

## Study on ESG Practices in Romanian Food Sector

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### Abstract

*The present paper analyses the actual state of implementation of ESG practices in the Romanian food sector. It is aimed at determining the commitment of medium and large enterprises to such practices, as imposed by European law. Environmental, social, and governance factors are assessed through a questionnaire among employees of selected companies. Findings show that there is an increasing ESG commitment in Romanian large companies, but there still are aspects that need significant improvement.*

**Key words:** ESG practices, medium and large companies, survey, food sector.

**J.E.L. classification:** D21

### 1. Introduction

ESG stands for Environmental, Social, and Governance criteria. ESG is an analysis framework that helps the stakeholders understand and quantify the measure by which a company manages risks and opportunities and operates sustainably.

Environmental Factors help stakeholders to understand an organization’s impact on the environment and climate regarding greenhouse gas emissions, and the rational use of natural resources like fresh water. These factors refer to the firm’s resiliency against physical climate risks such as climate change, flooding, fires, etc..

The social pillar of the ESG framework examines the organization’s social impact on the communities in which it operates and offers valuable information about how well a company’s leadership manages the relationships with the stakeholders. These factors refer to fair wages, employee engagement in the decision-making process, and taking accountability for the company’s actions, and for the action of the supply chain partners.

Corporate governance refers to how an organization is led and managed. Healthy corporate governance is the foundation for the environmental and social pillars. The governance component of the ESG framework refers to how leadership’s incentives are aligned with stakeholder expectations, how shareholder rights are honoured, and what types of internal controls exist to promote transparency and accountability on the part of leadership.

### 2. Theoretical framework

The ESG framework has evolved from other historical movements such as EHS (environment, health, and safety in the ‘80s), Corporate Sustainability (in the ‘90s), and CSR (corporate social responsibility in the early 2000s). These older frameworks took more of a philanthropic approach, implying that leadership should do “good” because is the right thing to do. By the late 2010s. ESG emerged as a much more proactive movement, to maximize stakeholder’s (employees, investors, and consumers) wealth (Chen, et. all, 2021, 13).

Companies that invest their time and effort into ESG can gain the customers' loyalty, the investors' trust, and the employees' engagement (Fenwick, et. all., 2022, p.7). Employees want to work for companies that apply the principles of the ESG framework, they wish to be involved in the decision-making process of the company, which leads to a feeling of fulfilment at the workplace. For investors, the preoccupation of the company for ESG, is crucial when taking a decision. A company that applies the ESG principles is considered a business with increased chances for long-term growth, facing much better potential risk situations. Customers are interested in purchasing goods from companies with sustainable practices. (Drempetic et. all, 2019, p. 329)

Figure no. 1 The ESG framework



Source: Own processing

The ESG (Environmental, Social, Governance) is a set of standards integrated into an organization's strategy to increase its value and benefit the company.

- ✓ Environmental refers to the impact of a company's activities on the environment.
- ✓ Social deals with the company's relationship with employees, customers, and the environment in which the company operates.
- ✓ Governance looks at the extent to which the company complies with laws, and acts guided by norms of morality and fairness.

In the short and medium term, a good ESG level helps the company in attracting funding sources (lending institutions are guided by the ESG level when deciding to grant a loan to a company), improving its image and therefore customer loyalty, lowering operational risks and therefore costs. In the long term, a good ESG level will make a significant difference to the cost-revenue equation and ensure the sustainability of the company in the face of disruptive external factors. (Aydoğmuş, et. all, 2023, p. 124)

Compliance with a set of ESG standards, for example environmental, labour relations, consumer relations, and corporate governance regulations can lead to lower risks of fines, closures or suspensions, or misunderstandings with employees, customers, or partners.

At european level, legislation regulating the ESG concept includes:

1. Taxonomy Regulation - EU Taxonomy,
2. Regulation on sustainability reporting in the financial services sector - The Sustainable Finance Disclosure – SFRD
3. Non-Financial Reporting Directive -NFRD.

The EU Taxonomy regulation is a classification system for economic activities to determine which are sustainable. To be classified as sustainable, economic activities must substantially contribute to one of the following environmental objectives: climate change mitigation, climate change adaptation, water protection, circular economy, pollution prevention, biodiversity, and ecosystems.

The Sustainable Finance Disclosure Regulation – SFRD is a European regulation which requires credit institutions and financial market participants to consider sustainability aspects in their investment decisions, defining sustainability risk as an environmental, social or governance event or condition that, if it occurs, it could cause a significant, actual, or potential negative effect on the value of the investment.

The Non-Financial Reporting Directive, otherwise known as the NFRD was adopted in 2014 by the European Union, requiring certain companies (mainly large companies with over 250 employees) to provide non-financial disclosure documents along with their annual reports regarding the sustainable and social policies of the companies. The NFRD gives potential investors, consumers, and various stakeholders the information necessary to decide if the business is worth investing in.

In Romania, the ESG reporting framework is constantly evolving. Thus, the Ministry of Public Finance has issued two Orders following the transposition of the NFRD into national legislation, namely:

- Order No. 1938/2016 amending and completing some accounting regulations.
- Order no. 3456/2018 amending and completing certain accounting regulations.

These two regulations stipulate the obligation for companies that have on average more than 500 employees and either have total assets of more than 20 million euro or net turnover of more than 40 million euro, to present in the annual report a series of information falling under the scope of ESG factors (the non-financial statement must contain, as regards environmental issues, details of the current and foreseeable impact of the entity's operations on the environment and, where relevant, on health or safety, use of renewable and non-renewable energy, greenhouse gas emissions, water use, and air pollution).

In April 2022, the Bucharest Stock Exchange published a guide on ESG reporting that provides support to companies on ESG reporting. In Romania, steps are being taken to implement the Sustainability Code and the National Strategy for the Circular Economy. This code is a reporting tool for companies, based on a German model, through which organisations can make their sustainability statement against a set of performance indicators indicated in the code.

All in all, quantification of ESG factors relevant to a particular business, reporting and auditing from an ESG perspective, and possibilities to increase ESG commitment, have become more and more prominent in companies' activities worldwide (Chen, et. all., 2021, 13).

### 3. Research methodology

In this paper we aimed to assess the current state of implementation of ESG-oriented practices in Romanian companies whose main activity is the retailing of food in specialized stores. To achieve this objective, we investigated the activity of a sample of 165 companies with the following CAEN codes:

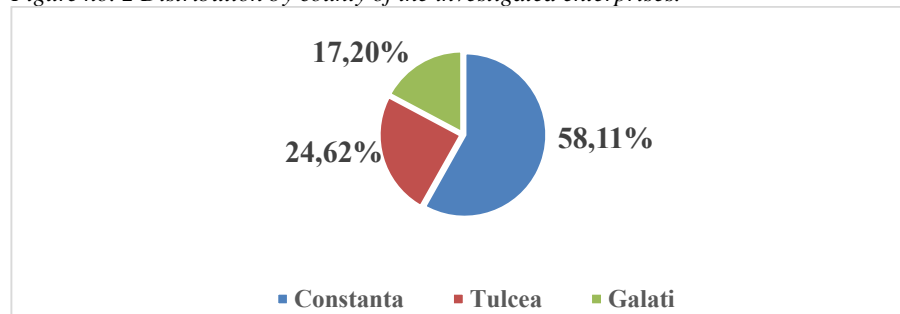
- 4721 - Retail sale of fresh fruit and vegetables in specialised stores
- 4722 - Retail sale of meat and meat products in specialised stores
- 4723 - Retail sale of fish, crustaceans, and molluscs in specialised stores
- 4724 - Retail sale of bread, pastry, cakes, confectionery, and sugar confectionery in specialised stores
- 4729 - Retail sale of other food products in specialised stores

The businesses included in this study were selected based on certain criteria. Thus, the selection criteria for the businesses retained in the sample considered were as follows:

- ✓ activities of the selected companies are the ones mentioned above;
- ✓ selected companies are medium and large companies, as only they are imposed to report such practices, according to Romanian law;
- ✓ enterprises that were suspended at the time of the survey have been eliminated.

From a location perspective, the sample investigated is shown in Figure no. 2

Figure no. 2 Distribution by county of the investigated enterprises.

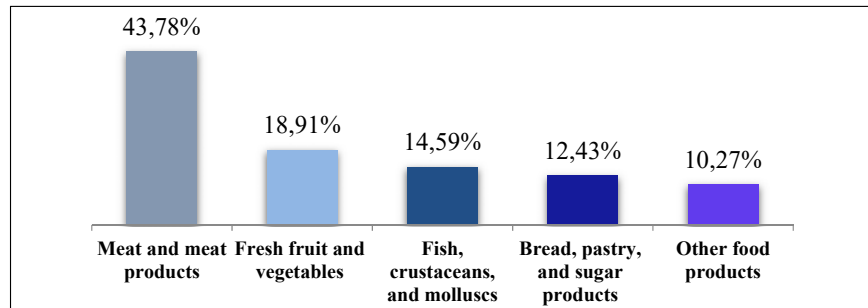


Source: Own processing

Thus, the highest number of analysed companies were located in Constanta County, i.e. 58.11%, while firms located in Tulcea County represent 24.62% of the total. The remaining number of companies are located in Galati County, i.e. 17.27%. Therefore, all three counties analysed had a significant representation in the survey.

Of the total companies, the largest share (43.78%) is represented by those whose main activity is the retail trade of meat and meat products, as can be seen in Figure no. 3. Firms retailing fresh fruit and vegetables account for 18.91% of the total sample, followed by those retailing fish, crustaceans, and molluscs - 14.59%, those trading bread, pastry, and sugar products - 12.43%, and companies trading other food products - 10.27%.

Figure no. 3 Distribution of enterprises by main activity.



Source: Own processing

To carry out this study, the method used was the survey. The instrument used was the questionnaire with closed questions (yes/no). In parallel, interviews were conducted to detail some aspects of our study. The items of the questionnaire focused on the determinants of ESG. Thus, the questionnaire was used to assess the following practices:

1. Reduction of plastics
2. Recycling actions
3. Use of renewable resources
4. Energy-saving measures
5. Actions aimed at reducing carbon dioxide emissions
6. Water-saving measures
7. Reducing food waste
8. Allocation of funds for social scopes
9. Increasing consumer awareness of ESG importance
10. Implementing strategic partnerships for supporting local communities

Following the collection of the data required for the research through the questionnaire, out of a total of 382 subjects surveyed, 298 questionnaires were complete and valid, the rest were discarded as they contained incomplete answers. The subjects investigated are employees of the companies included in this study.

#### 4. Findings

The questionnaire enhanced ten questions in order to evaluate the ten ESG practices that we have noticed above. In this section, we will provide the results obtained after the centralization of the answers.

1. *Do you implement a sustainable plastics reduction policy in your company's operational process?*

Through this question, we aimed to identify whether companies have a plastics reduction policy and whether they apply the provisions of such a policy in a sustainable way. Thus, we identified that the interviewed firms are leading significant efforts firstly towards reducing the number of plastics consumed for packaging and secondly that packaging materials come from recycled materials. According to our survey, more than 74% of the companies have implemented such measures, significantly reducing (by about 22%) their plastics consumption.

2. *Do you carry out concrete waste recycling actions?*

With this question, we wanted to find out if there are concrete actions for selective waste recycling within the surveyed companies. In most of the companies, waste recycling is carried out, therefore 92% of the respondents have successfully implemented concrete procedures in this direction.

3. *Do you use renewable energy resources?*

With the current energy crisis, a significant element of ESG policy is the use of renewable energy resources at both micro and macro levels. Thus, through this question, we found that only 56% of the companies within this sector use such resources, mainly by using the energy produced by photovoltaic panels on roofs. Indeed, the number of companies in Romania that invested in installments of such panels has increased in the last three years, because of the European Green Deals recommendations.

4. *Do you adopt measures to reduce energy consumption?*

The surveyed entrepreneurs are significant consumers of energy. With the current energy crisis, exacerbated by the military conflict between Russia and Ukraine, any measure to reduce energy consumption is important. Thus, it is important for companies to reduce the use of electricity. Measures taken include switching off lights in refrigerated display cases, or not lighting advertising panels at night. All the investigated companies switched to LED light panels to reduce energy consumption.

5. *Do you take measures to reduce carbon dioxide emissions in your business?*

Global concerns about global warming processes inevitably lead to the adoption of measures to reduce carbon dioxide emissions. Hence, companies have chosen to use a less polluting means of transportation in their activity. 82% of the companies own or use mainly electric cars for transporting their employees, as an alternative to protect the environment from CO<sub>2</sub> emissions.

6. *Do you adopt measures to reduce water consumption?*

Water is a depletable resource. If concrete measures to reduce water consumption are late, the risk is that the situation of Asian or African countries repeats, given the massive floods in Europe in recent years. As our survey highlights, 74% of the companies actively monitor water consumption. This was possible through the installation of specialized systems such as water meters or sewage meters that significantly reduce water consumption. Moreover, 12,6% of the companies said that they monitor these consumptions from long distances, by using specific apps.

7. *Do you apply measures to combat food waste by donating foods or applying reduced prices in perishable aliments?*

According to the Food Safety and Health Authority, about a third of all food produced for human consumption is wasted. In the European Union case, it is estimated that 20% of all food produced is lost or wasted.

This question is relevant to the surveyed sector as we have included in our sample chain stores where perishable products are sold. Campaigns of reducing by 50% the retail price of a product significantly reduce food waste. Hence, our survey indicates that 82% of the companies have constantly developed such campaigns. Moreover, 76,9% of them decided to donate part of their products, either for social reasons (reduce poverty and hunger) or for avoiding product expiry. All companies donated food to Romanian National Bank for Food.

8. *Do you allocate financial resources to increase social value?*

Companies have agreed on the fact that social investments have a great impact on their activity, as they increase the social value of communities. Within the investigated sample, 85% of the companies allocated funds for developments in education, environment, emergency services, and local communities. Actions in this sense included campaigns in schools, greening actions, volunteer activities of waste collecting, installing water filtration systems, and separate water collecting systems. Some of the companies preferred financing the national program aimed to increase rapid urban intervention by the use of SMURD-type motorcycles.

9. *Do you conduct an awareness-raising policy among your consumers about products with a positive environmental impact?*

The most important aspect of our study is that companies do not properly inform their customers about the importance of responsible consumer behavior. Only 36,6% of the investigated companies said that they invested in public campaigns regarding their products, benefits, and possible uses. Official sites of the companies offer customers additional information on product ingredients and

other nutritional facts, as well as recipes, tips, and tricks for a healthy and responsible lifestyle. Moreover, 10,2% of these use social networks to inform customers of their campaigns and tasting sessions. Consequently, not all groups of ages have access to such information, as the elder are less likely to be present on social networks. Lastly, only 29,5% of the companies include all information about a product on its package (source of ingredients, producer, environmental/social impact, ways of safely using the product).

10. Have you entered strategic partnerships in recent years to support the local community?

As the present study highlights, there is strong and continuous cooperation between companies in the food sector and charitable organizations. All the investigated companies have entered strategic partnerships with such organizations, mainly to support social purposes. These include preventing children from dropping out of school, being neglected, or being separated from their families, as well as discovering high school students' vocation and exploring career opportunities.

Some of the partnerships were with local communities. As a result, of the total quantity of meat, fruit, and vegetables, more than 42% came from local suppliers in the last three years. Moreover, during the peak season (June to August), about 67% of the fruits and vegetables were from domestic production.

## 5. Conclusions

Through this paper, we aimed to analyse the extent to which medium and large companies from three important counties in the South-East Region of Romania operating in the food sector, implement the ESG elements in the activity carried out. Following the conducted research based on the questionnaire and the interviews, we came to the next conclusions:

- The majority of the surveyed companies (more than 74%) have implemented a sustainable plastics reduction policy in their operational activity.
- Almost all companies participating in our study carry out concrete waste recycling actions (92% of the respondents presented their initiatives in this direction).
- Half of the investigated companies use renewable energy resources but all of them adopted measures to reduce energy consumption.
- Regarding the measures taken in order to reduce carbon dioxide emissions, 82% of the respondents own or use mainly electric cars in their activity.
- 74% of the respondents take concrete actions in order to monitor water consumption by using specialized gadgets in this direction.
- The majority of the companies apply measures to combat food waste and allocate funds to activities aimed to develop education, to protect the environment, and overall to help the local communities.
- The negative finding of our study is that only a third part of the investigated companies conduct awareness-raising policies among their consumers about products with a positive environmental impact.

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