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PROVOCĂRILE ȘI PROBLEMELE SOCIALE ȘI ALE MEDIULUI ÎNCONJURĂTOR ALE COMPANIILOR DIN INDUSTRIA ENERGIEI

CHALLENGES OF SOCIAL AND ENVIRONMENTAL ISSUES OF COMPANIES OPERATING IN THE ENERGY INDUSTRY

Authors: **ANDREEA DINU**
e-mail: dinu1andreea19@stud.ase.ro
ELENA RALUCA LUPU
e-mail: lupuraluca19@stud.ase.ro
ALINA NEGRUS-COSTIN
e-mail: negruscostinalina19@stud.ase.ro
Scientific coordinator: **DRAGOMIR VOICU – DAN**
e-mail: voicu.dragomir@cig.ase.ro
Bucharest Academy of Economic Studies, Romania

Abstract. *The EU Directive 2014/95/EU requires large companies, including those in the energy sector, to disclose non-financial information, such as environmental, social, and governance (ESG) issues, in their annual reports. This has led many energy companies to integrate sustainability and ESG reporting into their overall corporate reporting. However, complying with the directive can present both challenges and opportunities for energy companies. This document aims to analyse the impact of integrated reporting on the value relevance of European energy companies. To accomplish this, we analysed three of the most significant companies in the energy sector: Haliburton, Schlumberger, and Baker Hughes. In their annual reports for the year 2021, each company applied European Directive 2014/95/EU. During the analysis, we paid close attention to the additional information regarding economic, environmental, and social issues. Particular attention was paid to the relationship between financial and non-financial information. In addition to the current condition, we focused on and evaluated the communicated future plans and visions for development in the areas listed below. Due to the application of content analysis, it was possible to assess the corporations using an evaluation matrix. Consequently, we evaluated the information contained in the reports and determined a quantifiable overall result.*

Keywords: *integrated reporting; energy sector; listed firms; accounting information; EU Directive 2014/95/EU, environmental, social, and governance*

JEL: M40, M41

Introduction

Directive 2014/95/EU, also known as the Non-Financial Reporting Directive (NFRD), is a regulation that requires certain companies to report on their social, environmental, and governance (ESG) performance. The directive applies to large public-interest entities with over 500 employees, including companies in the energy industry. (From voluntarism to regulation: effects of Directive 2014/95/EU on sustainability reporting in the EU, 2021; Philipp O, 2021)

Integrated reporting is a framework that brings together financial and non-financial information in a concise and comprehensive manner. It provides a holistic view of a company's performance, including its ESG performance. By using an integrated reporting approach, companies can provide a more complete picture of their business operations, and how they are addressing social and environmental challenges. Integrated reporting also helps companies to identify risks and opportunities related to their sustainability performance. By integrating ESG information into their reporting, companies can better understand their impact on the environment and society and identify ways to improve their sustainability performance. Overall, integrating reporting can help companies to comply with Directive 2014/95/EU by providing a comprehensive view of their ESG performance and demonstrating their commitment to sustainability. (Cristina Alexandrina ŞTEFĂNESCU, 2021)

The NFRD requires companies to report on a range of ESG issues, including environmental impact, social and employee matters, human rights, anti-corruption, and diversity on boards. Companies must provide a description of their policies, outcomes, risks, and targets related to these issues.In the energy industry, companies must report on their environmental impact, including their carbon footprint, water and air pollution, waste management, and biodiversity conservation. They must also disclose their efforts to transition to renewable energy sources and reduce their greenhouse gas emissions. Social issues that companies in the energy industry must address include labour rights, working conditions, health and safety, and community engagement. Human rights and anti-corruption are also critical issues that energy companies must address in their reporting.

In summary, the NFRD applies to the energy industry and requires companies to report on their ESG performance, including their environmental impact, social issues, human rights, and anti-corruption efforts.

It seems that the energy and utility sectors are recognizing the urgency of addressing sustainability concerns and taking significant steps towards achieving their net-zero carbon objectives. It is commendable that nearly half of the executives in these sectors have committed to net-zero carbon objectives, and that sustainability is a top concern throughout the manufacturing process. This shows that companies in the energy industry are taking their social and environmental responsibilities seriously and are working to transition towards a more sustainable future (Cosmulese, 2022). However, it is important that these commitments and concerns are translated into concrete actions, and companies must continue to work towards reducing their carbon footprint and addressing social and environmental challenges in their operations.

In recent years, academics have talked about social and environmental disclosure, and many researchers and practitioners have tried to figure out what organizations do to make sure they're economically, socially, and environmental sustainability (Socoliuc et al., 2020). More than 90% of the 250 biggest corporations in the world provide non-financial data to show they are acting responsibly on matters of governance, social responsibility, and the environment. (Niloufar Fallah Shayan, 2021)

Despite a huge increase in corporate SED, the bulk is still given voluntarily. At both the academic and policy levels, the argument over whether disclosure should be optional or required is still relevant. In fact, some academics advocate obligatory SED because it can address the lack of impartiality, objectivity, and comparability across enterprises; on the other hand, many scholars favour voluntary SED since it gives greater flexibility for companies' individual circumstances and requirements. (Blerita Korca, 2021)

This law aims to guarantee that firms provide uniform, comparable, and pertinent information on social and environmental concerns (EU, 2014). Public interest enterprises (PIEs), large companies, and organisations with more than 500 employees are all covered by the EU Directive.Organisations are required by this European law to report on issues relating to the environment, social concerns, employees, human rights, and diversity, as well as issues relating to anti-corruption and bribery. The structure of the disclosures that companies use in this reporting is up to them. To help businesses publish non-financial and diverse information, the EU has established non-binding recommendations (Torelli, 2020).

The outside business environment has changed a lot and becomes more complicated, but traditional corporate financial reporting can't keep up with these changes because of its many flaws and limitations, such as its short-term focus, lack of coherence, complexity, and lack of non-financial information (like social, health, carbon emissions, and labour rights). Integrated Reporting (IR), a new strategy for corporate communication, has received a lot of attention recently as a way to get over these limits (Renato Camodeca, 2018).

By strengthening responsibility and stewardship while also improving the quality of the information delivered to stakeholders, IR might meet their needs (Ciubotariu et al., 2021). IR encourages a more unified, succinct, and effective corporate reporting strategy and improves resource allocation in the decision-making process, demonstrating how firms can build value over time (Aceituno, 2013).

A nation's economic development is directly tied to the energy industry, which in turn influences numerous other fields. Therefore, the economic, monetary, social, health, and ecological implications must be taken into account. In order to increase their corporate social responsibility and generate long-term value for their users and stockholders, energy companies should incorporate their political, economic, social, and environmental goals and actions into their strategies, operations, and financial reports. Given the significance of IR to businesses, a number of scholars have attempted to illuminate its effects on those in the energy industry.

The research by Szczepankiewicz and Mucko, which examined the CSR reporting practices of Polish energy companies, found that sustainability reports garner considerable interest from stockholders but display wide variation in terms of method and subject matter. The quality, consistency, verifiability, speed, and understandability of the data may all suffer as a result of these inconsistencies in the content. (Szczepankiewicz, 2016)

Romolini et al. examined the reliability of social data reported by companies in the energy and services industries. More specifically, they compared the quality levels of Italian, American, and Chinese power, mining and metals, and oil and gas companies by analysing the data revealed in their respective social reporting. Managers' views on how their companies can become more environmentally and socially responsible affect the accuracy of the data they collect. International deals affecting the global ecosystem, such as the Kyoto Protocol, have increased businesses' focus on environmental problems. There is little opportunity for socially beneficial actions to be taken in the areas of working circumstances, labour practices, the health and safety of workers, and employee training and education. Contrary to the priorities of Italian and American businesses, which are focused on workplace safety and health, training and education is of greater importance to Chinese companies. In the energy industry, product accountability receives less focus.

Findings show that only Chinese companies are more concerned with product accountability. They use social sharing to boost international recognition of the standard of their products and services. (Szczepankiewicz, 2016)

Companies in Europe's mining, oil, and gas extraction sectors give special attention to reporting on their social and environmental impacts. Their activities have a significant effect on the environment, and as a result of social pressures, they are more likely to report on their environmental and social actions than companies in any other industry. Gianluca conducted a content study of the reports of 15 European Union companies operating in the energy, gas, and mining industries (including Switzerland). This study found that businesses did reveal environmental details in their reports, including details about their ecological performance initiatives, energy economy, improvements, and asset dependability. Information about the safety and health of staff members and investment in building new skills and competencies are examples of the social element of their activities. (Gianluca, 2021)

Research and practice have emphasized the increasing need for businesses to legitimize their actions and react more adequately to the growing information requirements of stakeholders. The inadequacy of traditional financial reporting tools to meet these needs has prompted companies to disclose non-financial information on a mandatory or voluntary basis (Cosmulese, 2019). Consequently, a number of national and international organizations have proposed various frameworks to assist companies in the disclosure of non-financial information (e.g., social, environmental, governance, etc.) and the implementation of non-financial disclosure (NFD) practices. The objectives, focus (on all ESG aspects or only on some of them), methodology, content, structure, dimensions considered, etc. of these frameworks vary. Despite this, all these frameworks have at least one thing in common: they all cite comparability as a fundamental NFD principle.

Overall, the impact of the NFRD on sustainability reporting in the energy sector has been positive, with increased transparency and accountability of companies with regard to their sustainability performance. However, there are challenges related to data quality and comparability, as well as compliance costs, that need to be addressed to ensure the effectiveness of the directive.

Basic content

In our research project, we studied and evaluated three of the biggest companies from the energy sector, those are Haliburton, Schlumberger (SLB), and Baker Hughes. All the companies applied the European Directive 2014/95/EU in their annual reports for the year 2021.

We paid particular attention to the extra data on economic, environmental, and social issues during the investigation. In particular, the relationship between financial and non-financial information was taken into account. Beyond the existing context, we subsequently focused on and assessed the shared future goals and objectives for advancement in the following areas.

We chose these companies due to the fact that oil and gas are non-renewable minerals and given the fact that we live in an era where global warming is a stress factor, we wanted to observe how these firms are responding to sustainability trends and also the needs of this planet. Furthermore, given the fact that these companies work in heavy industries, our concerns were related to the human and safety risks of the people who work for these firms.

In the reporting outcomes, we've previously talked about the quality of non-financial reporting. The next step is to connect this to the directive's qualitative aspect. We evaluate the completeness of the implementation in this situation. For each subject, reported, we provide one point.

Table 1: Social and environmental analysis of Halliburton, SLB and Baker Hughes

	Item/ Category	Halliburton	SLB	Baker Hughes
	Business model			
1.1	Strategy and objectives. Business development	1	1	1
1.2	Organisational structure / Subsidiaries or segments	1	1	1
1.3	Main products and services delivered to customers	1	1	1
1.4	Presentation of markets and main customers	1	1	1
1.5	Main competitors	1	1	1

1.6	Factors that can influence the future of the organization	1	1	1
1.7	Relations with business partners	1	1	1
1.8	Production methods for sustainable development	1	1	1
1.9	Innovation and research activities	1	1	1
2	Social Aspects			
2.1	Policies regarding health and safety at work / OHSAS 18001	1	1	1
2.2	Gender diversity (women in the workforce)	1	1	1
2.3	Employee training	1	1	1
2.4	Aspects related to employment: age groups, education, career management	1	1	1
2.5	Work satisfaction	1	1	1
2.6	Employee remuneration	1	1	1
2.7	Work accidents and professional illnesses	1	1	1
2.8	Staff turnover	0	0	1
2.9	Trade union rights	1	1	1
2.10	Quality management/ISO 9001	1	1	1
2.11	Customer satisfaction	1	1	1
2.12	Consumer safety and emergency situations	1	1	1
2.1	The protection of vulnerable consumers and personal data security	1	1	1
2.2	International relations and collaborations	1	1	1
2.3	Sponsorship policy and specific initiatives	1	1	1
2.4	Awards and affiliations, other than international relations	1	1	1
2.5	Fines, penalties, public scandals, and litigation	1	1	1
3	Other environmental			
3.1	Policies, procedures, and standards related to environmental protection/ISO 14001	1	1	1
3.2	Energy consumption by type and source	1	1	1
3.3	Other air emissions, including noise pollution	1	1	1
3.4	Use of mineral resources, soil, land	1	1	1
3.5	Use of water	1	1	1
3.6	Water pollution and effluents (wastewater)	1	1	1
3.7	Protection of biodiversity and responsible forestry	1	1	1
3.8	Waste management	1	1	1
3.9	Environmental inspections, taxes, and fines	1	1	1
3.10	Environmental impact of product and service use - Scope 3 (other than carbon emissions)	1	1	1
3.11	The development of ecological products and services	1	0	0
3.12	Employee training for environmental protection and disaster prevention	1	1	1
4	Climate Change			
4.1	Direct (Scope 1) GHG emissions	1	1	1
4.2	Energy indirect (Scope 2) GHG emissions	1	1	1

4.3	Other indirect (Scope 3) GHG emissions	1	1	1
4.4	GHG emissions intensity (Emissions / other performance indicators)	1	1	1
4.5	Reduction of GHG emissions	1	1	1
4.8	Policies regarding the reduction of emissions	1	1	1
4.9	Climate Change Commercial Risks & Opportunities	1	1	1
5	Risk			
5.1	Competitive environment (risk associated with evolving market trends)	1	1	1
5.2	Risks related to procurement, logistics and supply chain	1	1	1
5.3	Governance risk (including corporate culture, ethics and reputation)	1	1	0
5.4	Corruption, fraud, and money laundering risk	0	0	1
5.5	Bankruptcy risk	1	1	1
5.6	Operational and technological risks	1	1	1
5.7	Environmental risks (including climate risks)	1	1	1
5.0	Human resource risks (including health and safety risks, and union action)	1	1	1
5.9	Tax risks (compliance with tax regulations)	1	1	1
5.10	Currency risk	1	1	1
	Total (Max 55)	53	52	53

Source: own elaboration

Conclusions

Our research on the quality of non-financial reporting in the technology-driving energy industry was conducted on Haliburton, SLB, and Baker Hughes and has as an outcome the idea that the companies operating in the energy sector stated above are trying to comply with the EU Directive 2014/95/EU, these companies are concerned with social and sustainable issues and the integrated and sustainability reporting.

The companies selected have reached most of the items decided on for the quality of the non-financial reporting. As it can be seen below, in the Fig.7 Results of social and environmental analysis of Halliburton, SLB and Baker Hughes, the outcome shows that out of the 55 items, Haliburton reached 53 of them, SLB reached 52 of them, and Baker Hughes reached 53 of them. In other words, Haliburton is missing 2 of the items selected for determining the quality of the non-financial reporting relating to the companies in the energy industry, while its competitors SLB and Baker Hughes are missing 3 and respectively 2. These results represent the responsibility of the companies for the impact they have on social, sustainable, and environmental issues and the value of the information disclosed is an indicator of how well they are fulfilling that responsibility.

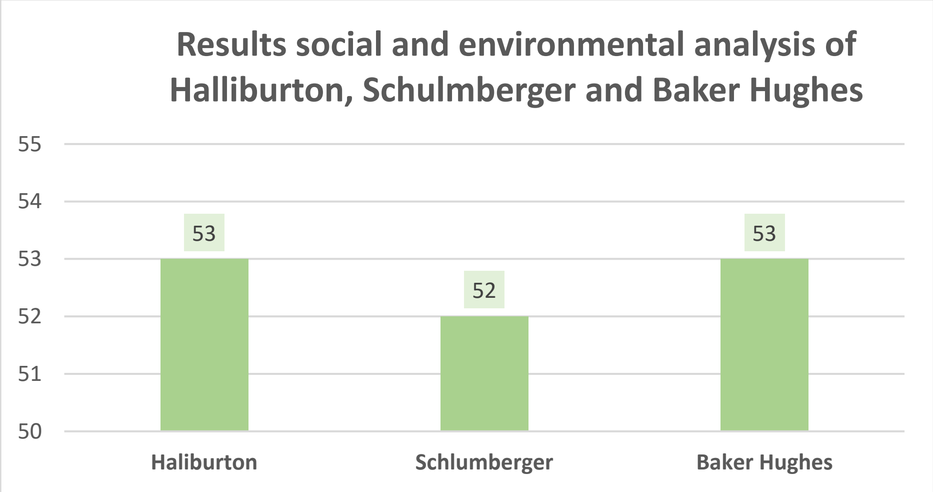

Fig.1 Results of social and environmental analysis of Halliburton, SLB and Baker Hughes

Source: Own elaboration

Relating to the missing items for the companies analysed we can affirm that certain aspects do not interfere to a great extent with the directive, but some are especially important and should be taken into consideration.

In regards to the social aspects, the staff turnover is missing both for Haliburton and SLB. Staff turnover is important in order to understand how the company treats its employees and what measures are in place to promote employee retention and satisfaction.

In the environmental part is missing the development of ecological products and services for SLB and Baker Hughes, the development of such products and services is often a critical component of a sustainable energy strategy. It is important to understand the company's efforts in developing ecological products and services, particularly since the companies operate in the energy industry.

It's possible that the company did not make significant progress in developing ecological products and services during the reporting period, and therefore did not feel it was noteworthy to include them in the report. However, the development of ecological products and services is particularly important for the companies in this industry, especially in order to help them achieve their emission goals for Scope 1, 2 and 3.

And the last 2 items missing in the sustainable report of the companies analysed are the Governance Risk and the Corruption, fraud and money laundering risk. It is important for stakeholders to understand the company's governance practices and risk management strategies, particularly with respect to risks such as corruption, fraud, and money laundering.

Table 2. Items Missing

	Item/ Category	Halliburton	Slb	Baker Hughes
2	Social Aspects			
2.8	Staff turnover	0	0	1
3	Other environmental			
3.11	The development of ecological products and services	1	0	0
5	Risk			
5.4	Governance risk (including corporate culture, ethics and reputa	1	1	0
5.5	Corruption, fraud, money laundering risk	0	0	1
	Total	2	3	2

Source: Own elaboration

So we could state that compliance with the Non-Financial Reporting Directive (NFRD) can present energy companies with both challenges and opportunities. Among the most important challenges and opportunities are:

Challenges: Data Collection and Reporting: Collecting and reporting accurate, reliable, and consistent data on ESG issues is one of the greatest challenges for energy companies. Complex operations and supply chains may make it difficult for energy companies to monitor and report on all relevant ESG metrics.

The cost of complying with the NFRD can be considerable, particularly for smaller businesses. Compliance may necessitate new systems and procedures, additional personnel, and outside assistance, which can strain available resources.

Integration with Existing Reporting Frameworks: Energy companies may already report on ESG issues using existing reporting frameworks such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB). Companies may be required to align their reporting with the directive's specific requirements in order to comply with the NFRD, which can be challenging.

Opportunities: Compliance with the NFRD can afford energy companies the opportunity to engage with their stakeholders on sustainability issues in a more productive manner. This can aid in fostering trust, enhancing reputation, and propelling positive change.Energy companies that comply with the NFRD and demonstrate strong ESG performance may have an advantage in recruiting customers, investors, and talent. Compliance with the NFRD can assist energy companies in identifying and managing ESG risks, including climate change, human rights, and malfeasance. This can increase long-term value and decrease reputational hazards.

Alignment with International Standards: Adhering to the NFRD can assist energy companies in aligning their reporting with international standards and best practices, thereby enhancing the comparability and uniformity of sustainability reporting across the sector.Complying with the NFRD can be a difficult process for energy companies, but it also offers significant opportunities to improve sustainability performance, engage stakeholders, and acquire a competitive advantage. Energy firms can improve their ESG performance and contribute to a more sustainable future by addressing the obstacles and capitalizing on the opportunities.

Companies in the energy industry are growing concerned with social and sustainable problems, as well as integrated and sustainability reporting, in order to ensure compliance with EU Directive 2014/95/EU. The rule mandates that major corporations report on environmental, social, and governance (ESG) matters alongside their financial performance. To address this, a growing number of energy firms are incorporating sustainability and ESG reporting into their standard corporate reporting and prioritizing the enhancement of their sustainability performance. These businesses can improve their standing in the community, earn the confidence of their stakeholders, and set an example for other businesses by committing to responsible and environmentally friendly procedures.

Consistent with the result of our research we can look at the results of the analyses made by Andreas Errikos Delegkos, Michalis Skordoulis, Petros Kalantonis and Aggelia Xanthopoulou in the article, `Integrated Reporting and Value Relevance in the Energy Sector: The Case of European Listed Firms`, in this research it was also determined that IR in the energy sector reflects the responsibility of firms for their impacts on the environment and society, and the quality of information disclosed is an indicator of the degree to which they fulfil this responsibility. Due to their deficiency, sustainability reports fail to correlate environmental, social, and governance issues to business strategy and performance. Traditional financial information is insufficient for assessing the social and environmental impact of a company on its community. IR combines economic and financial data with information pertinent to environmental, social responsibility, and corporate governance by providing the complete spectrum of material risks and opportunities, market context, and drivers that firms must comprehend in order to respond.

The findings of the study mentioned above highlight the significance of IR for energy companies, given their impact on numerous aspects of contemporary economies and societies. IR is a potent instrument that can aid energy companies in redefining their strategy and incorporating sustainability into their operations. Consequently, stakeholders will have improved access to information regarding a company's strategies, as integrated reporting can provide the necessary transparency. At the same time, energy companies can enhance their capital allocation and gain access to capital markets and business partners.

In addition, IR can increase the cost-effectiveness of energy companies, which, along with the above mentioned advantages, can result in competitive advantages. Thus, it is proposed that businesses develop all the necessary mechanisms to implement IR. (Andreas Errikos Delegkos, 2022)

In conclusion, although NFRD compliance can be difficult for energy businesses, it also offers substantial chances to improve sustainability performance, involve stakeholders, and obtain an edge in the market. Energy businesses can improve their ESG performance and contribute to a more sustainable future by tackling the challenges and capitalizing on the opportunities.Finally, upcoming studies may consider how the present energy crisis has affected the disclosures made by energy companies in their IRs and how that has affected their goals and actions on social and environmental issues.

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