. This report providing key insights for companies and investors on how their business and investment philosophy and practices going forward can better address the why, what and how of communicating corporate ESG performance to the capital markets. Business leaders and investors can use this report as a tool to advance the integration of ESG factors into corporate and investment decision-making, and to continue discussing the needed evolution towards more holistic and realistic capital market valuation processes.

The AMWG is a global platform of asset managers that collaborate to understand the various ways ESG factors affect investment value and the evolving techniques for the inclusion of ESG criteria and metrics.

In December 2010, GRI announced a partnership with the OECD to give companies worldwide greater guidance and support on how to conduct their business responsibly and report on their sustainability performance. The partnership aims to
help companies make greater use of the *OECD Guidelines for Multinational Enterprises* [13] and the GRI Sustainability Reporting Framework [10], bringing increased coherence and consistency to their efforts to act more responsibly and be more transparent about their sustainability.

Teresa Fogelberg, Deputy Chief Executive of the GRI, said: “Today’s updates mark a huge milestone for the OECD and for sustainability in general. This is the only government-led sustainability framework for companies and disclosure now plays a key role. This is great news, and we believe it will drive transparency and, ultimately, a sustainable global economy. However, I had hoped for stronger content on disclosure.”

The first ever ISO Guidance Standard on Social Responsibility, ISO 26000, published in November 2010, emphasizes the value of public reporting on social responsibility performance to internal and external stakeholders, such as employees, local communities, investors and regulators. This represents an important new level of international attention to the issue of reporting, and is aligned with GRI’s vision that disclosure on economic, environmental, social and governance performance becomes as commonplace and comparable as financial reporting [14].


Therefore, new frameworks of GRI, UN Global Compact, UNEP FI, ISO 26000 and OECD give current common guideline how to process appropriate sustainability performance data to determine KPIs to identify company overall sustainability ESG performance.

GRI and the *Carbon Disclosure Project (CDP)* announced in July 2011 the release of Linking GRI and CDP: *How are the GRI Guidelines and the CDP questions aligned?* The first edition was published in 2010 and has now been updated to incorporate changes in guidance. Linking GRI and CDP features a table that compares specific environmental Indicators from GRI’s Guidelines with questions from CDP’s Investor and CDP Supply Chain 2011 programs.

Great importance is attributed to the defining of KPIs in the economic, environmental, social and governance areas for specified economic activities (NACE) with subsequent measurement of sustainable development. NACE is an acronym standing for *Statistical Classification of Economic Activities*, used by the European Union (or the European Communities) since 1970 [16]. NACE provides a framework for statistical data relating to activities in many economic areas (e.g. production, employment, national accounts) and sectors. The corporate sustainability reporting and overall performance of a company in a specific economic activity would thus be defined by the integrated achievement of ESG performance measures. Sustainability performance is, however, often understood as performance in environmental, social and economic/financial terms, thus excluding governance performance [17].

One of the possible approaches is to also take into account successful solutions to economic, environmental and social issues and corporate governance in relation to measurement of company performance, as well as its continued success (Sustainability of Success). Disregarding such aspects of performance in the unified reporting (Corporate Sustainability Reporting) by company managers may result in creating further and even deeper problems.

Reporting tools like eXtensible Business Reporting Language (XBRL) [18] designed for the ESG performance together with Corporate Social Responsibility (CSR) [19], GRI, UN Compact Global, UNEP FI, ISO 26000 and OECD – appear as essential at present. We will use them in the development of our ICT tools for company sustainability reporting.

### 3 ESG performance

The overall company performance plays a key role in its corporate strategic policy and sustainability of success. The creation of reliable methods of ESG performance measurement where concurrent acting of multiple factors is in play can be considered a prerequisite for success not only in decision making, but also with regard to corporate governance, comparison possibilities, development of healthy competition environment etc.

For ESG performance data is necessary to determine KPIs. Let us consider that KPIs are organized to the four pillars (economics, environmental, social and corporate governance) and fifth pillar Sustainability of Success (long term viability) [20].
3.1 Integration economic performance

Financial reporting standards, such as International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (U.S. GAAP) and ESG reporting frameworks, principally the GRI Guidelines [10], will act as structural supports for potential integrated reporting frameworks of integrated economic performance. We have to determine KPIs based on G3.1 guideline [5]. There are often used the economic indicators of targeted for selection strategies (maximizing profits, maximizing total costs, company survival, etc.), using new methods of design and measurement is often reflecting the evolution of economic performance lessons from history and look to the future.

Economic performance indicators can be divided in relation to the surveyed area:

- indicators of liquidity (current ratio, quick ratio, cash ratio etc.);
- indicators of profitability (return on assets, return on equity, return on investment, return of sales etc.);
- indicators of indebtedness (debt ratio, self-financing ratio etc.);
- indicators of financial and asset structure;
- indicators of activity and other, e.g. Benchmarking, EVA, Balanced Scorecard and other [21].

We are in compliance with G3.1 guideline, but we extended these KPIs, see [1]. We have used our developed XBRL tools to facilitate the calculations and the visualizations of above chosen economic performance indicators. XBRL allow us to prepare report to place electronic tags on specific content (graphs, numbers, text, etc.) of indicators in their reports by using an existing “XBRL taxonomy”. It enables users those are interested in finding some data e.g. on greenhouse gas (GHG) emissions, they could immediately find this data - select it, analyze it, store it and exchange it with other computers and automatically present it in different ways. Users are able to apply this to multiple reports and compare emissions information across different reports.

3.2 Integration of environmental performance

We have determined KPIs for environmental reporting (environmental protection expenses, wastes, charges, air pollution, waste water discharge, cross border agreements etc.) using results of our previous research in this field [1], [22] using G3.1 guideline and EMAS indicators. We have used also our developed XBRL tools to facilitate the calculations and the visualizations of these integrated environmental performance indicators.

3.3 Integration of social performance

The social dimension of sustainability concerns the impacts of company that has on the social systems within which it operates. We are going to determine KPIs for social performance based on the GRI social performance indicators to identify key performance aspects surrounding labor practices, human rights, society, and product responsibility [1], [5], [10].

We have to consider that labor practices indicators also draw upon the two instruments directly addressing the social responsibilities of business enterprises: the ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy, and the OECD Guidelines for Multinational Enterprises.

Human rights performance indicators require companies to report on the extent to which human rights are considered in investment and supplier/contractor selection practices. Additionally, these indicators cover employee and security forces training on human rights as well as non-discrimination, freedom of association, child labor, indigenous rights, and forced and compulsory labor.

Society performance indicators focus attention on the impacts organizations have on the communities in which they operate, and disclosing how the risks that may arise from interactions with other social institutions are managed and mediated. In particular, information is sought on the risks associated with bribery and corruption, undue influence in public policy-making, and monopoly practices.

Product responsibility performance indicators address the aspects of a reporting organization’s products and services that directly affect customers, namely, health and safety, information and labeling, marketing, and privacy.

Integration process of the development of social performance indicators is in progress and final version of KPIs will be finish to the end of this year.

3.4 Integration of Corporate Governance

Corporate governance report usually contains governance structure of the organization, including
committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight (CEO, top management etc.).

The corporate governance regulation in the Czech Republic uses usually a dualistic model: mechanism of written law enforcement (mainly the Commercial Code), and self-regulation mechanism, characterized by self-imposed observing of the required rules. This mechanism is primarily implemented through the code of company governance and due diligence principles. The company is governed by a body of shareholders – the general meeting reported to by the board of directors as an executive managing body and by the supervisory board as a surveillance authority.

Corporate governance performance is the question of risk, specifically leadership risk. We consider in company: governance processes and structure; profiles and competencies; culture, behaviors and team dynamics. Within the context of the company management as an effective decision-making authority for a global company, we have developed an approach to reviewing corporate governance effectiveness that we structure around three areas of risk and underperformance. We have used this approach to conduct our interviews with CEO and executive managers of companies in sectors “F – Construction” and “C10 - Manufacture of food products”. Conclusions from these interviews are expected to the end of this year.

3.5 Sustainability of success.
If the performance and competitiveness of the companies on the current markets should increase, then it is necessary to develop a complete system of ESG performance evaluation, based upon the cooperation of the interdisciplinary teams, which can contribute to the growth of the total performance of the company.

The ESG performance evaluation will be indisputably reflected by the performance of the companies, in the growth of the offered value and care for the market from the side of the customers, increase of theirs satisfaction and loyalty on one side and improvement of the company image and its partners in the business, with augmentation of their position and welfare on the second side.

The system of KPIs for ESG performance evaluation offers for all companies in given sector much higher development dynamics, as up to now [20]. CEO decision-making is based on a qualified assessment (measurement) of a situation determined at the same time by multiple indicators, primarily in their horizontal development [23]. In pursuit of an outstanding informative force an emphasis is currently placed not only on the absolute data, but in the first place on the change data and analyses of changes of these changes. That is, dynamics of systems is the focus of attention. Appropriately applied vertical analyses then add further dimension to the conditions for decision making. In this conjunction other methods have to be discussed: logical and empirical methods, methods of qualitative and quantitative research such as in particular modeling of statistics, see [24].

4 Conclusion
Analysis of the state-of-art on economic, environmental, social and corporate governance aspects of company performance and corporate sustainability was presented. Integration of economic, environmental, social and corporate governance was discussed also.

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