Available online at www.sciencedirect.com

ScienceDirect

Procedia Engineering 69 (2014) 1144 – 1151

Procedia Engineering

www.elsevier.com/locate/procedia

24th DAAAM International Symposium on Intelligent Manufacturing and Automation, 2013

Sustainability and its Integration into Corporate Governance Focusing on Corporate Performance Management and Reporting

Michaela Krechovská*, Petra Taušl Procházková

University of West Bohemia, Faculty of Economics, Husova 11, Plzeň 306 14, Czech Republic

Abstract

This paper discusses corporate governance and its necessary change with regard to trends in society, especially in view of the concept of sustainability. Corporate sustainability is understood as the ability of companies to positively influence environmental, social and economic development through their governance practices and market presence. The approach of enterprises to sustainability and the level of integration of sustainability into corporate governance were examined by the author's empirical research conducted among enterprises in the CzechRepublic in 2012. It was found that enterprises are aware of the importance of the concept of sustainability to achieve corporate performance in the long term. However, sustainability is not integrated into individual business processes (especially by small and medium-sized enterprises), as research results demonstrated. Focus on the company's financial results is prevalent. Many enterprises do not work with sustainability within corporate strategy and management, and neither do they include sustainability in performance measurement and management. Reporting of sustainable corporate activities is very simple, especially for SMEs. A prerequisite for fully functioning corporate governance with regard to sustainability is a reflection of sustainability through the whole process of business management. Sustainability should become an integral part of strategic management and corporate planning.

Selection and peer-review under responsibility of DAAAM International Vienna

Keywords: Sustainability; corporate governance; corporate performance; non-financial reporting

* Corresponding author. Tel.: +420-377-633-211; fax: +420-377-633-002.
E-mail address: mhorova@kfu.zcu.cz

Selection and peer-review under responsibility of DAAAM International Vienna
doi:10.1016/j.proeng.2014.03.103

1. Introduction - Corporate governance and recent trends

The role of corporate governance is indispensable; every business needs a governing body that ensures that the enterprise is running in the right direction and running well. The importance of corporate governance dramatically increased at the beginning of the twenty-first century after a series of corporate fraud, managerial misconduct and negligence cases that caused a massive loss of shareholder wealth [1].

Corporate governance is usually defined as "procedures and processes according to which an organization is directed and controlled [2, 3]. Corporate governance includes the activities of the Board and its relationship with the shareholders, managers, but also with external parties such as auditors, regulators and other corporate stakeholders [4]. The corporate governance structure specifies the distribution of rights and responsibilities among these different participants in the organization (such as boards, managers, shareholders and other stakeholders) and lays down the rules and procedures for decision-making [5, 6]. Generally speaking, the Board has the power to decide what direction a company will take and how. Therefore, it is a factor that significantly affects business performance. OECD claims "it is one key element in improving economic efficiency and growth as well as enhancing investor confidence" [5]. So, corporate governance should be dealt with in ways to assure investors about the return on their investment [7]. Corporate systems and procedures should ensure accountability and ethics behavior too. Corporate governance covers many areas including reporting to owners, managers and other stakeholders.

There are many various definitions of corporate governance that have been produced during recent years. Definitions usually solve the behavioral patterns that are the actual behavior of corporations, in terms of performance, efficiency, growth, financial structure and treatment of shareholders and other stakeholders. On the other side, we can meet with another category of definitions that concerns with the normative framework that are rules under which firms are operating (rules coming from such sources as the legal system, the judicial system, the financial markets, and the factor (labour) markets) [8, 9]. We can also observe how the various definitions vary along with development in society and with response of the corporate theory and practice to this development.

There are changes in society, the thinking and behavior of people is changing, business environment is changing, with new trends and concepts being developed to which enterprises should react if they want to be successful. The process of internationalization, changes of technology and others are offering the possibility of creating higher values for the stakeholders [10]. In a global business environment, we are seeing different opinions calling for change of approaches to corporate governance and to control and manage companies in a way that will continue to achieve both effective performance and appropriate social accountability and responsibility, for example [11], or Kontes [12] states "traditional governance model is not appropriate for maximizing the company value in the long-term". Sustainability has become one of the world trends and a challenge for enterprises in recent years. The question is how businesses will respond to this challenge and how they can integrate this concept in corporate governance in order to obtain benefits.

2. Sustainability and its integration into corporate governance

Sustainable development was first defined by World Commission on Environment and Development as development that meets "the needs of the present without compromising the ability of future generations to meet their own need" in 1987 [13]. It refers to building a society in which an appropriate balance between economic, social and environmental goals is developed [14]. In order to achieve this goal, all three dimensions of sustainable development have to be satisfied, i.e. economic, environmental and social dimensions (the well-known approach called triple bottom line introduced by Elkington and others [15]). Integration of all three dimensions of sustainable development should be a condition for achieving long-term corporate sustainability. However, some authors emphasize economic dimension of sustainability as the most desirable because it provides financial strength and avoids conditions leading to an early demise of the business due to financial reasons, see [16, 17].

Sustainability could be also defined as a strategy of the process of sustainable development [18]. Corporate sustainability is understood as the ability of a company, through its governance practices and market presence, to positively influence ecosystems (improving natural resources, reducing pollution levels, etc.), society (supporting local populations, creating employment etc.) and economic development (distributing wealth through dividends, paying fair salaries, respecting supplier payment obligations etc.) [19]. Sustainability can also be perceived as a way