



PBL Netherlands Environmental
Assessment Agency

REFLECTIONS ON TRANSPARENCY

*Expectations on the implementation of
the EU Non-Financial Reporting Directive
(2014/95/EU) in the Netherlands and a
comparison with neighbouring EU Member
States*

Policy Brief

PBL

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Expectations on the implementation of the EU Non-Financial Reporting Directive (2014/95/EU) in the Netherlands and a comparison with neighbouring EU Member States

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Contents

MAIN FINDINGS	4
SUMMARY	6
1 INTRODUCTION	13
2 COUNTRY COMPARISON: POLICY DEVELOPMENT IN THE EU AND THE NETHERLANDS	15
3 THE EXPECTED EFFECTS OF TRANSPARENCY AND MANDATORY NON-FINANCIAL REPORTING	21
4 NFR CASES ON CLIMATE, BIODIVERSITY AND NATURAL CAPITAL	25
5 EXPECTATIONS AND REFLECTIONS	27
6 FUTURE DEVELOPMENTS AND POLICY OPTIONS	33
REFERENCES	36

Main Findings

- **Companies are required to report on a specific set of sustainability aspects of their business operations under the EU Non-Financial Reporting (NFR) Directive.** The NFR Directive provides common non-binding guidelines in an effort to harmonise reporting requirements between EU Member States for large public-interest entities (PIEs), including listed companies, banks, and insurance companies.
- **Implementation in the Netherlands is mostly based on minimum EU requirements. Neighbouring Member States have more stringent requirements for company transparency than the Netherlands.** Some have a wider scope by including smaller companies, others have more severe sanctions, mandatory third-party auditing or specifically require reporting on climate risks.
- **Transparency ensures that shareholders and other stakeholders have access to relevant information. Disclosing non-financial information may result in dialogue between companies and stakeholders.** This may lead to changes in business operations and corporate social responsibility (CSR) strategies. There are particularly high expectations about the role of financial institutions, in terms of the use of non-financial risks for investment decisions.
- **Companies' transparency on climate risks is far ahead of that on the risks of the loss of biodiversity and natural capital.** Banks and investors are already actively integrating information on company climate risks into their investment decisions, while information on biodiversity and natural capital risks is still treated separately.
- **Mandatory transparency as a policy instrument could stimulate CSR and green growth under the right preconditions.** These include an increase in the number of companies reporting under the requirements of the NFR Directive, as well as improving the quality, relevance, accessibility and comparability of the information for all stakeholders.
- **A number of critical remarks can be made concerning the implementation of the NFR Directive in the Netherlands:**
 - An estimated 70% of companies required to comply with the NFR directive will need to increase the quality of the disclosed information to meet the directive's requirements. A positive effect of the Dutch regulation on company transparency can be expected. It is yet to be seen if this translates into improvements in CSR strategies.
 - The present scope of the reporting obligation is limited to only 120 organisations, who are already disclosing non-financial information. Large privately owned businesses are at this moment not required to disclose any information.

- A concise statement in the management report is required to comply with the regulation. Disclosed information that is not very detailed may not stimulate dialogue and interaction with all stakeholders. This dialogue of the intended effect of transparency is regarded as a stimulus to improve the CSR strategy.
 - Comparability is needed for stakeholder interaction, but is not guaranteed, as the guidelines are mostly non-binding. There are doubts about the accessibility of information to stakeholders other than financial institutions.
- **Monitoring and evaluating the effects of current policies is necessary in order to see progress on both the tool and target of the directive**
 Regulation for non-financial transparency is tightening and is meant to contribute to companies becoming more sustainable. However, the implementation of the NFR Directive in Dutch legislation is expected to lead to only marginal changes in reporting practices and CSR performance in the Netherlands, as it has regulated what is already current practice. To see whether the new EU regulation will be effective, it is necessary to monitor and evaluate not only the tool (better transparency) but also the target (increased CSR). Monitoring trends in information disclosure, stakeholder dialogues, and leveraging stakeholder actions through policy support, if necessary, may help to see where improvements are necessary to make non-financial transparency a more effective instrument.

Summary

Under the EU Non-Financial Reporting Directive, companies are required to report on a specific set of sustainability aspects of their business operations

From 2017 onwards, certain larger companies in the EU must include non-financial information in their annual management reports. EU companies have long been required to produce public annual reports on financial results with increasing requirements for non-financial disclosure. Management reports published after 1 January 2018 will have to include a statement on a specific set of sustainability aspects of their business operations. This is prescribed by the EU Directive on the disclosure of non-financial and diversity information (2014/95/EU), more commonly known as the Non-Financial Reporting (NFR) Directive. The directive obliges countries to implement regulations for companies to be more transparent about their results, risks and policies, with regard to several non-financial issues, such as social and human-resource matters, human rights issues, anti-corruption and bribery matters, and the effects of their business activities on the environment. The NFR Directive aims to promote the harmonisation of non-financial reporting by companies in EU Member States and thereby promote corporate social responsibility and the sustainability of business operations. It imposes stricter requirements on Member State reporting legislation, and provides common non-binding guidelines for disclosure of information. The directive applies to large public-interest entities (PIEs) with more than 500 employees and a net turnover of more than EUR 40 million; including listed companies, banks and insurance companies. Throughout the EU, this definition covers around 6,000 large public interest entities.

Neighbouring EU Member States require more stringent company transparency, compared to the Netherlands

The Dutch legislative implementation remains close to the minimum requirements of the NFR Directive, which affects a group of 120 organisations, mostly listed companies. In their implementation, neighbouring Member States such as France, Germany and Denmark, have extended the required scope of transparency into a number of areas, making use of the policy space provided under the directive. Denmark, for example, has broadened the reporting obligation to cover companies with more than 250 employees, as a result of which around 1,100 organisations have to report on their sustainability efforts. In Germany, the sanctions for not complying with the reporting obligation are more severe than in the Netherlands, and heavy fines can be levied. In France, the information is checked more thoroughly than in the Netherlands, and companies are also obliged to report on climate risks. In the Netherlands, management reports are checked more thoroughly than required under the directive; it involves verifying whether those reports contain all the necessary information, followed by a limited inspection as to whether this information is correct.

Transparency ensures that stakeholders and shareholders have access to relevant information

By obliging companies to be transparent about their practices, the NFR Directive aims for companies to take more responsibility for the impacts of their business operations on the environment, society, employees and human rights, as well as how they address possible incidences of corruption and bribery. This is stimulated by shareholders, providers of financial capital and other stakeholders in society that use the publicly disclosed information to hold companies accountable. To provide an assessment of the likelihood that the Dutch implementation of the NFR Directive will be effective, we analysed its intended effects, the preconditions under which transparency can be expected to be effective, and subsequently used that to reflect on the regulation under which the NFR Directive is implemented in the Netherlands.

Disclosing non-financial information can result in changes to business operation strategies

When a company discloses non-financial information, stakeholders such as banks, investors, NGOs, consumers and local authorities gain insight into the extent to which its business activities are socially responsible. These stakeholders can try to influence companies on the basis of their judgement of the information provided; shareholders can exercise their rights at annual meetings, investors can set conditions and talk to management boards, NGOs can use media attention (naming and shaming), and consumers can change their purchasing behaviour.

Companies can respond to shareholder and stakeholder influence by changing their corporate social responsibility strategy and improving business performance in the various domains of sustainability. Companies can also be self-motivated towards improvement, something that is aided by internal reporting before disclosing information about their non-financial performance.

The Dutch Government also exercises influence on corporate social responsibility by comparing company transparency efforts and scores. It has established an annual ranking of the transparency of companies, based on the quality of the published non-financial information and offers the frontrunners an award. This public ranking, known as the Transparency Benchmark, and the award (the Crystal Prize) can encourage positive competition (naming and faming) between frontrunners and early adopters.

There are particularly high expectations about the role of financial institutions

Of all stakeholders, financial institutions (investment companies, funds, banks) are expected to exert the most influence on corporate social responsibility (CSR). For investors, banks and managers of pension funds, long-term profitability and risk management are of vital importance, and are increasingly associated with issues of environmental sustainability, working conditions, corruption and diversity. The extent to which companies perform on non-financial topics is therefore increasingly part of the risk analyses and investment decisions by financial institutions. In order to make investment

decisions, they need to compare information from different companies. The new directive, therefore, aims to harmonise the consistency and comparability of non-financial information in all Member States.

Transparency on climate risks is far ahead of that on biodiversity loss and natural capital

Some investors are already actively asking companies about the policies they adopt to try to limit the risks to the climate posed by their operations. This attention from the financial sector is related to the significant future financial consequences of climate change as well as to the ambitions of national and international climate policies to phase out the use of fossil energy. While investors are already informed about climate risks, and sometimes about the risks of water use, they are far less well-informed on the risks to biodiversity and natural capital.

Awareness is increasing among companies and financial institutions in the Netherlands that have been interviewed about the relevance of environmental risks other than those that are climate-related, though this is accompanied by few concrete measures. The risks posed by loss of biodiversity and natural capital are still barely integrated into investor analyses, which means they play virtually no role in decision-making about investments or divestments. Biodiversity and natural capital could gain prominence as investors become aware of their importance and value. The fact that issues of land and water use and biodiversity are receiving less attention than climate change may have to do with the more local scale of their impacts. Most large companies are not yet reporting at such a scale about their activities, making it difficult to assess their performance.

Mandatory transparency as a policy instrument could stimulate CSR and green growth under the right preconditions

The main objective, for this report, is to assess whether the Dutch implementation of the NFR Directive is likely to lead to additional efforts by Dutch companies to start operating more sustainably. This is done by looking at what the impact of non-financial reporting is assumed to be, and whether the necessary preconditions are in place to support effective implementation in the Netherlands. Analysis of the international literature and practices shows that transparency may lead to sustainability improvements, provided that the following preconditions are met:

- The number of companies reporting in accordance with the NFR Directive has to increase.
- The quality and relevance of the information has to improve and lead to more interaction and dialogue between companies and stakeholders.
- Information from different companies has to become more comparable and accessible to all stakeholders.
- Improved comparability is required to help banks and investors make informed choices about responsible investment.

A number of critical remarks can be made concerning the implementation of the NFR Directive in the Netherlands:

- **An estimated 70% of companies will need to increase the quality of the disclosed information to meet the NFR Directive's requirements**

The Transparency Benchmark on company reporting, commissioned by the Dutch Government, shows that about 70% of the companies required to comply with the NFR Directive need to make improvements in their transparency on points such as: effects that occur in the supply chain, identifying societal issues, and the accuracy of information. The Dutch stock exchange regulator also indicates that company reports still suffer from shortcomings; in many cases, the risks of climate change in particular have not yet been included in management reports, although investors already regularly enquire about these risks. A positive effect of the Dutch regulation on transparency can be expected. It is yet to be seen if this translates into improvements in CSR strategies.

- **Its applied scope means that only listed companies are required to report and large privately-owned businesses are not included**

At the moment, a relatively limited group of 120 companies is required to report in the Netherlands, but these are mainly listed companies that already publish non-financial information. Companies with fewer than 500 employees are not required to disclose non-financial information. Larger private businesses do not fall under the reporting obligation, even though they, too, carry out business activities that impact the environment, society, employees and human rights. The coverage of the directive varies per Member State, as each country is free to adjust the criteria for what constitutes a large enterprise and a public-interest entity (PIE). In Germany, the definition of a PIE includes capital market-oriented companies, and, in France, it also encompasses private *sociétés anonymes* and private investment funds with a net turnover of over EUR 100 million.

The impacts of business activities on the environment differ for each business sector, as do the risks, and their impacts and dependencies on the environment. This means more sector-oriented guidance is required. Guidelines for performing materiality analyses, which identify issues that are relevant to stakeholders, can help companies to shape their reports. Industry associations and standardisation bodies are drawing up sector-specific guidelines, for example in cooperation with standards management bodies that allow for comparing company performance.

- **Summarised information in a management report may not be sufficient to inform stakeholders**

In the Netherlands, companies are obliged to include non-financial information in their management report, which is usually rather concise. As a result, the non-financial information included may be so concise that interested parties are not able to find sufficient information about aspects that are relevant to them. Evaluation of the use of management information by stakeholders may shed further light on this aspect of the regulation. More information can be included in a separate annual report, but that is

not mandatory in the Netherlands. Companies are, however, free to prepare and publish more detailed annual reports. A large number already does this, but it is unclear if they will continue to do so. It may be that mandatory reporting will be limited to the management report. In Denmark, Germany and France, companies may, as an alternative to a non-financial statement in their management report, publish this information in a more comprehensive sustainability report, alongside the management report or on their company website.

- **Comparability and accessibility leave something to be desired**

Another point of criticism concerns the comparability and accessibility of information. For financial institutions, being able to compare the performance of several companies is an important part of decision-making about investments and forms of engagement (investing, divesting, entering into dialogue), and that requires uniform and reliable information. Specialised market analysts collect and analyse information for financial institutions on a commercial basis, so access to information is part of the routine for financial institutions. Such uniform and comparative information is, however, costly to compile and therefore not easily accessible to actors outside the financial sector. It likely requires a great deal of effort for citizens and non-governmental organisations to obtain and understand this information.

Harmonisation of reporting formats for non-financial information can be helpful here, as it reduces the compilation effort and promotes comparability. In Germany, the Council for Sustainable Development (RNE) created the German Sustainability Code, in cooperation with companies and the capital market, keeping it in line with other frameworks such as GRI. The Netherlands follows the minimum requirement—use of a national, EU-based or international reporting framework, which does not necessarily promote comparability of information. Denmark also follows the minimum requirement but, in addition, also allows for auto-compliance with the new reporting requirements for companies that already report in UNGC, COP, PRI or GRI frameworks, to avoid duplication of reporting. To remedy the situation, the use of widely accepted standards for reporting should be encouraged. The highly developed and extensively tested reporting standards and frameworks that are currently available are already being widely used by companies across the EU. They offer sufficient flexibility to emphasise a wide range of issues and meet different sector-specific requirements.

In view of the above comments on the effectiveness of the Dutch implementation, it seems that the NFR Directive's implementation in the Netherlands may lead to improvements in the quality of the disclosed information. The transparency benchmark shows that about 70% of companies subject to the regulation need to make improvements in the quality and scope of their reporting. The Netherlands Authority for the Financial Markets (AFM) is tasked to inform and stimulate companies regarding compliance with the required improvements. However, this compliance applies to only a limited number of companies, which limits the desired effect on green growth. Furthermore, the obligation only concerns the management report, which contains a limited level of detail. It remains

uncertain whether this minimum reporting obligation will lead to increased dialogue with stakeholders and, thus, will encourage more companies to adopt more responsible business practices and improve their environmental performance. A key part of the effectiveness of the reporting lies in its impact on more sustainable business practices. There are certain preconditions for effectiveness, including the reliability of the provided information (quality checks and penalties for providing inaccurate, irrelevant or faulty information), accessibility of information (for actors outside the financial sector), comparability of information, and geographic specificity of information. These preconditions for improving the ways in which non-financial information could be used by stakeholders to influence companies are receiving far less attention in the implementation phase than reporting itself.

At present, large investors are already utilising non-financial information. Although environmental issues are not their primary concern, climate change is the exception, and financial institutions are already showing great interest in the matter. With regard to other environmental topics, such as loss of biodiversity and natural capital, the urgency and relevance for investors is less clear. Also unclear is the extent to which stakeholders—other than banks and investors—may use publicly disclosed information to hold companies accountable for their performance, what obstacles they face, and whether they need specific support to become effective users of non-financial information.

There are large differences between regulation for financial and non-financial accountability

The regulations and enforcement procedures for non-financial accountability will not have the same effect as those for financial accountability. The regulations for accounting and accountability of financial reporting have existed for much longer and international standardisation in financial reporting has been implemented far and wide. Non-financial reporting has been around for over 20 years, but government regulation is more recent. Implementation of the NFR Directive in the Netherlands ensures that provision of the non-financial information can be enforced under threat of penalty. However, contrary to financial information, the provisioning of faulty or inaccurate information in the management report is not an economic offence under Dutch law. Furthermore, the accuracy of non-financial information is not required to be checked by a third party, as in-depth inspection of company information is considered too costly.

Monitoring and evaluation should cover both the tool (transparency) and the target (CSR)

Transparency is a relatively new regulatory tool for CSR policy, and there is much still left to be learned. The European Commission has recently announced that it will review the NFR Directive as early as 2019, and, if necessary, tighten the regulation. In order to gain more insight into the process and effectiveness of compulsory transparency, it is necessary to monitor the changes that have already been brought about. An important question, here, is why companies would improve on socially responsible entrepreneurship; would it mainly be the result of outside influence, fuelled by transparency and social

opinion on corporate responsibility, or would it be the result of internal motivation, fuelled by accountability and self-reflection? Answering this question requires an understanding of the interaction between various stakeholders, the impact that this has on companies' reporting and transparency, and the ultimate effects on corporate social responsibility and sustainability performance. This monitoring could be a joint effort by government authorities, sector organisations and market analysts.

1 Introduction

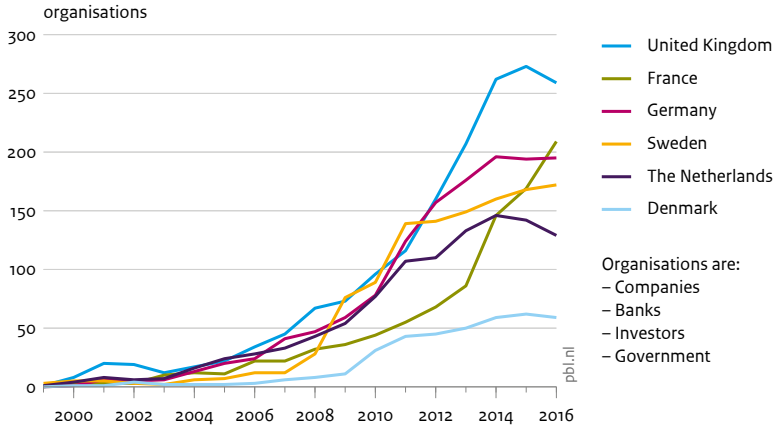
In addition to disclosing information about financial results—intended to inform shareholders and show accountability—companies and other organisations around the world are increasingly publishing non-financial information that has specific importance to guide a broad group of stakeholders in society. This practice of non-financial reporting has been ongoing for at least 20 years (KPMG, 2015), and has been stimulated by regulations, voluntary guidelines and private and public initiatives that aim to promote the transparency and the social responsibility of companies (Maas et al., 2017). The number of organisations reporting on sustainability has risen sharply since 2000, in a number of EU Member States close to the Netherlands (Figure 1.1).

From 2017 onwards, certain larger companies in the Netherlands are legally required to report on non-financial matters in their annual management reports (EC, 2014). This information must be included as a statement in all management reports published after 1 January 2018. This is the result of the Dutch implementation of EU Directive 2014/95/EU on the publication of *non-financial and diversity information*, referred to here as the *Non-Financial Reporting (NFR) Directive*. It promotes the harmonisation of non-financial corporate reporting across Member States, to create a level playing field for the disclosure of information. The European Commission intends to publish a fitness check of EU legislation on public corporate reporting in 2019 (EC, 2018).

In this report, we provide an overview of the Dutch implementation of the EU Directive on Non Financial Reporting, to study its potential effects in the Netherlands. We looked at how other Member States have implemented the directive and how the scope of application varies within the set margins. The report outlines the expectations of the effects of increased transparency and more extensive reporting. From these analyses and international literature, we derived the preconditions that need to be met for increased transparency to produce positive effects. We used these preconditions for a critical assessment of the current implementation, and to identify options for improving the effectiveness of the instrument in the Netherlands.

This report is a summary of the more comprehensive policy study by Van Oorschot et al (2018; in Dutch).

Figure 1.1
Number of organisations that report on sustainability



Source: GRI Global Reporting Database 2017

The number of organisations reporting on sustainability has risen in the Netherlands and a number of neighbouring EU countries since 2000. The data are from the Global Reporting Initiative (GRI), an international organisation that sets guidelines for sustainability reporting. Data is based on companies who upload their report to GRI.

2 Country comparison: policy development in the EU and the Netherlands

Reporting obligations for large public-interest entities

The NFR Directive requires larger companies to be transparent about results, risks and their policies on non-financial subjects, such as social and employee matters, human rights issues, anti-corruption and bribery matters, and the effects of business activities on the environment. The reporting obligation also encompasses activities carried out in the product chains of raw materials suppliers and service providers. Consequently, the reporting covers various domains of sustainability, which is why the publications are also referred to as *sustainability reports*. The directive requires that certain large public-interest entities are required to include non-financial information in their management reports. The obligation only applies to large organisations with more than 500 employees and a net turnover of more than EUR 40 million. In short, listed companies, banks and insurers. Table 2.1 provides an overview of a number of aspects of the directive and its implementation in the Netherlands.

Implementation of the Non-Financial Reporting Directive in the Netherlands

The decision on the Dutch implementation of the NFR Directive was published at the beginning of 2017 (V&I, 2016). Various Dutch laws were revised for this purpose, including the regulation on the annual accounts of companies. In the Netherlands, the regulation applies to about 120 businesses, most of which are listed companies. The Netherlands Authority for the Financial Markets (AFM) is responsible for supervising listed companies and enforcing the reporting obligation with regard to annual financial accounts and management reports (AFM, 2017). Under the new regulation, the AFM now also deals with the non-financial information included in the reports.

In addition to setting a number of minimum requirements, the NFR Directive also leaves room for Member States to interpret the directive in line with their national context and history of legislation. The Dutch Government has chosen to generally stay close to the original text of the directive and has made only limited use of the policy space (Van de Velde, 2017). For example, the Netherlands has not adopted the option that allows

companies to publish non-financial information in a more detailed separately report. Instead, a statement on non-financial information must be included in the management report. However, with respect to verification, Dutch regulation goes beyond the minimum requirement (which constitutes of a simple check whether the information has been included) and requires an accountant to also check whether the information provided contains material inaccuracies, insofar as would be apparent from a regular audit of the financial statements and further knowledge of the company.

The positive effect of including non-financial information in the management reports can be that it forms a step towards integrated reporting, which may encourage companies to use non-financial information in addition to financial information, as their basis for decision-making. A point of criticism about this choice is that it would compromise the level of detail in sustainability reporting, and, consequently, the usefulness of the disclosed information to societal stakeholders. It should be noted, though, that companies are free to publish information that is more detailed.

Table 2.1

Characteristics of EU Directive 2014/95/EU and implementation in the Netherlands

Characteristic	Implementation in the Netherlands
Target group: PIEs (public-interest entities)	Listed companies, banks, insurers, and other organisations identified by Member States.
Scope: criteria for determining what a public-interest entity is	More than 500 employees, and a net turnover of more than EUR 40 million or a balance sheet totalling more than EUR 20 million. In the Netherlands, there are approximately 120 PIEs.
Mandatory report topics	Information on combating corruption, respect for human rights, matters concerning human resources, and social and environmental issues. Also, the business model, a materiality analysis, identification of non-financial risks, the due diligence policy. Here, the Comply or Explain principle should be applied: comply with the requirements or explain why no policy is being pursued on certain subjects.
Reporting formats to be used	Several international standards and frameworks are offered as examples, including the GRI standards, the OECD guidelines for multi-nationals, the ISO-26000 framework for CSR and the IIRC standard for integrated reporting. In the Dutch implementation, use of these frameworks is not mandatory.
Form of publication	A comprehensive and concise statement on non-financial matters must be included in the management report. This is not necessary if a separate, more detailed annual report is also drawn up. This exception is not applied in the Netherlands and only the statement in the management report is mandatory.

Verification and auditing	Inspection by an auditor is mandatory to verify that all the required information has been presented. In the Netherlands, a limited audit is mandatory to prevent the occurrence of material inaccuracies, insofar as would be apparent from the regular audit of the financial statements and further knowledge of the company.
Enforcement and monitoring	Of the 120 PIEs, 91 are listed companies under the supervision of the Dutch Authority for the Financial Markets. The others are banks and insurers that are, in part, supervised by the Dutch Central Bank. Submission of information is enforceable through the Enterprise Division of the Amsterdam Court of Justice under the threat of a penalty.

Source: Van der Velde (2017)

According to the directive and the accompanying impact assessment (EC, 2013), the publication of corporate information is intended to have several direct and indirect effects. Put briefly, the aim is to ensure that uniform, readily comparable and consistent reports serve to inform a broad range of stakeholders, enabling them to assess whether their financial and non-financial interests are properly taken into account. The assessment can then lead to a dialogue between companies and stakeholders, which encourages companies to more effectively look after the interests of all those involved. This can serve to improve an organisation's commitment to corporate social responsibility, which in turn can contribute to a more sustainable and green economy.

Comparison with other EU Member States¹

The NFR Directive builds on the range of experiences that a number of Member States have had with non-financial reporting regulations

The aims of the directive include harmonising the reporting efforts of companies and creating a level playing field for the EU Member States. The European Commission decided to adopt an approach that allows for flexibility in the implementation of the directive and in setting additional information requirements (EC, 2013). Therefore, while the directive defines a number of minimum requirements, it also gives Member States sufficient space to develop their own interpretation in line with their national context and their particular history of regulation in this area. This approach, which is in agreement with the subsidiarity principle, gives rise to variations in implementation among Member States.

Legislation and regulations on non-financial reporting were already in place in the Netherlands and in several nearby EU Member States, such as France, Denmark, Germany and the United Kingdom

These countries have been regulating non-financial reporting since the late 1990s and, like the Netherlands, have adapted their existing legislation to ensure it meets the minimum requirements of the current directive. On the whole, the modes of implementation across the examined EU Member States are comparable. For example, in all cases, it is common practice to either report on the required subjects or include a statement explaining the absence of such reporting (the Comply or Explain principle). Furthermore, in all the studied countries, subsidiary companies are exempt from the obligation to submit separate financial and non-financial reports.

There is variation in the current implementation of the NFR Directive in several Member States

A comparison performed by the Global Reporting Initiative (CSR Europe et al., 2017) of 30 countries in the European Economic Area (EEA) (28 EU Member States and 2 EEA countries) shows that the variation in regulations across nations continues to exist even after the implementation of the NFR Directive. In 19 of the surveyed countries, further requirements were established for non-financial reporting in addition to those in the directive. For example, Iceland, Sweden and Denmark extended the scope of the directive by applying the reporting obligation to companies with more than 250 employees; in Slovakia, railway companies and municipalities with important assets also have to report; and in Greece, all companies with more than 10 employees and a net turnover of over EUR 700,000, or balance sheet total of over EUR 350,000, must report on environmental performance and employee matters, although at a less detailed level. As a result, the number of companies that have to report varies widely—from 10 in Lithuania to 1,600 in Sweden. Markedly differing features include the definition of public-interest entities (PIEs), the reporting format and the sanctions for non-compliance. There are also differences in the use and involvement of auditors. Of the 30 countries, 24 use a definition of PIEs that goes beyond the basic requirement, such as the inclusion of national railways, and water and sewage companies (Bulgaria), health insurance companies (Czech Republic), state-owned limited liability companies (Denmark) and other state-owned entities (Greece).

The Netherlands makes less use of the policy space offered by the NFR Directive than nearby EU Member States

We performed an analysis of the differences between the Netherlands and four nearby Member States (Table 2.2). In those countries, regulations are tighter than in the Netherlands, in a number of ways. The differences have to do with, for example, the established reporting standards, the number of companies covered by the directive (the scope), whether or not certain information is to be submitted, and the conditions under which commercially sensitive information may be omitted (the Safe Harbour Principle). The way the disclosed information is verified also varies between Member States, as do the penalties for non-compliance with the reporting obligation. There are, for example, fines for non-compliance (Germany, United Kingdom) or even prison sentences (France) and mandatory third-party audits on the consistency and quality of the reporting (France). In all of the neighbouring countries addressed in this report, sanctions are imposed for not complying with the reporting obligation, but they are rarely applied for issues relating to content and quality. In France, transparency about climate-related risks is required, while, in other countries, it is only mentioned as an example of issues that are to be assessed for their relevance. France has the strictest regulations and makes the most use of the policy space, while the Netherlands and the United Kingdom have stayed relatively close to the minimum requirements set forth in the NFR Directive.

Table 2.2

Comparison of the implementation of the EU NFR Directive in several EU Member States close to the Netherlands

	Exemption for subsidiary companies	Application of the Comply or Explain principle	Scope	Reporting topics	Application of the Safe Harbour principle	Publication format	Auditing and verification	Enforcement and sanctions*
Netherlands	=	=	=	=	=	=	O	O
United Kingdom	=	=	O	=	=	=	O	O
Germany	=	=	=	=	=	O	O	O
Denmark	=	=	O	O	X	O	O	O
France	=	=	O	O	X	O	O	O

Key to symbols:

= national requirements match the minimum requirements set in the NFR Directive;

O national requirements have been adapted, taking advantage of the offered policy space;

X the Safe Harbour Principle is not applied

* regarding inclusion of information (but not regarding accuracy or completeness).

Comparison between countries shows that the formulation of minimum requirements has achieved a certain degree of desired harmonisation

The comparison shows that countries have taken advantage of the offered policy space, in different ways. Further harmonisation seems necessary to produce easily comparable information and a level playing field. The main bodies for reporting standardisation, such as the GRI and IIRC, are already working on enhancing comparability and developing sector-specific guidelines and standards; application of these new features could be encouraged to guide companies in making reports that are more relevant, and promote comparability between similar businesses.

Experiences around the world

Stock exchanges around the world play a prominent role in the disclosure of non-financial information.

A global trend has emerged at stock exchanges towards mandatory reporting. More and more, companies listed on stock exchanges are required to disclose non-financial information (KPMG, 2017). Consequently, stock exchanges play a major role in transparency policy developments, such as the inclusion of sustainability information (Brazil and India), integrated reporting (South Africa) and the compilation of rankings of sustainable businesses (China and Malaysia). A good example of the role of stock exchanges is that of Johannesburg (South Africa), where sustainability information and

integrated reporting have become mandatory on the basis of the 2009 King III Report on Corporate Governance (Ioannou and Serafeim, 2017; KPMG, 2015). In addition, companies also have to apply the Comply or Explain principle, and listed companies are required to uphold the Corporate Governance Code. In the United States, where reporting levels are relatively low, new standards for individual sectors are being drawn up by the Sustainability Accounting Standards Board and the Climate Disclosure Standards Board (OECD, 2014). The GRI is also working on sector standards. Altogether, this means there is a general trend which makes it easier to compare reports of several companies operating in sectors where there are comparable material risks. In Mexico, the rapid increase in foreign investments has led to a rise in the importance of sustainability reporting (KPMG, 2017). Regulations and pressure from investors – mainly with regard to mandatory reporting on carbon dioxide under the *General Law on Climate Change* – mean that reporting has made a great step forward. The Mexican stock exchange has also introduced sustainability indices, and companies wishing to be listed must report on sustainability.

Note

- 1 The information for the country comparison comes from different sources: the legal documents are from the named countries, and the comparative analyses from Van der Velde (2017) and CSR Europe et al. (2017).

3 The expected effects of transparency and mandatory non-financial reporting

The European and Dutch policy worlds have certain expectations about the effects of EU transparency policy. We compiled these expectations into a policy theory, based on formal policy documents and international literature on the effects of voluntary and mandatory reporting. The policy theory helps to identify the preconditions under which the intended effects are likely to occur.

The theory-of-change mechanism for transparency and non-financial reporting

The policy theory behind non-financial reporting is graphically represented in Figure 3.1. The reporting process is the central feature of the image. The lower part shows the position of companies and the effects they have on their environment, and the upper part presents the interactions with and influence of stakeholders.

The process of change that is linked to transparent reporting comprises the following steps:

- the company gathers information about its business activities and determines its relevance for external stakeholders (determining materiality);
- the company reports on performance, risks and dependencies (transparency);
- social stakeholders influence companies (dialogue and interaction);
- companies improve various aspects of corporate social responsibility (behavioural change).

The change mechanism is underpinned by public reports on non-financial matters, in addition to the customary financial reports, providing insight into the way a company operates. It deals with impacts on the local environment, on dependencies on resources and on the company's position in the value chain, while also assessing the level of risk associated with each of these impacts. Feedback from stakeholders in society lies at the heart of the change process; stakeholders can exert influence on companies through various actions and interventions and try to motivate them to improve their behaviour.

Companies can also achieve behavioural change through self-regulation, if their own attitudes towards corporate social responsibility motivate them and they compare their performance in non-financial fields with that of their competitors. For these reasons, transparency is referred to both as a *window*, serving outsiders, and as a *mirror*, prompting self-reflection (Maas and Vermeulen, 2015).

The government uses the transparency obligation to indirectly steer towards public goals

Through the transparency obligation, the government exploits the intervention possibilities of societal actors to pursue public objectives. The aim is to reinforce the social interaction and dialogue that can lead to behavioural changes in companies. The changes that these actors want to achieve fall in several sustainability domains and include issues such as limiting climate change, respecting human rights, providing good working conditions, and ensuring a proper state of health of the environment and nature. The functioning of the transparency instrument revolves around stimulating companies to make their business considerations in the light of corporate social responsibility and the pursuit of sustainability. This indirect way of steering fits in with the policy philosophy of the *regulating and participating government in an energetic society* which furthers ongoing development and discussion about what is socially desirable in the various domains (Hajer, 2011; Van der Steen et al., 2014). Through regulation, the government creates preconditions for dialogue and interaction, but the ultimate results with regard to public objectives are uncertain, as these depend on the exchange of views between actors on what defines socially responsible behaviour.

Non-financial information is relevant to multiple stakeholder groups

Non-financial information is relevant to stakeholder groups formed by financial institutions, social organisations, trade unions, governments, trade organisations, consumers and citizens (Van der Esch and Steurer, 2014). Based on the information provided, they can form an opinion about the management of their interests, and take action if those interests are harmed. The interaction between companies and stakeholders can take many forms, such as attending shareholders' meetings, engaging in dialogue with companies, exerting pressure via social media, adopting selective purchasing behaviour and even instigating legal proceedings. It may also be that companies use their information for self-assessment and to improve their practices as part of their strategy on corporate social responsibility.

Financial institutions play a prominent role in the theory of change for transparency

Financial institutions are considered to have substantial influence on the sustainability performance of companies, because they possess qualities that enable them to act as new agents of change (Van Tilburg and Achterberg, 2016). Their motives for promoting more sustainable business practices are mainly related to limiting investment risks, such as those related to liability and company reputation, market position and market value. More and more investors are aware of these risks. A clearly defined financial risk perception

already exists around environmental issues, such as climate risks, but is less evident with regard to questions about the impact on biodiversity and natural-capital dependence.

The use of non-financial information

In the financial sector, the use of non-financial company reports has been common practice, for some time now (KPMG, 2015). Information on company achievements is collected by rating agencies from sources such as annual sustainability reports. Those data are supplemented, cast in a homogeneous format, analysed and translated into rankings, or ratings, for the purpose of investment decisions. The use of information on the risks posed by climate change is already well-developed, thanks to international policy goals and the availability of reporting tools and standards. However, with respect to biodiversity and natural capital, systematic use of information in integrated market analyses is still limited, despite the fact that support is now being offered to illustrate the relevance of natural capital.

Financial institutions influence companies with their engagement and investment decisions

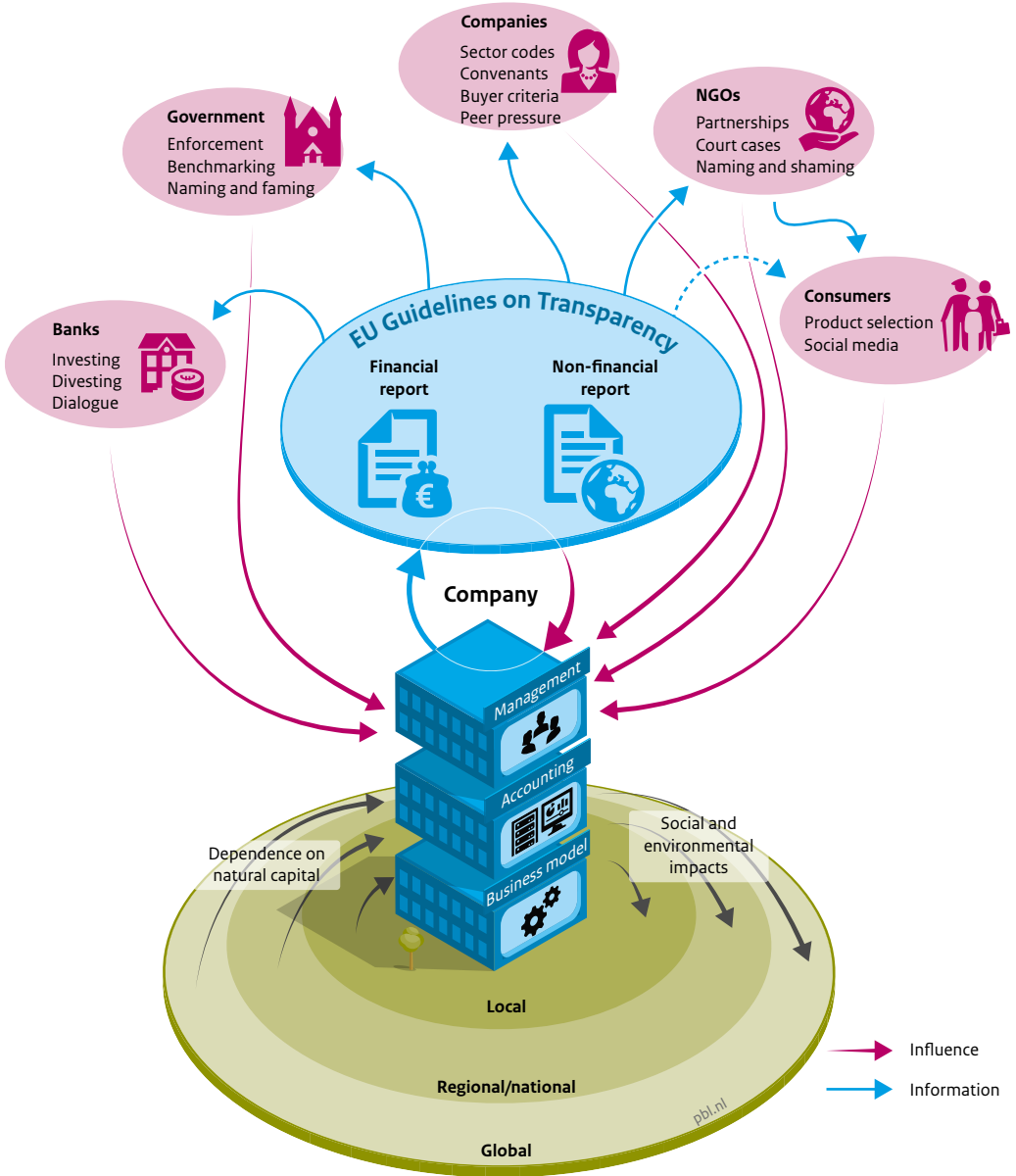
In the mechanism of change that takes place through financial institutions, a number of steps can be discerned: information collection, risk assessment, decision-making on interaction with companies, and the final response of companies to this entire process. Financial institutions have various interaction strategies to try to exert influence on companies. They can, for example, select companies for investment (entrance strategies) or exclude them (divestment). More interactive forms of influencing also exist, which are referred to as *engagement strategies*. These involve exchanging information in direct contact and entering into dialogue on how certain issues are dealt with and whether changes are advisable (Lambooy et al., 2017).

Responses to and engagement with non-financial information

Companies can respond to engagement in several ways. For example, they can change their stance and agenda on social issues, and they can make improvements in the fields of transparency and risk management. They can also take more far-reaching action by adapting their business processes to enhance their performance on various sustainability issues, such as reducing greenhouse gas emissions. With these types of responses, companies are running their business in more socially responsible ways and improve their sustainability performance. Investor confidence may increase, which in turn would have a positive effect for companies.

Figure 3.1

Theory of Change for the role of transparency and stakeholder interaction in promoting CSR



Source: PBL

Public reporting on financial and non-financial performance and risks enables stakeholders to gain insight into how companies operate, and based on that knowledge, to exert pressure on them. Companies can react by deciding to change their corporate social responsibility policy and their business practices. However, they can also come to these changes based on self-reflection. Transparency is therefore sometimes referred to as both a window and a mirror.

4 NFR cases on climate, biodiversity and natural capital

This chapter briefly expands on two cases in which non-financial reporting plays a role. The first concerns the issue of carbon dioxide and climate change. In the second case, we examine whether similar developments are now also taking place in reporting on biodiversity and natural capital. Since experience in this last field is still limited, we also pay attention to barriers to the use of this information.

Climate reporting is making headway

Over the past 20 years, companies have been collecting and publishing more and more information on greenhouse gas emissions and the consequences of climate change for their business (carbon accounting and disclosure). There are various reasons for this. Shareholders, banks and investors are aware of the risks associated with climate change (Maas et al., 2017). Consideration of these risks has been further stimulated and justified by the international climate treaty and its elaboration into national climate policies. In France, carbon disclosure and openness about achieved emission reductions are a mandatory part of reporting. In addition, greenhouse gases have acquired economic value following the development of instruments such as carbon tax and the EU Emissions Trading System.

Reporting on CO₂ emissions is increasing particularly at larger companies (Knox-Hayes and Levy, 2011). To facilitate carbon accounting, uniform reporting standards are available for dealing with climate-related topics. At present, more than 90% percent of the companies that are members of the international initiative Carbon Disclosure Protocol use the so-called GHG protocol or another standard based on it. This promotes the comparability of companies and sectors.

While this form of transparency and reporting has existed for several decades, there is still only limited insight into the effects it has on business performance. A recent study on the amount of emissions related to the 500 largest companies, worldwide, found that the increase in the number of CO₂ reports had been accompanied by a relative decrease in greenhouse gas emissions, compared to company turnover (Qian and Schaltegger, 2017). Therefore, openness and improvements at the largest companies go hand in hand.

A number of lessons can be drawn from this case study: when consideration for the issue is legitimised with national and international objectives, the number of reports grows; quantitative estimates of financial risks increase the relevance for financial institutions; standardisation of reporting methods and data presentation makes companies more easily comparable; it is important to have reliable information to make comparisons, and this requires independent audits and verification.

Encouraging more extensive use of the available reporting standards through regulation may help, provided that harmonisation of indicators is possible. This is also in the interest of the companies themselves, which are now seeing several channels approaching them with requests for information.

Barriers to using biodiversity and natural capital information in decision-making

Reporting on subjects such as biodiversity and natural capital has progressed less than reporting on carbon issues. Financial institutions are often not concerned with integrating information on biodiversity and natural capital into their financial analyses, and as a result these matters are only taken into account to a limited extent in decision-making on investments and disinvestments (Lambooy et al., 2018). Shareholders and investors are already aware of risks related to dependency on and unsustainable use of natural capital, but financial institutions only make little use of this information in their risk analyses. There are several reasons for this. First of all, the quality of information about the environment and natural capital is still rather low, and little is known about its financial relevance for investors (Dickie et al., 2016). Financial institutions only have limited capacity to analyse (business) risks related to the environment or natural capital. During interviews, some investors that are active on the Dutch market have confirmed this depiction of the existence of barriers (Lambooy et al., 2018). To bring about change, it is necessary to raise awareness about the consequences of these types of risks for companies. An important, recently made step lies in the methods that have been devised for ecosystem accounting and laid down in internationally drawn up protocols such as the Natural Capital Protocol (NCP) and the UN System of Environmental-Economic Accounting (UN-SEEA). This also calls for a supporting role of the government, which is able to, on the one hand, emphasise the economic significance and social values of nature and biodiversity, and on the other hand, establish sector-specific guidelines to point out what companies should report on.

5 Expectations and reflections

Transparency, both as a tool and a target: specifying expectations

The question is if and how the requirement for transparency will contribute to promoting corporate social responsibility and thereby to a greener economy. Based on what has been outlined above, some critical comments can be made about the implementation of the NFR Directive in the Netherlands and the effects it can be expected to have. For example, at present, the reporting obligation applies to a relatively small group of approximately 120 companies and enterprises in the Netherlands, whereas other Member States cast a wider net. The 120 companies in the Netherlands are included in the ranking of the Dutch Transparency Benchmark, which is drawn up periodically at the government's request. All those companies already produce reports, although of varying quality, and many already use the reporting frameworks referred to in the directive. Approximately 30% of the companies involved report fairly comprehensively, but for the remaining 70%, reporting is estimated to require improvement under the new regulations. Improvements are needed in chain transparency, the identification of social dilemmas and the degree of insight into the reliability of information.

Stakeholders may not be sufficiently informed

The Dutch decision—in line with the default requirement of the NFR Directive—to only impose a requirement for the inclusion of non-financial information in the form of a concise statement in the management report (which is often limited in scope and depth) creates the risk of stakeholders not being sufficiently informed. Stakeholders require detailed and geographically specific information to properly assess whether their interests are being represented in the collected information and taken into account, properly. That kind of information may be presented in separate annual reports and companies are currently free to draw up and publish such reports, but they are not obliged to do so. In Germany, Denmark and France on the other hand, there are more possibilities and companies may go for the alternative of publishing their non-financial statement in a supplementary report to the management report or on the company website. The report must remain available for five years, and in France it has to be publicly available within eight months of the date of publication of the management report. It is therefore a good idea to check whether companies publish further information, in addition to the management report, and whether the obligation could be expanded to publishing a full report next to a statement.

Limited comparability and accessibility of information may pose an obstacle for stakeholders other than financial institutions

Another point worth noting is comparability and accessibility of information. The NFR Directive allows many different reporting standards and frameworks within the obligation, which does not promote comparability of information. To obtain harmonised information, financial institutions therefore rely on rating agencies who collect non-financial information and make it uniform for the purposes of comparative analyses and indices. Such comparative information is expensive to compile and therefore not easily accessible to stakeholders other than large financial institutions. At present, it is not yet possible to estimate to what extent limited accessibility may pose an obstacle to the functioning of the transparency instrument. There are currently no plans for policies to support the use of non-financial information and the potential role of a wider group of stakeholders. Another way of involving stakeholders is by enabling them to participate in the materiality analysis of companies. Such analyses are performed to determine the types of information that must be disclosed and are relevant to the parties involved.

Given these considerations, it is unlikely that the introduction of the NFR Directive will lead to major changes in the Netherlands

The group of companies that fall under the reporting obligation in the Netherlands is rather small, and all of them already produce reports. A considerable proportion of these companies should improve the quality of the information they provide (B&A, 2013), and the regulations can have a positive influence on this. However, the question remains whether the transparency regulations will encourage interested parties to call companies to account for their performance and provision of information. Since there is no obligation to disclose detailed, geographically specific information—whether or not in a separate sustainability report—stakeholders may not be able to properly assess whether their interests are being protected. Major investors already use non-financial information, but until now, this has led only to limited levels of dialogue and interaction on environmental issues other than climate change. What is certain is that shareholders, banks and investors are already aware of the risks associated with climate change.

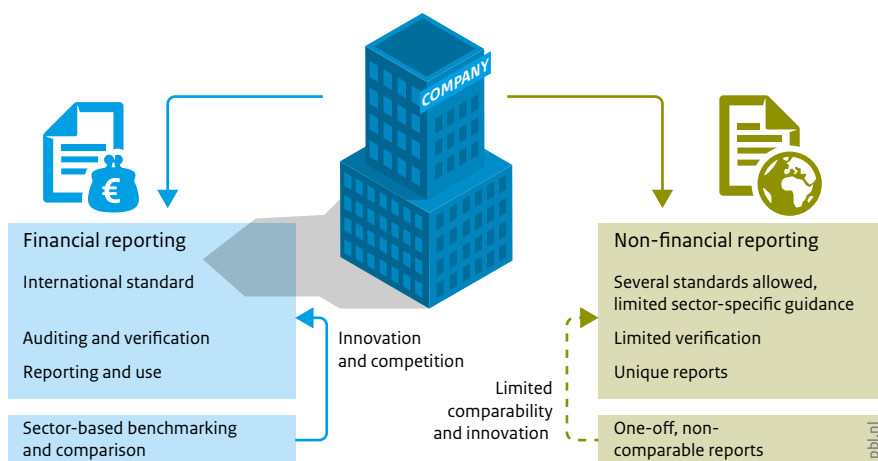
At present, there are still many differences between the regulations for financial and non-financial reporting and procedures of giving account

In financial reporting, international standards have already been introduced on a wide scale, publication of a separate detailed report is mandatory and inaccuracies are punishable by law. In the Netherlands, all these matters are regulated in the Economic Offences Act (Figure 5.1).

The differences with control and enforcement of non-financial reporting are striking. Financial statements fall under the Economic Offences Act (WED), and any deficiencies are punishable by sanctions such as imprisonment, community service or a fine. With regard to non-financial information, no decision has been made to carry out full audits at the same level as those on a company's yearly financial accounts. In addition, inaccuracies in

Figure 5.1

Differences in regulation between financial and non-financial reporting



Source: Lydenberg 2010

There are several differences between the regulations for financial and non-financial information disclosure. It is assumed that the less strict regulations on transparency on non-financial subjects will have more modest effects than the regulations on financial information.

the management report are not punishable under the WED. However, companies can be encouraged to provide better information under the threat of a non-compliance penalty.

However, the regulations on transparency of non-financial information are still young, and there is still much to be learned. Financial reporting is meant to aid company accountability to shareholders. If non-financial information is to play a similar role in the accountability of companies to societal stakeholders, then the obvious move is to work on further attuning and integrating these different types of information and the relevant regulations in due course.

Look for synergies with other policy instruments

The NFR Directive is not the only instrument designed to promote non-financial reporting and CSR. Seeking synergies with other policy instruments is a way to open up possibilities to mutually reinforce each other, and for extending the scope of reporting obligations beyond the PIEs. Some of these instruments are already being used, especially those directed at companies operating internationally. They include the enforcement of the Dutch Corporate Governance Code, which also focuses on representing the interests of a wide range of stakeholders; the international CSR covenants adopted in the Netherlands, which take on sector-wide objectives and reporting guidelines (including a definition of

materiality); and the OECD Guidelines for Multinational Enterprises, for which a national contact point has been set up for mediation in conflicts of interest.

The legal duty to take stakeholder interests into consideration

The Corporate Governance Code establishes that financial institutions, such as pension funds, have a duty to properly consider the interests of various stakeholders in their decisions. The code originated as a form of self-regulation and has since been incorporated into Dutch law (Van der Velde, 2017). There is much discussion at the international level about exactly what those interests are. While some insist that integrating non-financial considerations into the operations of financial institutions is incompatible with the duty to deliver results for investors, others feel that the duty precisely involves taking added value for society into account, even if it can be to the detriment of investment results. The European Commission needs to provide more clarity on the exact obligation in order to advance the integration of non-financial analyses for public purposes.

Monitoring efforts for transparency and CSR

Monitoring and evaluating the effects of current policies is necessary in order to see progress on both the tool and target of the directive. There are currently different monitoring initiatives by public and private actors for different purposes.

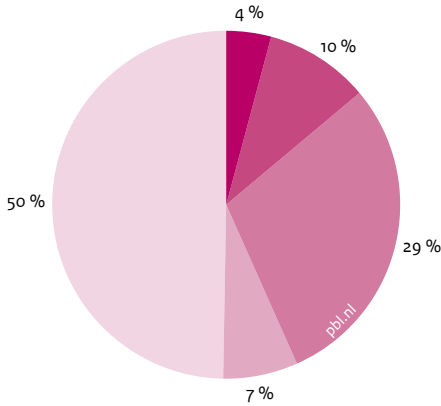
The Dutch Government compiles the transparency rankings of 500 companies and organisations

Since 2004, transparency rankings have been compiled, by government order, of 500 large companies and enterprises, including all those currently required to report (EZ, 2016). The stimulus coming from this Transparency Benchmark and the associated Crystal Prize can be seen as an example of *naming and faming*, and this serves as an incentive for motivated companies to make their information more transparent. It should be noted that a good score on transparency does not automatically imply a good sustainability performance.

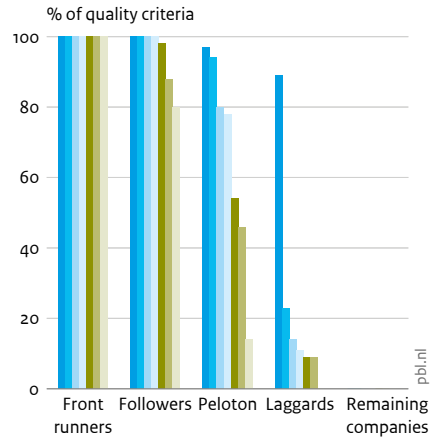
In 2016 and 2017, more than half of the companies classified as frontrunners and followers in this Transparency Benchmark consisted of companies that are required to report under the Dutch implementation of the NFR Directive. In absolute terms, however, most companies that are required to report were in the main group (peloton) (Figure 5.2). These companies report, but can still improve on a number of subjects, such as transparency about their chain management, the identification of societal dilemmas, and the reliability of the information provided. The Transparency Benchmark is also suitable for reporting back to the European Commission on achieved progress and comparing the Netherlands with other Member States. The Benchmark is already undergoing further development to ensure compliance with the criteria of the NFR Directive. A relatively large proportion of the 500 companies in the ranking (just under 50%) still does not disclose any information, though none are companies subject to the reporting requirement.

Figure 5.2
Transparency benchmark for groups of companies, 2015

Benchmark composition



Average transparency scores per subject



Group ranking

- Front runners
- Followers
- Peloton
- Laggards
- Remaining companies, no disclosure

Subjects

- Business model
- Strategy
- Targets
- Stakeholder involvement
- Supply chain
- Dilemmas and issues
- Assurance

Source: Dutch Transparency Benchmark 2016

There are major differences among companies in transparency on matters that are relevant to corporate social responsibility. The frontrunners score well on all items. The main group (peloton) and the laggards both have shortcomings in a number of respects. Improvements are needed particularly in transparency about the value chain, dilemmas and issues, and the reliability of the information.

Private initiatives for monitoring of CSR efforts are fragmented

The private monitoring initiatives that have arisen over the years to highlight improvements in transparency and trends in corporate social responsibility paint a fairly varied and fragmented picture. Monitoring efforts that provide a broad description, such as the Dow Jones Sustainability Index, have often been set up by companies which offer the collected information to investors (Sustainalize, 2017). With regard to major, listed companies, the results and the scoring methodology of these broad monitors are often not publicly available for commercial reasons. In the Netherlands, there are also many sector-specific monitoring initiatives—often from a network or sector organisation—that focus on a more limited number of issues. Their aim is to provide transparency about questions that attract a great deal of public interest, such as the sourcing and

sustainability of products or raw materials. These sector initiatives also bring smaller companies into the picture (Sustainalize, 2017).

So, while there is a great deal of monitoring activity, it is difficult to paint a full picture of the state of affairs in corporate social responsibility in the Netherlands, and, by extension, of the effects of CSR policies, including transparency regulations. The rather low level of uniformity and openness among the major monitoring initiatives is partly caused by mutual competition and does not enhance comparability. The business world indicates that there is a need for more uniformity and a reduction in the number of monitoring initiatives (Lambooy et al., 2018). The government could promote uniformity and a reduction in overlapping survey activities. A reasonable move would be devising a combination of broad and sector-specific monitoring. This appears to require a cooperation effort between government, financial analysts and umbrella organisations of the business world.

6 Future developments and policy options

Implementation of the NFR Directive in the Netherlands can be directed to ensure it meets the preconditions to maximise the effects of transparency

In the Netherlands, the reporting quality is expected to improve for an estimated 70% of the companies that are obligated to report under the NFR Directive. However, the number of companies that have to report is low compared to, for instance, Denmark, and the preconditions for non-financial reporting to be effective in stimulating change are only partially met. To make the NFR Directive work effectively and have impact on public objectives, the following preconditions need to be met: an increase in the number of companies reporting under the rules, greater quality and relevance of information, and better comparability of and accessibility to information as disclosed by companies. Accurate comparisons help towards making responsible investments and deciding on appropriate action, leading to more interaction and dialogue between companies and stakeholders. The current directive already provides policy space in line with these framework conditions.

Learn from the strengths of financial reporting to support public goals and protect stakeholder interests

The regulations on transparency of non-financial information are still in their infancy, and much can be learned from monitoring and evaluation. At present, many differences continue to exist between the rules for financial and non-financial reporting and between methods of giving account. In financial reporting, international standardisation has been widely introduced, a separate detailed report is mandatory, inaccuracies are punishable. In the Netherlands, all these matters are regulated in the Economic Offences Act. However, it should be clear that the two types of reporting serve different purposes: financial reporting serves to guarantee investor confidence, lower transaction costs and aid company accountability to shareholders. Non-financial reporting serves to help attain public goals and protect the interests of a much broader group of stakeholders. If non-financial information is to play a similar role in the accountability of companies to societal stakeholders, then the obvious move is to work on further attuning and integrating these different types of information and the relevant regulations.

Stimulate reporting on contributions to the Sustainable Development Goals to provide insight into value creation for society

In pursuing target 12.6 of the sustainable development goals, companies should be encouraged to see to it that their reporting pays attention to their contributions to the internationally widely supported objectives for sustainable development. Some leading companies have already started to do this, and therefore they can clarify the issue of their social added value. At the same time, reporting on activities related to the SDGs gives more direction to the public objectives of company reporting.

Key suggestions

In the literature on effects of transparency, the interviews on the functioning of transparency, and the analysis of expectations and preconditions, several recommendations for improving regulation come to the fore:

- **The Dutch Government can make more use of the policy space offered by the NFR Directive**

With regard to the implementation of the directive, the Netherlands stays close to the literal text and the minimum requirements. Within the current directive, the Netherlands can tighten the transparency requirements by making more use of the policy scope offered, as other Member States have done. In the long term, the regulations could be revised within the European context.

- **Reinforce synergies with other instruments**

In addition to transparency, the Dutch Government can use several other instruments to encourage companies operating nationally and internationally to adopt corporate social responsibility policies. The efforts can be reinforced by promoting a sector-oriented approach in order to gain experience in information collection, and by stimulating voluntary reporting as a possible predecessor to legislation with a wider scope. The scope of the regulations can also be extended by creating synergies with sector covenants, as they commit more businesses than just the relatively large companies.

- **Make use of existing standard reporting formats**

The European Commission can make the use of widely accepted standards for reporting compulsory and thereby enhance comparability. The formats that are available at present appear to have been sufficiently developed and tested, and are already being widely used. They offer sufficient flexibility to emphasise a range of issues and meet sector-specific requirements.

- **Provide direction through sector-specific recommendations and standards**

For each sector, the risks for and the dependency on the physical environment are different, and that calls for more sector-specific guidance and standards. They help companies to make their reports more relevant, can give direction to the materiality analysis, and stimulate the drawing of comparisons with competitors. For example, sector organisations can draw up such instructions in collaboration with standards management bodies.

- **Make information about biodiversity and natural capital more relevant**

The use of information on biodiversity and natural capital in the financial sector can be increased by improving its relevance. This requires insights into the current and future values of biodiversity and natural capital and clearness about the risks of losses in them. Rather than the global level, the focus here should be on the local level, where issues such as water consumption, emissions and pressure from business activities on nature and the environment are most tangible and have a bearing on several stakeholder interests. It would require much more emphasis on geographic detail in company reporting.

- **Increase attention for the long-term consequences of investments**

Attention for the long-term consequences of investment decisions can be stimulated by letting the remuneration of financial managers partly depend on the expected social added value in the long term. These questions are also dealt with in the Corporate Governance Code whose supervisor is responsible for the corresponding monitoring efforts.

Transparency is relatively new: the time is ripe for monitoring and evaluating current practices

The NFR Directive is a relatively new instrument, and much remains to be learned about it. The European Commission has recently announced that it is going to review the directive in 2019 and, if necessary, tighten the regulations. An important question for evaluation is the exact way in which changes come about with regard to company awareness of social issues and improvements in business performance. Are these changes mainly the result of external influences, fed by the forming of public opinion about corporate social responsibility and stakeholder pressure, or rather the result of internal motivation, fuelled by transparency and self-reflection? To gain clearer insight into the functioning and the effectiveness of the NFR Directive, it is therefore necessary to monitor the change process, focusing on both its intended direct objectives (reporting) and the indirect objectives (change in company performance on CSR). To keep track of the progress of transparency as a CSR tool, lessons from the literature on induced changes should be used to design effective monitoring and evaluation programmes. In addition, insight is needed into the interactions between companies and a range of stakeholders, and into their effects on corporate social responsibility and sustainability performance.

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Background studies commissioned by PBL Netherlands Environmental Assessment Agency

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