

A MATCHING ANALYSIS OF ESG INFORMATION DISCLOSED IN SUSTAINABILITY AND FINANCIAL REPORTS OF HIGH-POLLUTING COMPANIES FROM THE OIL INDUSTRY

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Abstract: *The financial world has a prominent role to play in the global economic action plan. The financial sector together with stock exchanges around the world promotes sustainability, environmental (Environmental), social (Social), and governance (Governance), i.e. ESG factors, and the importance of incorporating them into investment decision-making and capital allocation to sustainable assets. The purpose of the undertaken study is to observe and analyze the extent to which the commitments made through the Sustainability Reports materialize and have financial quantifications in the Annual Financial Reports published by three large companies in the oil sector. The OMV Petrom ESG disclosure score determined based on the information in the sustainability report is very close to the ESG estimates score calculated from the financial report, which allows us to consider that the commitments in the sustainability report have been achieved.*

Keywords: *sustainability; annual reports; ESG; accounting estimates.*

JEL codes: *M41; Q56*

1. Introduction

In the global capital markets landscape, the integration of ESG (Environmental, Social, and Governance) criteria into capital allocation decisions by large investors has become a dominant theme. Investors place more emphasis on non-financial criteria, such as environmental impact, social relationships: relationships with employees, suppliers, and other partners, or the implementation and application of the highest standards of corporate governance to the analysis of companies in their investment universe.

Aspects regarding ESG are integrated into several areas of a company's operations, which has led us to seek the answer to the main research question if we can identify aspects of the Sustainability Report that also appear in the Annual Reports in the section accounting policies or accounting estimates. The specific questions consider how the ESG information is presented in the sustainability reports and whether it is quantified in the annual reports. Addressing issues concerning the ESG components

of these companies may be a guideline to entities that do not yet need to submit sustainability reports, but in the future will need to produce these reports.

2. Literature analysis

The ESG acronym was developed in 2004 by 20 financial institutions in the "Who Cares Wins" report (IFC, 2004) to respond to a call launched by Kofi Atta Annan, the 7th Secretary General of the United Nations. (Gillan, Koch, & Starks, 2021). Non-financial reports have become increasingly popular among investors because they can meet informational needs better than traditional financial reports. Financial crises and growing concerns about social and environmental consequences have dramatically increased external pressure on companies for more responsibility. (Manes Rossi, et al., 2018) ESG is a methodology for evaluating a company's environmental, social and governance performance. ESG evidence to indicate that their business model is not only profitable, but also responsible or sustainable is published by numerous companies. This reporting helps understand an organization's ESG issues, opportunities and impact. ESG scores have the greatest influence on energy sector stock returns. (Nitlarp & Kiattisin, 2022). The firm's ability to raise funds and attract investors is affected by its focus on ESG factors, so ESG aspects will affect a company's business strategy, operations and long-term value. However, many of these discussions do not mention any associated impact on a company's accounting estimates and financial statements. Potential effects of ESG aspects on a company's accounting and financial reporting in the context of existing accounting guidance and the current regulatory environment together with factors such as relevant regulatory, legal and contractual obligations, all entities should assess the financial and reporting implications of ESG accounting. (Knachel, et al., 2021)

3. Research Methodology

The mixed research (qualitative and quantitative) is based on a comparative analysis between the annual reports and the sustainability reports carried out through an in-depth analysis of the frameworks, which were obtained from the official websites of the companies, respectively from the stock exchanges where they are listed. The companies were selected from the oil industry based on the ESG scores calculated by Refinitiv, displayed on 25.02.2023. The main selection criterion was the presentation of sustainability reports starting with at least 2017 and the second selection criterion was that, geographically, they should be as close as possible to Romania. Therefore, we found that in Bulgaria, Serbia, Moldova, and Ukraine there are no companies in the oil industry to submit Sustainability Reports for our research period. The companies that met the criteria are OMV AG – Austria (ESG Score 85.25), OMV Petrom SA- Romania (ESG Score 74.33), Mol Magyar Olaj- és Gázipari

Nyrt – Hungary (ESG Score 66.86). The selected companies are relevant in terms of environmental impact, the oil sector being a sector with a high degree of pollution.

4. Results

For each ESG pillar, six themes were selected, which reflect the performance of a company in the specific field. The pillars of the sustainability reports and financial figures in the annual reports are presented in Figure. 1.

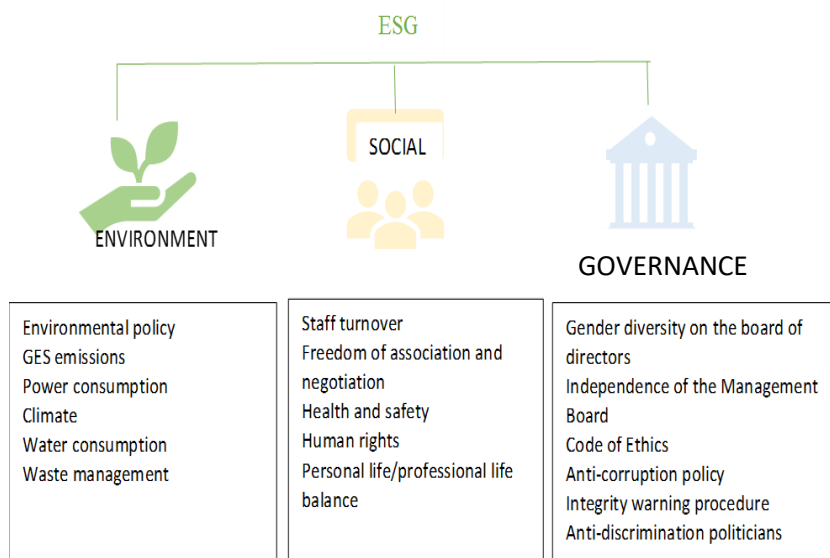


Figure. 1 – Aspects related to ESG researched

Source: author's projection by adapting the information from the BVB - Guide on ESG reporting-April 2022

For data analysis, we built two matrices. The matrix of scores awarded on the analyzed categories with the data collected from the Sustainability Reports, awarding the scores according to the definition given in the research methodology. Fig. 2 shows the points awarded from the two matrices. We built the map of the marks awarded with the help of the RACI Matrix program, to present the clouds of points regarding the fields under research. From this clouds matrix, we can read that most of the maximum marks (note 4) but also the most minimum marks (note 0) were given to the corporate governance pillar (blue dots), many minimum points were awarded because in the annual reports, we did not find information related to anti-corruption expenditure, nor for anti-discrimination expenses, which does not mean that these topics are not of the interest of companies.

Combating discrimination is an important and sensitive topic, and companies must take responsibility for creating a fair and non-discriminatory working environment for all their employees. The fight against corruption is also an important and sensitive issue in all companies. As regards MOL, MOL should take measures to prevent and fight corruption in all its forms, including corruption in the procurement process, in relations with customers, or relations with public authorities. The additional measures Mol could take would be to ensure transparency and integrity in the procurement process and decision-making, to ensure that there are no conflicts of interest and that all suppliers are treated fairly.

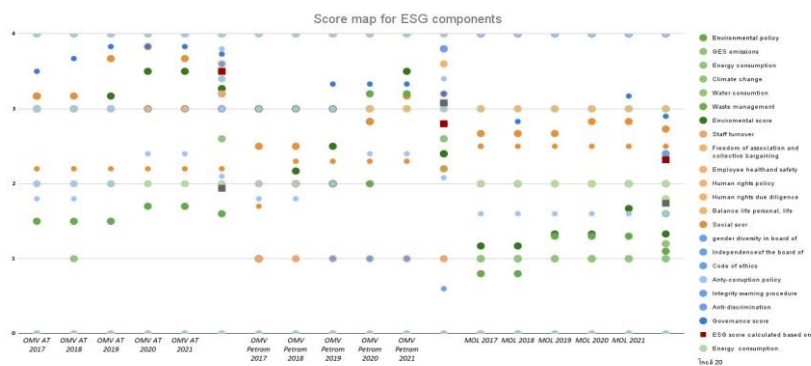


Figure. 2 – Score map for ESG components
Source: Own processing

We can identify the environmental cloud (green points) that on average is on the line of note 2, but in the matrix built OMV Austria is marked with a grade of 4 for environmental policies, has a well-developed environmental policy, towards these trends also tends OMV Petrom. Therefore, OMV has a well-defined environmental policy.

Topics related to social issues can be ranked on average between governance and environmental issues. The cloud of orange dots that represent the pillars of the social aspects is positioned between the line of points 2 and the line of points 3.

The environmental provisions have been estimated by the management of the companies based on the objectives of the environmental projects that companies should fulfill. Companies aim to reduce their impact on the environment by reducing greenhouse gas emissions and implementing a quality and environmental management system according to international standards. In this regard, OMV group follows a series of strategies, such as: reducing greenhouse gas emissions, reducing pollution, responsible waste management, and involving local communities through social and environmental partnerships and initiatives. These objectives are supported by a wide range of policies, procedures, and programs, which are implemented and monitored throughout the company. OMV Austria also focuses on developing innovative and sustainable solutions to reduce greenhouse gas emissions and protect the environment.

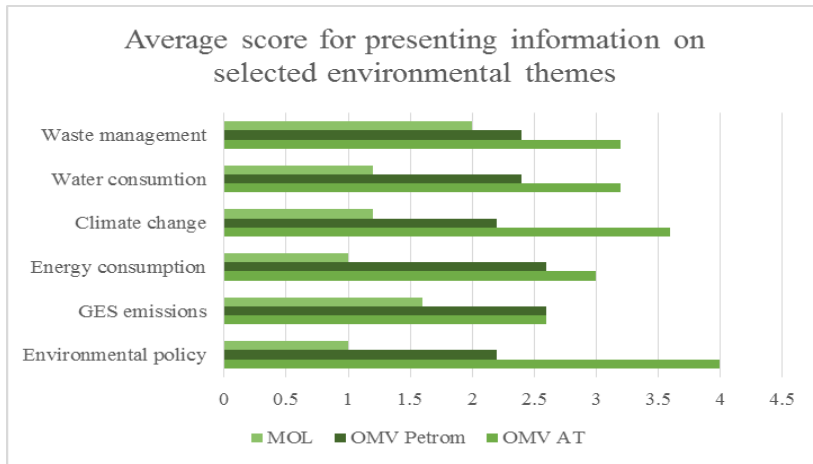


Figure. 3 – Presentation of the average scores of environmental items
 Source: Own processing

Looking for information in the annual financial reports on accounting estimates related to the environmental aspects presented in Fig. 3, for OMV AG, no information was found for waste management, nor expenditure on water consumption, but provision was made for decommissioning and restoration obligations, in higher values than the other two companies. The cost of environmental provisions was the highest at OMV Petrom. OMV Petrom also presents separately the expenses related to energy consumption and water use, the other two companies do not present information related to these aspects.

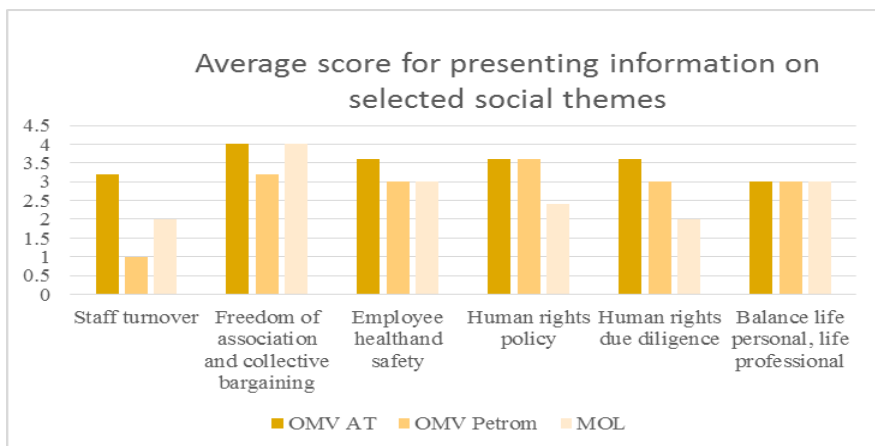


Figure. 4 – Presentation of the average scores of selected social items
 Source: Own processing

The decrease in the number of employees can be seen in all three companies. The highest amounts of provisions for employees were constituted by OMV Petrom. Only at OMV Petrom was identified information on the death grants granted to employees. The provisions for the dismissal of employees were identified in OMV annual reports and the reports issued by MOL Nyrt. In addition to these, Mol Nyrt, when retiring employees, offers an allowance of three salaries, regardless of the period during which the employee was hired. Expenditure on employees at MOL is the highest. OMV AG Austria constituted the highest provisions for the dismissal of employees. In the sustainability reports, work-life balance aspects are well developed, but we have not been able to identify expenses on these issues in the companies' financial reports.

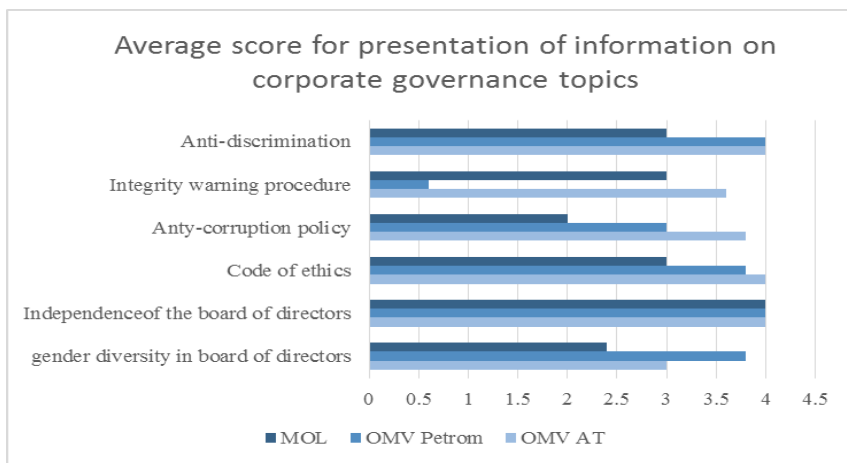


Figure. 5 - Presentation of average scores on corporate governance items
 Source: Own processing

On corporate governance Fig. 5, the main observation refers to the fact that in the Mol group's annual report for 2020, the board of directors consisted of 8 members, of which 2 were women, which means a share of women on the board of 25%. MOL is also implementing a gender balance strategy in leadership, with the goal that, by 2030, 30% of the company's leaders will be women. According to the sustainability report of OMV Petrom Group in 2020, the gender ratio on the board of directors was 11.1% women. Currently, the board of directors of OMV Austria consists of 12 members, of whom 3 are women, which means a share of women of 25%. In 2020, OMV launched a program called "Women in Leadership" that aims to support and promote the presence of women in leadership and top leadership positions. Omv has also set itself to reach a 25% share of women in leadership and management positions by 2025 and to increase its share in the total number of employees. From the calculated average scores chart shown in Fig. 6, we can identify the average scores obtained separately for environmental aspects, social aspects,

corporate governance aspects, scores calculated according to the data from the annual reports, and calculated average scores of the accounting estimates for the analyzed information from the financial reports.

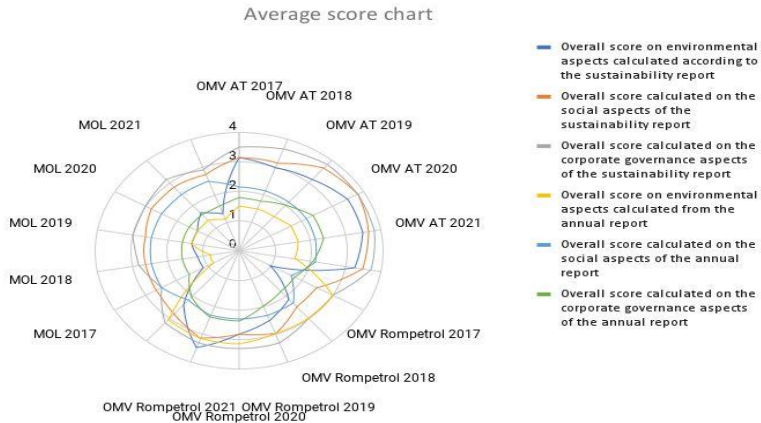


Figure. 6 – Chart of average scores
 Source: Own processing

The ESG aspects in the sustainability reports and financial reports each scored an average score shown in Fig. 6, after which the ESG score was calculated. These ESG scores are shown in Fig. 7. From this figure it can be seen that OMV Petrom scores are closest to an ESG score from the sustainability report of 2.8 points and a score of ESG estimates in the financial report of 3.8 points, with a difference of 0.28 points between the two calculated ESG scores. OMV AG has a difference of 1.56 points, and Mol has a difference of 0.58 points.

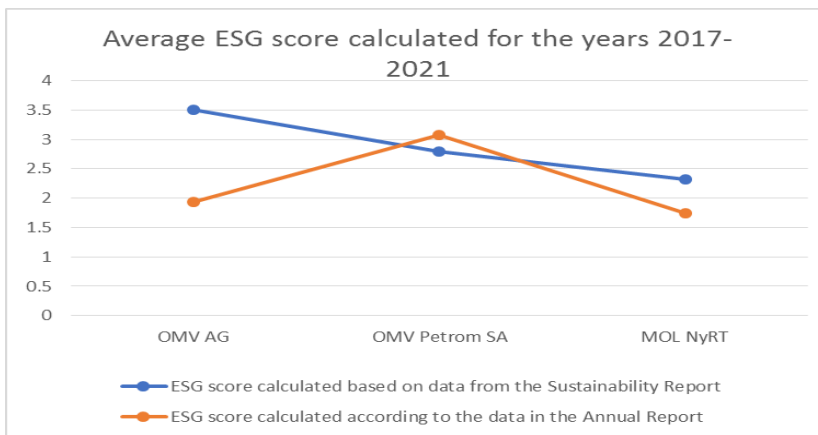


Figure. 7 – The ESG score is calculated based on data collected from the annual financial reports

Source: Own processing

5. Conclusions

Particular attention is paid to social issues, employees, and environmental issues at all three companies investigated, but the most comprehensive Sustainability Report is the one presented by the OMV AG group of companies in Austria. The information is easily accessible and how the report is drawn up facilitates faster reading by the user and the identification of the information sought. Mol Nyrt presents information briefly with a minimal degree of detail. OMV Petrom supports gender diversity and the promotion of women in management positions, although it recognizes the gender gap in the oil and gas industry. The information presented in the sustainability report by OMV Petrom, to the greatest extent, is also quantified in the financial report, compared to the other two companies examined. The sustainability report commits itself to a decrease in energy and water consumption, and this is also achieved by reducing the costs of energy consumption and water consumption.

Accordingly, companies have demonstrated a common awareness of the need to provide an exhaustive amount of social, environmental, and governance information to maintain investor interest and research. The limits of this research are found in the small number of investigated companies and of items/observations analyzed, in further research, this number could be extended to more listed European companies operating in various sectors of the economy. Data analysis can also be improved.

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