



Role of Respect Index in Managing a Company from the Energy Sector

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<http://doi.org/10.29227/IM-2018-02-03>

Abstract

RESPECT Index is the first responsible company index in Central and Eastern Europe. The index only includes companies which undergo a three-stage verification conducted by the WSE and the Polish Association of Listed Companies – the companies must also engage in high-quality communication with the market through current and periodic reports and on their websites. The aim of the article is presentation selected companies from the energy industry included in the Respects Index. The companies will be analyzed for responsible management, including the industry in which they operate.

Keywords: responsible management, Respects Index, energy sector, business models

Introduction

The Polish energy sector has been rapidly developing some interesting and advanced projects in the area of sustainable development in the last several years. They take into account the special role of the energy sector in economy, along with the strategic significance of companies operating in this area. A review of activities of companies functioning as part of the “Sustainable Energy” project shows various, strategically interesting approaches. Each of them may be a source of inspiration, not only for the companies from the industry [Report PWC 2015, 2016]. The perspective of changes and development challenges that the sector faces encourages one to ask questions on how to adjust the company’s activities to social trends and needs. The milieu of energy companies – on account of global and consumer-related trends – may soon experience various changes. The Corporate Social Responsibility (CSR) strategies should not only follow the situation, but get ahead of it, identifying such trends [Bluszcz, 2015]. In this context, dialogue is of key significance [Visser, 2008].

The CSR activities of energy companies contribute to creation of the “common value” and to solving significant social problems, e.g. excluded users. Taking into account the strategic significance of the energy sector and convergence of goals and public policies in various ranges (energy saving, pro-environmental behaviour, excluded users), it is worth considering whether some CSR activities should not be implemented jointly, as part of broader agreements and coalitions, including coalitions between companies and the governmental sector. This would allow for maximising the effects at reduced costs [McWilliams, Siegel, Wright, 2006; Report PWC 2012, 2013]. Building an adequate corporate

culture usually begins with determining a company’s vision and mission, which become the determinants of a company’s value and allow for specifying the objective of activities [Report Deloitte, 2014]. On the other hand, the goal is the guiding post for all decisions that are made [Eccles, Ioannou, Serafeim, 2011; Kotter, Heskett, 2008; Pohrybieniuk, 2014/2015]. Corporate culture is the value, attitudes, beliefs and expectations shared by most corporate members (fig.1).

Today’s corporate culture is very popular now. Corporate culture is one of the basic management functions. Managers need to change companies so that they have a chance of survival on the market. Managers are becoming increasingly aware that the world has turned its axis, making the necessary fundamental overriding of management orientation, in terms of the goals of operations and its functioning [Bąk, Sukiennik, Kowal, 2016; Dyllick, Hockerts, 2002].

Business objectives in the aspects of sustainable development

Energy industry representatives should meet several challenges [Report, 2012]. On the one hand, as well as the representatives of other companies fight for financial results, which often involves the financing of operating activities as well as the long-term investment process [Bak, 2007, 2008]. Challenges are addressing climate change regulation and the expectations of different stakeholder groups. The energy industry has identified three key success factors or pillars that influence the development of the economy. Education, innovation and cooperation are discussed. The importance of education is emphasized at every consultation meeting of energy companies. According to business representatives, education responding to the challeng-



Fig. 1. Model of organizational culture in company
Rys. 1. Model kultury organizacyjnej w przedsiębiorstwie

es and needs of the market is essential to achieving the goals of sustainable development. The key challenges of education are the way we teach, the subject matter, and, above all, the collaboration between academia and business. These aspects should be addressed both in the perspective of formal education, that is, conducted by schools and universities and informal, organized by enterprises and institutions. The next pillar is innovation, understood as the readiness to transform existing possibilities into new ideas and put them into practical use. Proinnovation attitude should reflect all business decisions. Business representatives emphasize that decision-making must be abandoned solely through principled cost-effectiveness for innovation, which is the key to long-term success. Innovative thinking and management allows not only to respond well to changes in the environment, but also to overtake them by looking for new opportunities. Signals for growth in outlays on innovation flow from the entire environment of power companies. They are stimulated by national and EU policies. It is also fueled by the available funds, emerging new business models and the desire to build competitive advantage. It is also important to be involved in investing in start-ups [Report, 2016]. The third, necessary pillar is cooperation. The goal of sustainable development is the common goal of the business and all other economic actors. Therefore, it is necessary to make joint decisions and actions. There is no way to achieve sustainable development without the synergy and synergies associated with it. Cooperation understood as co-deciding on certain activities and co-responsibility for their implementation [McWilliams, Siegel, 2001].

Lubelski Węgiel “Bogdanka” Spółka Akcyjna in Bogdanka (LW Bogdanka SA) is one of the leading Polish hard coal producers. It is also a leader in innovation and efficiency in the Polish mining industry. The mined thermal hard coal is used primarily for the production of electricity, heat and cement. It is still the only hard

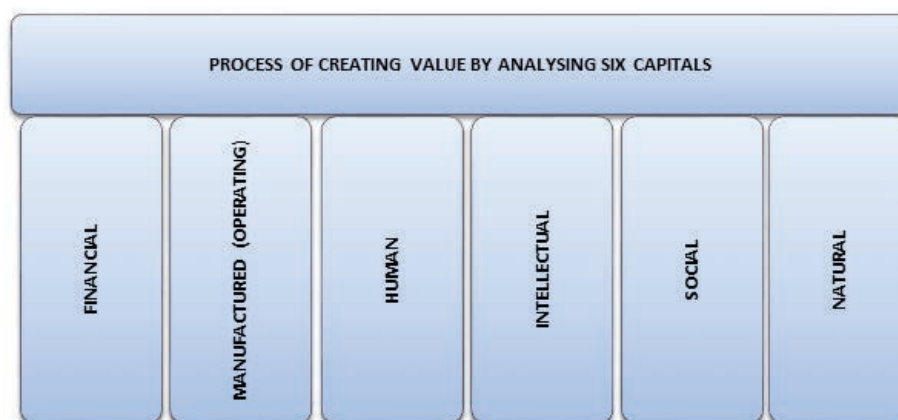
coal mine in Poland located outside the Upper Silesia area. And – in spite of the interest of foreign companies to invest in the region, declared in the media – the only active coal mine in the Lublin Coal Basin. The customers are mainly industrial companies, primarily entities operating in the power and heat industry, located in eastern and north-eastern Poland. The mining area of the LW Bogdanka Capital Group is divided into three mining fields:

- Bogdanka field
- Nadrybie field
- Stefanów field

and mine shafts are located in Bogdanka, Nadrybie and Stefanów (with output haulage shafts located in Bogdanka and Stefanów only).

The capital group created by LW Bogdanka SA includes Łęczyńska Energetyka Sp. z o.o. and three subsidiaries established in the years 2013-2014. The latter have taken over certain functions originally performed by the mine and are 100% owned by LW Bogdanka SA.

Łęczyńska Energetyka Sp. z o.o. operating within the capital group supplied heat to the mine and is responsible for its water and sewage management (drinking and industrial water supply, treatment of sanitary and rainwater sewage from the mine area). The company also supplies heat to external entities, such as housing estates or other facilities in Łęczna. This business activity, both in terms of turnover and employment, is small compared to the scale of the mine itself. Founded in 2013, EcoTRANS BOGDANKA Sp. z o.o. provides services related to the management of waste generated by washing and cleaning of carbonaceous shale, including its transport and logistics. The scope of activity of RG Bogdanka Sp. z o.o., established also in 2013, is the performance of services, deliveries as well as mining and construction works for the benefit of LW Bogdanka SA. The last subsidiary is MR Bogdanka Sp. z o.o., established in 2014, dealing with surface repairs and overhauls, including the re-generation and produc-



Img. 1. Process of creating value. Source: Own research based on Integrated Report 2016 Capital Groups Lublin Coals "Bogdanka"
Schemat 1. Proces kreowania wartości

tion of steel structures. This company also provides services to LW Bogdanka SA. Due to the fact that the scope of tasks performed by the companies described above was previously performed by the mine, these organisational modifications do not significantly change the nature of LW Bogdanka Capital Group's impact on its surroundings [Re-port, 2016].

A comprehensive approach to responsible management involves a holistic view of the organisation and its performance. One of the model approaches suggested by the Integrated Reporting Framework is to analyse the value creation process by analysing six forms of capital, which shows image 1.

This approach became the basis for the integrated report of LW Bogdanka Group for this year.

In addition to the characteristics of the business activity and its results, attention is paid to individual capitals, i.e.:

- accompanying forms of dialogue with the stakeholders,
- the relationship between each capital and the categories of business risk managed and controlled by the Group through a socially responsible management approach.

This approach makes it possible to present in a transparent way the relationship between daily operations and responsible management as well as between the development strategy and the implementation of the concept of sustainable development. In an industry such as mining, social and environmental problems cannot be averted. Neither can one fail to look at the short term, as it is precisely that today's activities and investments will translate into the preparation of deposits for extraction and mining opportunities in the years to come. In turn, the questions whether and which deposits will be extracted determine the time frame in which the mine can operate. Currently, the strategy of LW Bogdanka includes such an approach to the man-

agement of licences and production as to allow for conducting mining activities until 2050. This is important inasmuch as it directly affects the functioning of the communities of the Łęczna town and the nearby communes in which mining is carried out. These are thousands of people who have jobs because of the mine. These are also the taxes and parafiscal contributions paid by the mine, thanks to which local governments can carry out their activities. Mine production planning, with the use of unique and very innovative technologies related to, among others, modelling of the deposit and, more broadly, a whole range of solutions collectively referred to as the Intelligent Solutions Mine, make it possible to predict surface deformation, and thus subsidence processes causing changes in the natural environment. It also means forward-looking thinking about landscape management in relation to the storage of spoil rock as well as looking for solutions for its alternative economic use underground or out-side of the mining industry [Report, 2016].

All actions, all capitals, permeate and become interdependent in the long run. The ability to analyse them comprehensively as well as the process of continuous learning and improvement of overall management is a development strategy that is also a strategy for sustainability.

Priorities of the Jastrzębska Spółka Węglowa SA Group business development strategy

The JSW Group, as Europe's leading coking coal producer, is also a capital group which is still in a period of major changes, undergoing a particularly difficult and far-reaching restructuring process in the period between 2015 and 2017. The decisions made in the last few months, including a constructive dialogue with the stakeholders of the JSW Group, i.e. the public and banks/bondholders, have translated into a significant improvement of the performance and have opened up new perspectives for the stable development of the

JSW Group. It is the ambition of the management to use this progress as a basis for sustainability. Over the last few months, works have been carried out within the organisation on the Sustainable Development Strategy for 2017–2020, which will be consistent with the new business strategy. The work on the strategy completed to date follows the approach presented in the PN-ISO 26000 standard and consists in identifying both key areas of responsibility and key stakeholder groups. Currently, specific measures of goals and their values for the coming years are consulted with managers responsible for particular business areas in the organisation [Report, 2017–2012].

Providing JSW Capital Group customer with the highest quality coking coal and coke in a manner ensuring the growth of the value of the JSW Capital Group, taking into account the expectations of its stakeholders, using unique resources, competences and skills. The vision of the company are: strengthening the position of the leading coking coal producer and the leading coke producer on the European market, setting the directions for the entire industry through the highest standards of operation. Overarching strategic objective contain building the value of the JSW Capital Group, taking into account the principles of sustainable development in all business activities aimed at maximising value for the Shareholders. Strategic objectives include:

- Strengthening the leading position in the production of the best quality coking coal in Europe.
- Maintaining the position of a major coke producer in the European Union.
- Related diversification taking advantage of the synergies between the coal and coke industries.
- Ensuring the energy security of the JSW Capital Group.
- Improvement of the effectiveness of core operations, while taking into account responsible business standards.

For Strategic key levers belong:

- Maximisation of the production volume for major products.
- Development of the resource base.
- Investments and innovation.
- Increasing stability and competitiveness.
- Organisational improvement.
- Improvement of cost efficiency and an increase of margins.
- Energy security.
- Development and optimal use of human resources.
- Corporate governance, environmental care.
- Acquisitions and alliances

When considering its long-term, sustainable and

stable development, the JSW Group must focus first on the following activities:

- rebuilding its cash position and securing financing for development plans which are being formulated,
- continuation of projects aimed at increasing the share of coking coal in the output and development in prospective areas,
- optimisation of work organisation and improvement of profitability; more efficient use of JSW resources (EFFECTIVENESS Programme),
- optimisation of operating costs in the area of purchases, logistics and other areas affecting overall business costs,
- implementation of solutions which respond to or anticipate the growing expectations of JSW Group's customers (QUALITY Programme),
- implementation of a unified employment policy, building skill and knowledge base,
- continuation of activities increasing the responsibility of the JSW Group for the natural environment with the use of solutions and technologies ensuring environmental friendliness,
- improvement of supervision over the core business of the capital group and support areas,
- strengthening trustworthiness and adoption of an attitude aimed at honest and open dialogue in relations with the closest environment,
- cooperation with the scientific community and investments in research and development,
- improving communication with stakeholders as well as the image of the JSW brand as transparent, predictable, stable and reliable.

Many of these activities are related to social responsibility. After a period of far-reaching restructuring between 2015 and 2017, the JSW Group intends to focus on responsible and sustainable development through education, innovation and investments.

The foundations for the development of the JSW Group are as follows:

- highly qualified personnel base, focusing on achieving common objectives,
- high-performance machinery and mining automation equipment, well suited for the existing geological and mining conditions,
- maximum elimination of heavy physical labour by mechanising and automating as much of underground works as possible,
- implementation of modern information technology systems to improve technological processes, improve work safety, monitor the operation of machines and equipment and optimise production planning.

The key to bringing together not only the entire sustainable development strategy for 2017–2020 but also

the way of thinking about sustainability and responsible management is respect in the following 7 areas:

- life and health of people employed at the JSW Group,
- each and every man, employee community, but also the assets of the JSW Group,
- non-renewable natural resources, which we are obliged to extract and use as economically as possible, without wastefulness or treating them as a waste product,
- natural environment and the immediate natural environment of the local community inhabiting the areas where business activities are conducted,
- customers, their needs and expectations,
- transparency and fairness in action,
- science and scientists as well as other mines or mining-related companies, with whom the JSW Group wishes to collaborate on very specific research projects.

Innovation and development activities can provide an answer to many mining problems, including making the industry more friendly to its natural and social environment.

RESPECT Index as a project promoting the highest standards of responsible management.

RESPECT Index is the first responsible company index in Central and Eastern Europe. The project was launched by the Warsaw Stock Exchange in 2009 when the first Index was announced. The RESPECT Index portfolio includes Polish and foreign companies from the GPW (WSE) Main Market. Companies with the highest liquidity, i.e. included in the WIG20, mWIG40 or sWIG80 indices, may aspire to the index. The index only includes companies which undergo a three-stage verification conducted by the WSE and the Polish Association of Listed Companies – the companies must also engage in high-quality communication with the market through current and periodic reports and on their web-sites. The third condition is socially responsible behaviour towards the environment, communities and employees, which is reviewed on the basis of a survey verified by the project auditor – Deloitte. According to

the current formula, the audit of companies and review of the index composition is carried out once a year, in the second half of the calendar year. The shares of companies included in the index are determined according to the same rules as in the case of other stock exchange indices – free float shares are taken into account, with the weighting of the largest companies being limited to 25 percent when the number of participants is less than 20 companies, or to 10 percent in other cases.

For seven years now, LW Bogdanka has also made part of the prestigious RESPECT Index, comprising companies listed on the WSE's main floor, which to the highest degree satisfy the requirements regarding the respect for the natural environment, activities supporting the development and safety of employees and local communities, as well as corporate governance, information governance, and investor relations. The RESPECT Index group also enters JSW SA [Report, 2017-2020].

Conclusions

New business models, directions and methods of investment, and efficiency improvement are just some of the challenges faced by energy companies. Energy companies have to remodel their current approach and develop new business goals in line with the principles of sustainable development. The key and dominant role is played by human capital and interpersonal relationships that constitute the pillars of corporate culture. New business models of companies in the energy market require cooperation with new business partners.

Defining the business goal and company strategy, including the elements of innovation is a very important and necessary milestone on the way to success. However, this is not enough. Polish energy companies have already taken the first steps towards increasing innovation by defining business goals, and often also innovation strategies and first directional activities. The key challenges are still to define the assumptions for innovation or to plan budgets using modern financial management tools [Kowal, Kustra, 2016].

Acknowledgements

This paper was supported by AGH University of Science and Technology [nr 11.11.100.693].

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Rola Respect Index w zarządzaniu przedsiębiorstwem z sektora energetycznego

RESPECT Index to pierwszy odpowiedzialny indeks firm w Europie Środkowo-Wschodniej. Indeks obejmuje tylko firmy, które przechodzą trzyletnią weryfikację prowadzoną przez GPW i Polskie Stowarzyszenie Emitentów Giełdowych - spółki muszą również angażować się w wysokiej jakości komunikację z rynkiem poprzez raporty bieżące i okresowe oraz na ich stronach internetowych. Celem artykułu jest prezentacja wybranych firm z branży energetycznej zawartych w Respect Index. Firmy zostaną przeanalizowane pod kątem odpowiedzialnego zarządzania, w tym branży, w której działają.

Słowa kluczowe: odpowiedzialne zarządzanie, Respects Index, sector energetyczny, model biznesowy