THE USV ANNALS OF ECONOMICS AND PUBLIC ADMINISTRATION | VOLUME 24, ISSUE 2(40), 2024

SUSTAINABILITY AND CORPORATE GOVERNANCE IN BUSINESS

Florin BOGHEAN
„Ştefan cel Mare” University of Suceava, Faculty of Economics, Administration and Business, Suceava, Romania
florin.boghean@usm.ro

Abstract:
This study uses a wide range of qualitative data to detect some deeper attitudes in the relationship between sustainability, corporate governance and stakeholders. As a result of the analysis, we found that, although a number of changes have been made to the internal audit function in recent times, the role and importance of this function within entities will change as a result of digitalization and new challenges of the profession. The research approach was mainly based on a qualitative analysis of the relationship between sustainability and reporting information on specific standards. The research combines theoretical and empirical research. In order to benefit from punctual results and conclusions in the specific economic research activity, we aimed to analyze facts, economic events, figures and statistical data reported by a sample of companies listed on the BVB.

Keywords: sustainability*, corporate governance, internal audit, risk management, internal control.*

JEL classification: M41

Received 29 September 2024; Accepted 20 December 2024

1. REVIEW OF THE SCIENTIFIC LITERATURE

The essence of sustainable development is to provide for the basic needs of humankind in an equitable way, without violating the natural life systems on earth. This idea was framed as 'sustainable/sustainable development' in the early 1980s and came from a scientific look at the relationship between nature and society. The concept represents a concern for the future in terms of well-being and development opportunities. Sustainable development is a concept "that encompasses three of humanity's great goals, namely the right to health, wealth and justice" (René Kemp1 & Pim Martens, 2021).

A new field of sustainability science is emerging, which seeks to understand the fundamental nature of interactions between nature and society - at different scales - with a particular focus on the complex evolution of the nature-society system in response to multiple and interacting stresses (Rammel, C., Hinterberger, F. & Bechthold, U. 2004).

With the accelerated exploitation of our resources, sustainable development has become a priority for society, so that, with the awareness of the economic growth that can be achieved while preserving the well-being of the environment, the concept of sustainability has taken shape and meaning in the conception of society (Boghean F., 2024). In recent times, sustainability has become a topic that has an impact on business strategies as a response to the daily challenges that arise with the globalization phenomenon. As a result, companies are compelled to adopt sustainable practices that meet the legislative requirements, as well as in order to favorably increase the company's image (Dodu-Gugea, Zorina Șișcan, 2021). If we talk about what sustainability means, then we are referring to the ability of an enterprise to be able to conduct its economic activity in such a way that, on the one hand, it aims to generate profitability and maximize the value of the enterprise, and on the other hand, it fully assumes and respects the environment, society and the economic sector.

The importance of the concept is outlined by the numerous benefits it brings once adopted by large companies. Thus, if we refer to the environment, then an important aspect is the implementation of sustainable practices, which, through the efficient use of resources and waste reduction, can lead to economic growth. At the same time, by complying with a set of rules and regulations in terms of sustainability, it can have as a reverse, the avoidance of sanctions, as well as the correct management of risks that may arise in the environments in which they operate (Boghean F., 2022).

In our research we performed a bibliometric analysis, thus within the network of terms, we can observe the existence of 6 clusters, according to their relevance, where the frequency is highlighted by the size of the circles. Thus indicating that IR is closely related to sustainability, quality, governance, sustainability reporting, financial performance, and risk management.

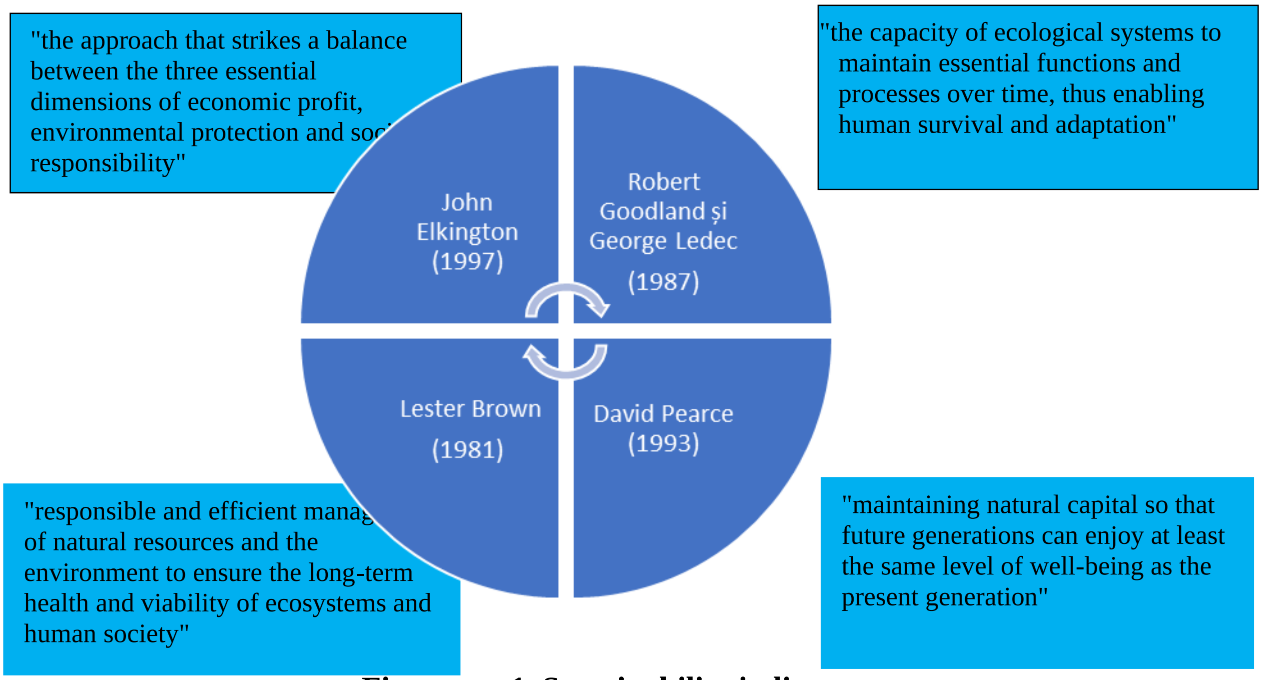


Figure no. 1. Sustainability in literature

Source: own processing

In our research we built a database for the period 2015-2024, selecting 600 articles by the keywords "sustainability" and "gouvernance". The resulting database was subjected to a bibliometric analysis using VOSviewer software to identify specific keywords of articles related to the topic based on the entire record. By setting the minimum occurrence rate of 5, the software found 124 keywords. The network of relationships between relevant keywords is represented as follows:

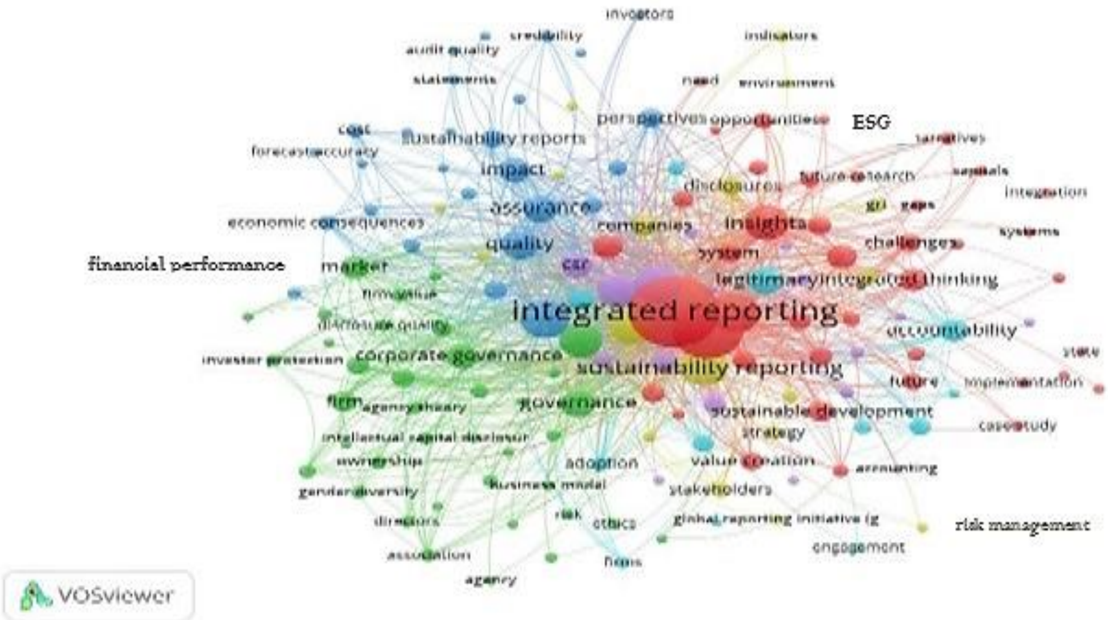


Chart 1. Bibliometric analysis of governance and sustainability key terms

Source: own processing

The first cluster is also the most complex, with a total of 41 terms and is illustrated in red within the keyword network. The main terms in this cluster are mainly focused on "sustainable reporting", "ESG", "governance", "sustainable strategies". The second cluster, represented by the green color in the keyword lattice, totals 58 terms and focuses on notions such as "business model", "ethics", "corporate governance" and "investment". The third cluster comprises the 27 blue key terms and brings the credibility of sustainability reporting as well as integrated reporting to the forefront, revolving around the following terms "impact", "audit", "environment", "sustainable consequences". The last cluster, colored in yellow, focuses on stakeholders and expectations of companies and consists of 44 key terms. These terms refer to issues such as "stakeholders", "engagement", "GRI", "global reporting", from which it can be inferred that stakeholders consider environmental, social and governance elements. It also indicates that investors are interested in investing in responsible companies.

Therefore, following the bibliometric analysis, it can be observed that, in most cases, socially, environmentally and governance responsible companies experience both sustainable development and significant financial performance generated by their positive image and continuous concern for the three ESG dimensions.

2. RESEARCH METHODOLOGY

The specialized literature defines the research methodology and the construction of the text of a paper as a "way" to be followed in the research activity to achieve the objectives, namely for information and training. To reach the goals of this research, I relied on a qualitative approach using a general-to-private approach. Regarding the human and social sciences, this research is based on the non-participant observation (Lesage and Wechtler, 2012), more precisely the inductive research method is applied, on the document analysis and on the comparison techniques. The research strategy addressed in the present research is dominated by certain methodological aspects, namely:

- inductive (experimental, quasi-experimental, observational) and deductive;
- comparative and non-comparative;
- qualitative and quantitative (Dumitru Zaiț, Alain Spalanzani, 2006).

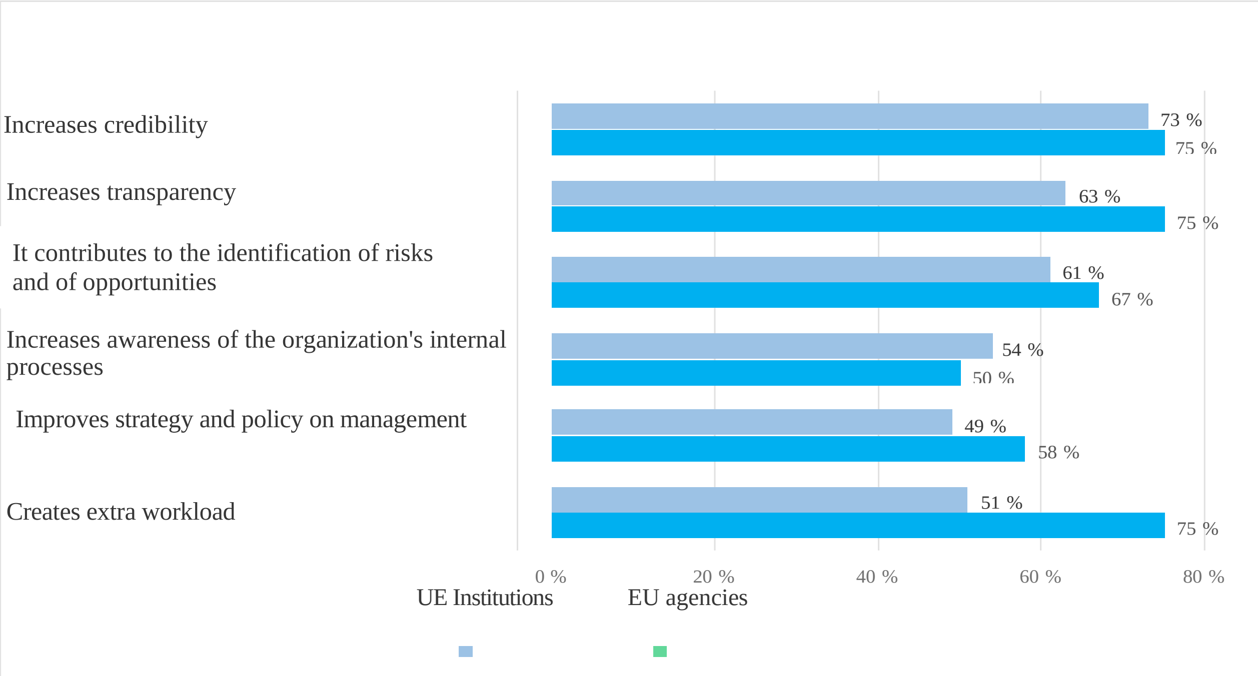
The research approach was mainly based on a qualitative analysis on the relationship between sustainability and reporting information on specific standards. The research combines theoretical and empirical research. In order to benefit from timely results and conclusions in the specific economic research activity, we set out to analyze facts, economic events, figures and statistical data reported by a sample of companies listed on the BVB.

3. INTEGRATING AND REPORTING SUSTAINABILITY IN THE BUSINESS ENVIRONMENT

The EU Directive on Corporate Sustainability Reporting puts the spotlight on integrating ESG commitments into a company's business strategy and mission, thus assessing the environment, society and governance (Delia Deliu, 2024).

The new European Directive on Sustainable Reporting or referred to as CSRD brings significant changes at the European level in terms of reporting by companies, as it aims for greater transparency and corporate accountability. In Romania, large companies are in a continuous process of developing their understanding of the GRI reporting framework.

In the sustainability report, the company should present the actions it has taken in the ESG areas on its priority list and show its progress against its targeted objectives. The presentation of relevant quantitative indicators, together with a presentation at a qualitative level, helps to illustrate progress, thus providing additional context to the data presented. It prescribes a number of issues arising from the reporting of non-financial information, which relate to the company's strategy and policies according to the business area of the company's current activities, non-financial key performance indicators, the management of risks that may arise in the day-to-day business, and the opportunities that come from ESG. Sustainability reporting comes to the aid of companies in the desire to provide a supplement to already reported financial statements by including a set of information on sustainable performance, reliability and credibility of the business in the financial markets. Companies will thus have to comply with the new EU directive and disclose non-financial information, depending on the category of company they belong to.



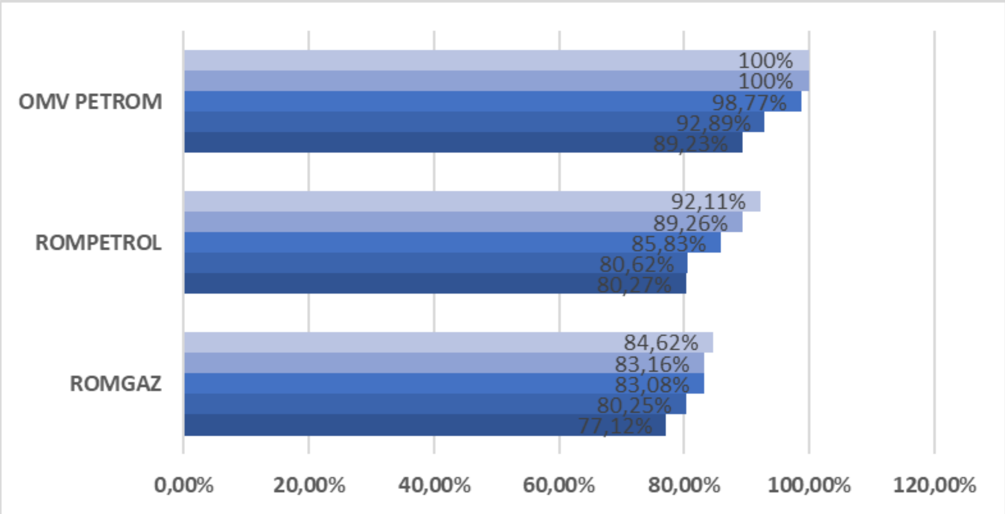
Graph 2. Advantages and disadvantages of sustainability reporting
Source: European Court of Auditors (ECA) 2021

The above chart has highlighted the potential benefits of sustainability reporting, particularly in terms of the level of credibility and transparency. However, the reporting of non-financial information creates an additional workload and also a significant budget required to carry out ESG activities in an appropriate manner, which can be seen as disadvantages. External assurance provided for sustainability reporting can enhance credibility as well as stakeholder confidence in the information provided. Strategies that focus on social and environmental impacts are a guarantee that they can generate added value by identifying risks and opportunities. Sustainability practices thus help to mitigate risks, strengthen the company's image and attract potential investors. The implementation of these sustainability practices targets all stakeholders by ensuring an effective management system.

4. RESULTS AND DISCUSSION ON SUSTAINABILITY REPORTING UNDER THE GRI FRAMEWORK

Sustainability and corporate governance practices are key to ensuring healthy turnover growth. The companies Romgaz, Rompetrol and OMV Petrom are eloquent examples of companies that have integrated sustainability and governance into their strategy, enabling them to maximize their turnover and thus strengthen their market position.

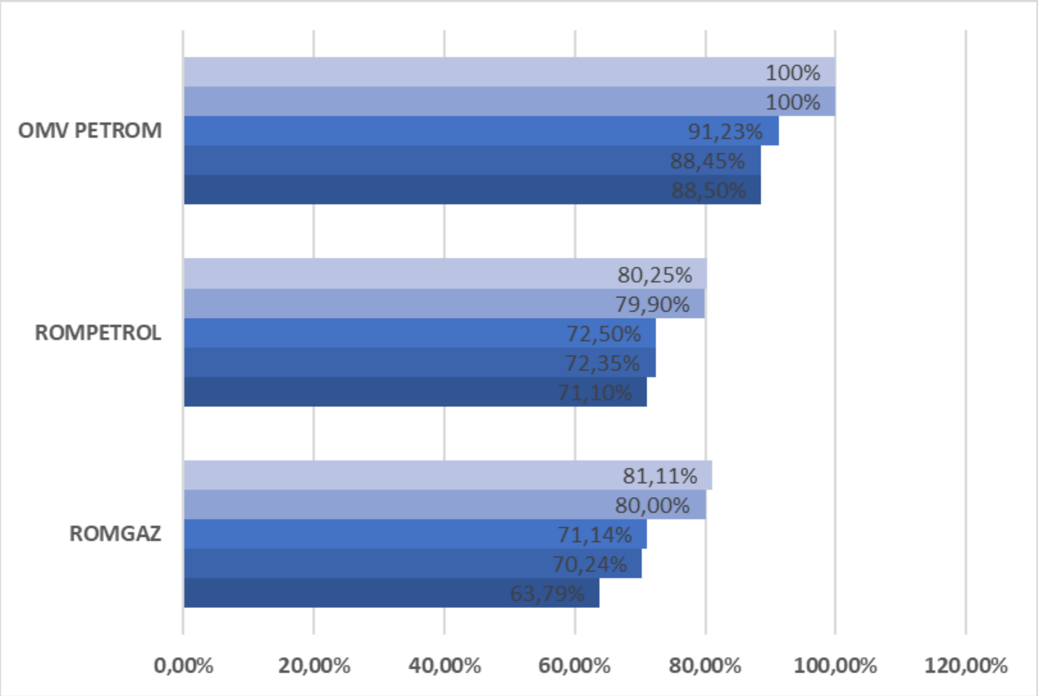
The analysis focused on the orientation towards publishing sustainability reports in line with GRI standards in order to achieve performance. In order to show the compliance of sustainability reports on ESG dimensions, a model based on scores from 1 to 3 in, being calculated in relative magnitudes, was used and applied to the GRI indicators. In order to obtain the maximum score of 3 points, companies must provide complete and systematic coverage of the elements analyzed. The score of 2 points is obtained by the company that partially complies with the requirements of the GRI Standard and therefore does not report detailed information on the three dimensions. The lowest score of 1 point, is obtained when at least one of the GRI elements was not mentioned in the sustainability reporting.



Graph no.3. Degree of compliance with GRI environmental elements for the period 2019-2023
Source: own elaboration

Chart 3 shows the degree of compliance of the 2019-2023 sustainability reports with the environmental elements required by the GRI framework for the three oil industry companies listed on the BVB. Thus, it can be noted that OMV Petrom presents a relatively maximum score of 100% in terms of compliance with environmental aspects, according to GRI reporting. The company stands out for an isomorphic, voluntary behavior, showing a high and constant degree of compliance for the period 2022-2023. There is an increasing trend for Rompetrol and Romgaz in terms of compliance, with Rompetrol reaching a score of 92.11% in 2023. This high score of more than 80%, obtained by the three companies in the analyzed period, can be explained by the fact that, being part of the industrial sector, they are obliged to comply with environmental regulations. Thus, in order to comply with environmental responsibility, the companies take into account aspects such as reducing carbon intensity in their operations and production processes and responsible management of greenhouse gas emissions. The company is characterized by isomorphic, voluntary behavior, with a consistently high level of compliance.

The companies are investing in low-emission equipment and programs, as well as in renewable energy generation through the development of wind farms and solar photovoltaic farms. By conducting responsible operations and implementing sustainable practices, OMV Petrom strengthens its leading position in the energy sector, thus contributing to the sustainable development of society. It also emphasizes responsible waste management and clean water management.

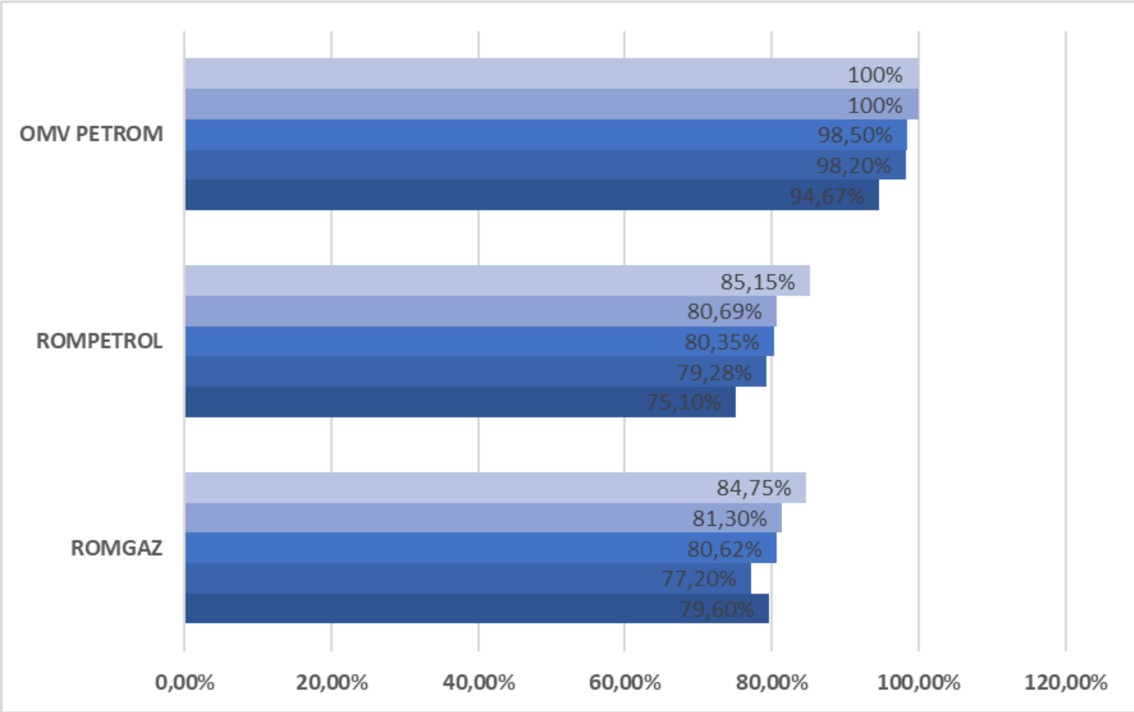


Graph 4. Degree of compliance with GRI social elements for the period 2019-2023

Source: own elaboration

Chart 4 shows the degree of compliance of the GRI social elements reporting for Romgaz, Rompetrol and OMV Petrom for the period 2019-2023. Thus, it can be noted that the maximum score of 100% is obtained by OMV Petrom company in the period 2022-2023, which indicates that the entity fully complies with the social sustainability elements, through the framework of GRI 401: Workforce, GRI 402 Labor Relations, GRI 410 Security Practices, GRI 412: Human Rights, etc. The lowest relative value of 63.79% is recorded by Romgaz company in 2019, but in the subsequent period it returns with significant increases, reaching 81.11% in 2023. As far as sustainability reporting is concerned, Romgaz aims to develop strong relationships with stakeholders by creating the premises for effective collaboration based on mutual respect.

Special attention is paid to occupational health and safety, so that employees have optimal working conditions with appropriate equipment. In order not to negatively affect sales and profitability, companies in the oil and gas industry use hedging strategies for stabilization as well as a diverse portfolio of products and services to meet market challenges. A focus on investing in renewable energy is recommended, as well as the development of strategic partnerships to adopt new efficient technologies and sustainable practices. At the same time, Rompetrol promotes ethical behavior by conducting training programs for employees based on the Code of Ethics and Integrity. In terms of social responsibility, the companies invest in community development programs as well as contribute to improving social engagement by promoting human rights and community values.



Graph 5. Degree of compliance with GRI corporate governance elements for the period 2019-2023

Source: own elaboration

Chart 5 shows the degree of compliance of sustainability reporting with the corporate governance elements for the period 2019-2023. The governance indicators analyzed were GRI 102: Overall Reporting, GRI 203: Indirect Economic Impact, GRI 205: Anti-Corruption, GRI 206: Anti-Competitive Behavior. It can be noted that in 2023 OMV Petrom reaches the maximum score of 100% with respect to governance, followed by Rompetrol with 85.15% and Romgaz with 84.75%. In terms of governance responsibility, the analyzed companies emphasize on promoting integrity, accountability and proper business management in an ethical manner. At the same time, they ensure transparency in the results obtained and promote fair treatment.

Romgaz, Rompetrol and OMV Petrom have robust internal control and ethics systems in place and each company has a well-defined governance framework. Although there are differences in the structure and operations of each company, they all aim to manage risks effectively, ensure transparency, accountability and contribute to sustainable development. Internal and external audit play an essential role in ensuring compliance and driving the business towards its targeted performance. Every company has internal audit department, which conducts regular audits to monitor and evaluate operational efficiency. At the same time, external audits are also carried out by audit firms to ensure the accuracy of the financial reports prepared.

Companies often face volatile fluctuations in oil and gas prices, which can have multiple causes, ranging from geopolitical and economic changes to supply and demand fluctuations. In order not to negatively impact sales and profitability, companies in the oil and gas industry use hedging strategies for stabilization, as well as a diverse portfolio of products and services to meet market challenges. A focus on investing in renewable energy and developing strategic partnerships to adopt efficient new technologies and sustainable practices is recommended.

At the same time, companies also face various operational risks, such as technical failures or problems in exploration and production activities or plant safety risks. Thus, companies are constantly investing in modern technologies and innovation for operational safety, as well as regular inspections and maintenance programs to secure equipment and prevent failures. Continued investment in advanced technologies for monitoring, development and regular testing of emergency response plans to respond quickly and effectively to hazards, and proactive maintenance to reduce technical failures are recommended. The governance codes are based on principles that outline transparency and accessibility in the reporting of financial and other relevant company information. They also emphasize accountability to stakeholders and management effectiveness and integrity.

The internal control systems implemented by the three companies have the same main objective, namely operational efficiency. Therefore, Romgaz complies with the Code of Ethics and Conduct which stipulates standards of behavior for employees, thus implementing processes for risk management and prevention, financial and operational controls. Rompetrol also promotes ethical behavior by conducting training programs for employees based on the Code of Ethics and Integrity. It uses control systems based on international standards, including various risk assessment and internal audit processes. As for OMV Petrom, it promotes, based on the Code of Conduct and Ethics, a working environment based on transparency and accountability. Thus, it uses a vigorous internal control system, including continuous monitoring and risk assessment processes.

5. CONCLUSIONS AND PROPOSALS

Corporate governance practice, as part of the central government's policy to attract investors, is based on two main strategies, based on striking a balance between laws, rules, codes and initiatives. These strategies are designed to promote effective corporate governance that ensures transparency, accountability and protection of the interests of all stakeholders in a corporate entity. The first strategy focuses on the development and implementation of a coherent and effective legal and regulatory framework. This consists of establishing laws and rules to govern the behavior and relationships between shareholders, the board of directors, management and other stakeholders. Through these laws and rules, the state aims to establish fundamental principles of corporate governance, protect the interests of minority shareholders and ensure a fair and transparent business environment. The second strategy is based on the adoption and promotion of corporate governance codes. These codes are sets of principles, rules and recommendations that go beyond minimum legal requirements and can be voluntarily applied by companies. They are guidelines and standards to which companies commit themselves to comply in order to improve their corporate governance practices. Corporate governance codes are an important tool for promoting a transparent, accountable and performance-oriented business environment. By balancing laws, rules, codes and initiatives, corporate governance practice aims to create a favorable framework for investors and support the sustainable development of companies. It involves ensuring transparency of information, accountability and ethics in the conduct of business, respect for shareholders' rights and prudent risk management. Through these strategies, the government aims to promote investor confidence, stimulate investment and contribute to long-term economic performance and competitiveness.

The results obtained from the analysis of company reports demonstrate that the level of adoption of non-financial reporting practices in line with the GRI framework is improving significantly each year. The benefits of increased performance on sustainability practices are highlighted in the analysis of the sustainability reports, which indicate that a high level of GRI reporting leads to an improved image of the companies analyzed, cost savings, and the attraction of new potential investors.

As a result of what has been analyzed on the corporate sustainability side, in order to meet market challenges and prevent the risks of unsustainable practices, a focus on continued investment in renewable energy and the development of strategic partnerships is recommended, with a view to adopting new efficient technologies and sustainable practices in the long term. It should also consider advanced technologies for monitoring, the development and regular testing of emergency response plans to respond quickly and effectively to hazards, and proactive maintenance to reduce technical failures. The paper intends to broaden the reporting vision of these companies and enable a better understanding of ESG and sustainability reporting.

With regard to the limitations of the research, one of them can be considered the small sample used compared to the total number of companies listed on the Bucharest Stock Exchange. This selected sector is essential in the national economy and can provide a representative perspective on the general evolution of the economy. Although we could not cover all companies, we selected a representative sample in an attempt to obtain the most relevant and robust results. We have taken into account the importance and weight of this sector in the economy, as well as the availability and accessibility of financial data of the companies analyzed.

As future research directions, I propose to extend the analysis of the samples of companies and sectors of activity, there are opportunities to develop the research in order to obtain a more detailed and comprehensive picture of the business environment in Romania. A first research direction could be to increase the sample of companies analyzed, to include a wider variety of activity sectors. Consideration could also be given to extending the analysis over time by tracking the evolution of indicators and compliance over several years. This would allow the assessment of long-term trends and the identification of factors influencing the financial performance of companies in different economic periods. In addition, future research may also explore the influence of other external factors such as tax policy, legislative changes or international market trends. These elements can have a significant impact on company performance and can provide useful insights for the development of effective government strategies and policies.

6. REFERENCES

1. Boghean F., (2024), *Importanța guvernanței corporative și a auditului intern în procesul de dezvoltare sustenabilă în industria lemnului*, Revista de Studii Financiare, Editura Mustang.
2. Boghean F., (2022), *The influence of internal control and risk management systems on information transparency and business sustainability*, The USV Annals of Economics and Public Administration, no 2(34).
3. Deliu Delia, (2024), *Valorificarea digitalizării și a tehnologiilor emergente de către auditor în furnizarea de asigurare cu privire la raportarea de sustenabilitate*, revista Audit Financiar, nr. 2.
4. Dodu-Gugea, Șișcan Zorina, (2021), *Trendul actual mondial de economie sustenabilă și formarea ecosistemului circular în Republica Moldova*, Revista Economica nr. 2.
5. Ghid privind raportarea dimenisunilor ESG, disponibil la https://bvb.ro/info/Rapoarte/Ghiduri/Ghid_privind_raportarea_ESG.pdf, [accesat la data de 09.05.2024].
6. Kemp R & Martens P., (2017), *Sustainable development: how to manage something that is subjective and never can be achieved?*, Sustanabillity: Science, Practice and policy.
7. Lesage C., Wechtler H., (2012), *An inductive typology of auditing research*, Contemporary Accounting Research.
8. Noua directive UE privind sustenabilitatea (CSRD) devine factor de schimbare, disponibil la: Noua directivă UE privind sustenabilitatea ("CSRD") devine factor de schimbare (ey.com), [accesat la data 15.03.2024].
9. Rammel C., Hinterberger F. & Bechthold U., (2004), *Governing Sustainable Development—A Co-evolutionary Perspective on Transitions and Change*, GoSD working paper 1.
10. Rapoarte de sustenabilitate 2019-2023 Rompetrol, disponibil la raportul-de-sustenabilitate-omv-petrom.pdf (omvpetrom.com), [accesat la data 12.06.2024].
11. Rapoarte de sustenabilitate OMV Petrom, disponibil la: Sustenabilitate (rompetrol.com), [accesat la data 19.06.2024].
12. Rapoarte de sustenabilitate Romgaz 2019-2023, disponibil la: Rapoarte anuale | Romgaz, [accesat la data 12.06.2024].
13. Raportarea de sustenabilitatea- Catalizator al schimbării, disponibil la: Raportarea de sustenabilitate - KPMG Romania, [accesat la data de 26.05.2024].
14. Zaiţ D., Spalanzani A., (2006), Cercetarea in economie si management, Editura Economică.