COMMENTS ON
“THE RELATIONSHIP BETWEEN
ENVIRONMENTAL REPORTING AND
CORPORATE GOVERNANCE CHARACTERISTICS
OF ROMANIAN LISTED ENTITIES”

Gheorghița DIACONU1
KPMG in Romania

In the current economic context, when practice has shown that an increased transparency on risks is required and when non-financial risks are regarded, due to their financial implications, as part of the financial area, the paper presents in a clear manner the way in which Romanian companies disclose environmental information and the link between corporate governance characteristics and companies’ reporting on environmental related matters.

The extensive research of various publications on this topic as well as the analysis of environmental and corporate governance information made publicly available by 64 Romanian companies listed on Bucharest Stock Exchange, add value and provide additional arguments, upholding the need for transparency related to environmental performance information, as part of a sustainable business development.

We fully agree with the author’s statement that “there is, so far no legislation (…) requiring companies in Romania (…) information related to the environmental impact. Providing such information would be useful …” The “KPMG International Survey of Corporate Responsibility (CR) Reporting 2011’, which reviewed the trends of each of Global Fortune 250 (G250), and 3,400 companies worldwide representing the national 100 (N100) leaders in 34 countries (including Romania), revealed that unlike financial reporting, the disclosure of sustainability metrics to the market is largely unregulated. This survey also shows that almost half of the G250 companies report that they have gained financial value from their CR initiatives. CR has moved from being a moral requirement to become a critical business imperative.

Regarding the assessment of environmental reporting by Romanian companies, we only partly agree with the exclusion from the analyzed sample of the entities acting in sectors with low or no environmental impact, an approach which is normal for a research process. However, in our practice we have noticed that companies, such as

1 Correspondence address: Gheorghița Diaconu, Director, Sustainability Advisory, KPMG in Romania, Victoria Business Park, DN1, 69-71 București-Ploiești Road, Sector 1, 013685, Tel. +40741 800 800, email: gdiaconu@kpmg.com
those in the banking sector, generally regarded as having a low environmental impact, issue a separate sustainability report or a special section in their annual report that includes environmental information such as: water, paper and electricity consumption, as well as CO₂ direct or indirect emissions. For instance the entities in Romania of ING, Raiffeisen, Millennium bcp., report environmental information to the Group, which is then included in the Group’s sustainability report. KPMG, whose activity does not create a significant environmental impact either, was voted the Sustainable Firm of the year in March 2012 on the occasion of the inaugural industry awards by the *International Accounting Bulletin*. Among other CR activities, KPMG has reduced its global carbon emissions by 29 percent/FTE since 2007. We announced a further CO₂ emission reduction target of 15 percent/FTE by 2015, with 2010 as baseline year.

The statement made in the paper “Like in 2006-2009 periods, in 2010 the quality and quantity of environmental information reported by Romanian company still suffer from irrelevancy and incompleteness” seems to only partly tally with what we have noticed in our practice. The second survey carried out by KPMG in Romania, related to Corporate Responsibility (CR) reporting on the top N100 (ranked according to their revenue in 2010) revealed a significant increase to 54% of the Romanian companies reporting on CR, compared to only 24% in 2008. This progress reflects an increasing awareness about the importance of non-financial information disclosure as well as the financial benefits such a voluntary reporting might generate for reporters. When we analyzed the main business drivers that led the Romanian N100 companies to report on CR, we found that these were brand reputation and economic considerations, showing that companies focus on their market image and on strengthening relationships with stakeholders, but are at the same time aware of the financial advantages brought by the disclosure of non-financial information.

An eloquent example for sustainability (including environmental) reporting improvement is represented by OMV Petrom, one of the companies analyzed in the paper (which calculated a maximum Disclosure Index (DI) of 1 for environmental reporting), and which was also included in the KPMG survey. If until 2010, OMV Petrom disclosed sustainability information in a separate section of the company’s annual report, for year 2011, it published a complete and separate sustainability report according to GRI Guidelines. The completeness and the quality of the information reported have visibly improved.

It is clear now that many Romanian companies have come to realize that disclosing sustainability information is highly appreciated by the responsible clients, investors, and other stakeholders.

Related to the quality of the reported information and the companies’ willingness to demonstrate the reliability of the reported information, 2011 KPMG survey revealed that 23% of the Romanian CR reporting companies (including multinationals that publish a Group report that includes Romanian operations) request assurance or third party comments for their CR reports, which compared to 2% in 2008 demonstrates that companies are aware of the benefits of ensuring the reliability of the reported data, which can be achieved through a third party verification.
The extensive analysis of Corporate Governance and Romanian companies’
compliance with the Corporate Governance Code, as well as the connection between
Corporate Governance characteristics and environmental (sustainability) information
disclosure comes to conclusions similar to our findings. We totally agree with the
statement that “good corporate governance assure environmental performance and
good environmental reporting”.

The readers and reporters survey 2010 (released on 21st January 2011), which includes
the views of 5,000 readers and writers of sustainability reports, commissioned by the
Global Reporting Initiative (GRI) and conducted by Futerra Sustainability
Communications, SustainAbility Ltd. and KPMG, showed that 65 per cent of
companies said the main reason for reporting on their sustainability performance was
to improve internal processes. 97 per cent of people who read reports say reporting
itself shows that a company is improving its sustainability performance. The survey
report points out that sustainability reporting is no longer just a communications
exercise - it is seen as a tool for improving an organisation’s environmental, social and
governance performance. Additionally, the survey also revealed that readers of
sustainability reports see reporting as a valuable tool for business decision-making.
More than half of those reading sustainability reports use them as a basis for
investment decisions and for considering whether to use a company’s products and
services. Investors place the highest importance on performance data when it comes to
building trust. Seventy per cent chose this as their number one factor in trusting an
organisation’s sustainability commitment.

From the experience of working with successful organisations, KPMG noted that
these respond creatively to meet society’s needs, which go beyond the creation of
economic wealth and include environmental conservation, social cohesion and ethical
behaviour. The incorporation of environmental, social, ethical, and economic issues in
the strategy development process is essential for achieving sustained business
performance and maintaining stakeholder confidence. From this perspective it is clear
that an increased need for well-prepared accountancy professionals (students) who
should acquire knowledge and expertise not only in the economic field but also in
environmental, social and ethical matters seems to be a priority not only for an audit
and advisory company as KPMG but also for successful companies.

We welcome the author’s initiative of raising awareness about the increasingly
important need to report on environmental/sustainability matters and the connection
between good corporate governance and a company’s transparency. KPMG Romania
itself launched its own “Green Policy” in 2007, a firm-wide commitment to
environmental protection. Thus, KPMG Romania is committed to integrating the
environmental best practice into its business activities, reducing and recycling the
amount of waste generated, reducing the natural resources consumed as well as the
carbon footprint. We have implemented and certified an environmental management
system according to ISO 14001 requirements, and our environmental policy and ISO
certificate are publicly available, proving our commitment to environment protection.