

KPIs and sustainability performance

An empirical analysis concerning the use and development of KPIs on sustainability performance reporting for the largest stock listed firms in the Netherlands

Research instigated by Eumedion
conducted by Shareholder Support and the Erasmus
University Rotterdam

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Preface

This research provides an analysis of the use of Key Performance Indicators (KPIs) in the sustainability reporting by the largest Dutch publicly listed firms. Eumedion, the Dutch Corporate Governance platform, instigated the research question. The current report provides a detailed empirical analysis of contemporaneous sustainability¹ reporting practices in the Netherlands. Our study focuses on the AEX and AMX companies listed on the NYSE Euronext Amsterdam Stock Exchange. Companies' disclosure practices regarding sustainability will be benchmarked against a checklist of criteria. The criteria are based on indicators derived from several guidelines and existing frameworks, including the Global Reporting Initiative (GRI), the Dutch Accounting Standards Board (Raad voor de Jaarverslaggeving; RJ), and the German-European DVFA/EFFAS. The analysis also contains a literature review to identify additional criteria from sustainability standards and these complementary criteria have also been added to our checklist. Based on this, a checklist is constructed that comprises 46 separate disclosure items, classified into 6 different categories.

The subsequent analysis of companies' transparency regarding sustainability shows there is a large diversity in reporting practices. For example, some items that are frequently reported are the number of employees and energy improvement targets. On the other hand, only a few companies provide information about their land use. None of the AEX and AMX companies provide all the information on the 46 items that are included in our checklist. As listed companies and institutional investors are still in the process of finding the appropriate and material KPIs in relation to their ESG-performance and strategy, there is both room and need for further improvement on either side of the investment spectrum.

We believe the findings presented in this study, along with our recommendations, provide a number of valuable new insights. Our report also attempts to draft a roadmap for the future of sustainability reporting.

¹ We follow EFFAS and DVFA in their description of corporate sustainability: Corporate sustainability can be defined as the capacity of companies and organisations to remain productive over time and to safeguard their potential for long-term maintenance of profitability. Being sustainable means that companies actively pursue goals such as responsible use of natural resources both in their own operations and the operations of their respective clients, as well as respecting social rights in their markets of operation and those markets where their products and services are in use and being accountable to providers of equity and debt capital. However, corporate sustainability focuses on both minimising risks arising from environmental, social and corporate governance aspects and proactively seeking to gain advantages from "translating" ESG issues into a company's product and service portfolio. As such, companies pursuing corporate sustainability reconcile long-term viability (read: profitability) with management of ESG issues.

Finally, we would like to thank Eumedion and its members for the opportunity to conduct this research. We extend a special word of thanks to Marleen Janssen Groesbeek and Wouter Kuijpers, who have supported the research process in the best possible way and provided us with valuable feedback throughout the entire process.

Executive summary

Eumedion asked the Erasmus University of Rotterdam and Shareholder Support to analyse the use of Key Performance Indicators (KPIs) in the sustainability reporting by the largest Dutch publicly listed firms (AEX and AMX). Furthermore Eumedion requested the researchers to draw some conclusions from the facts and figures they found with which Eumedion could start a debate on non-financial KPIs and their value for (institutional) investors.

To start with the facts and figures. Among Dutch listed companies (AEX and AMX) three variants of so called sustainability reporting can be found: (i) a separate sustainability report, (ii) an annual report with a dedicated sustainability section, and (iii) an integrated annual and sustainability report.

Overall, 50% of the companies publish a separate sustainability report and the other 50% of the companies have a dedicated sustainability section in the annual report. The survey results show that all companies that declared they publish a so called integrated (annual and sustainability) report indicate that the entanglement of sustainability performance and strategy is the main reason for doing so. Hence, sustainability has become an integral part of how business is done. The reason to publish a separate sustainability report on the other hand was, for most of the respondents, to bring more attention to the topic of sustainability within the company. AEX companies (70%) publish a separate sustainability report significantly more often than AMX companies (32%). And most AMX companies have annual report with a dedicated sustainability section.

With respect to the application of sustainability indicators, 71% of the companies have established sustainability KPIs and measure them on a year-to-year comparison. AEX firms (87%) define sustainability KPIs substantially more often than their AMX counterparts (56%).

Regarding assurance, 46% of the companies seek third-party assurance for the provided sustainability information. Our survey results illustrate that 59% of the respondents perceive (the added value of) third party assurance to be valuable, whereas 41% of the respondents does not see the added value. It furthermore appears that publishing a separate sustainability report, as well as reporting in accordance with the GRI framework, is strongly related to an increased rate in a company seeking third-party assurance on the sustainability report. AEX companies (74%) seek third-party assurance significantly more often than AMX companies (20%).

Risk Management and Remuneration

In relation to risk management, 52% of the companies provide a link between sustainability and the company's risk management in the annual report. The survey results are principally in line with earlier observations. 82% of the respondents points out that potential risks related to sustainability issues are identified and 50% mention that potential risks related to sustainability issues are reported in the risk paragraph of the annual report. AEX companies (61%) link sustainability to risk management more often than AMX companies (44%).

Regarding the application of sustainability criteria in executive remuneration, 33% of the companies apply sustainability criteria in executive remuneration. 44% of these companies disclose the explicit sustainability targets, while 56% only mention the inclusion of sustainability targets, but then again do not disclose the explicit target(s). In addition, we conclude that there is wide variety in sustainability targets set. AEX companies (52%) include sustainability criteria in executive remuneration considerably more often than AMX companies (16%).

The GRI reporting standards are most widely used: 71% of the companies apply GRI as its sustainability reporting standard, while only 8% explicitly refer to the use of the RJ 400 Directive. On average, 82% of the survey respondents indicate that GRI reporting standards provide sufficient guidance with respect to sustainability reporting.

The analysis with regard to the influence of firm characteristics on sustainability disclosures included the effect of (i) industry, (ii) firm size and (iii) shareholder structure. With respect to 'industry', it seems that sustainability disclosures of companies in the 'consumer goods industry' and 'basic materials industry' are generally above average. Conversely, it appears that 'technology- and industrial' companies provide relatively less information. These results should be interpreted with some care however, given the substantial influence of firm size.

As aforementioned, firm size has a significant influence on the sustainability disclosure provided. In general, we can conclude that the larger the size of a firm (measured by total revenues), the more sustainability information is provided.

Finally, regarding shareholder structure, it appears that companies with share certificates or a relatively smaller number of blockholders provide more extensive sustainability information than companies with no share certificates and a larger number of blockholders. However, again these outcomes should be interpreted with great care. Our findings with respect to the influence of the total percentage of share capital collectively held

by all blockholders are unfortunately too ambiguous to draw strong conclusions. It would be interesting to include this issue in future research.

Motives

The survey results show that all companies which declared they publish an integrated or a combined annual report indicate that the strong relation between sustainability performance and corporate strategy is the main reason for doing so. Hence, sustainability has become an integral part of how business is done for those companies. The reason to publish a separate sustainability report on the other hand was, for most of the respondents, to increase attention to the topic of sustainability within the company.

Most of the companies in the sample report information about lagging (i.e. result-based) sustainability KPIs. Examples of these indicators are CO₂ emissions, total waste and energy use. These lagging indicators do not necessarily provide information or an indication of the risks and opportunities related to sustainability, nor about the process behind the sustainability performance. It is precisely this kind of information investors need to assess and integrate ESG information into their investment decisions.

Roadmap to the future

It would be useful to use a set of environmental and social KPIs as a standard. The list could be based on the set which is currently being developed by the EU or on the set of indicators from IFAC (2012). Next to these KPIs, it should be encouraged to also provide information on concrete targets, year-to-year data, comparison and developments, and information on risks and opportunities. Additionally, next to information on achievements and positive contributions, information on challenges, remaining problems and negative impacts should be provided as well.

Both companies and large investors emphasise the need for a general international reporting standard for sustainability information, for example a system comparable to the IFRS framework for financial reporting but not necessarily IFRS's Directive-like system. This framework should be generic and sector-neutral but provide enough opportunities to include sector and business specific information.

The use of (a common set of) KPIs could be promoted through legislation, a "comply or explain" system, or initiatives from the industries companies are working in. Currently, the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI) are working on a new framework for integrated reporting in which they try to combine the

current demands for changes in financial reporting and sustainability reporting. The GRI will publish its new G4 guidelines – the next generation – in May 2013. Unfortunately the IIRC will not be able to publish its recommendations before that date. So the expectations are that the GRI will do some recommendations itself on integrated reporting with the knowledge its board acquires from the IIRC work in progress.

The European Commission is preparing its recommendations on financial reporting, to be published in September of 2012. Because already so many European countries have one way or the other based their non-financial reporting guidelines on the GRI-framework, one may expect that the Commission will to a large extent follow the GRI.

Based on the results of this research and the current climate of different new developments, it seems that the following approach would integrate the expectations from both companies and investors alike:

1. A general international standard is formed;
2. A generic list of lagging indicators comparable to the list of IFAC (2012) is developed;
3. Guidance for the use of leading indicators and process indicators (e.g. targets, time-series data, process data, internal management, accounting and control) is formulated.

1. Introduction

Investors have an important role to play in promoting long-term sustainable organisational success. Institutional investors in the Netherlands increasingly aim to use environmental, social and governance (ESG) information in their investment decisions and voting behaviour. Adequate information related to sustainability is important since this information is expected to influence the risks and opportunities related to the companies' strategies and the sustainable value creation of the companies. Therefore, it is important to take this information into account in investment decisions. While sustainability reporting has received much attention from companies, governments and rating agencies, we see that the quality of sustainability information disclosed is not always sufficient from a user perspective. ESG-related information is often presented in a disconnected way, so that its relationship to strategy, risks and opportunities, operations, and financial performance is unclear (IFAC, 2012). As a result, despite positive developments in sustainability reporting, companies are still flooded with questionnaires from rating agencies, investors and benchmark agencies.

This research aims to describe and analyse contemporaneous sustainability reporting practices in the Netherlands. The study comprises three stages. In the first stage, the current situation of sustainability reporting is analysed. The second part investigates to what extent the provided disclosures meet the information needs of the users of sustainability information (investors). The third stage examines how the content of the provided sustainability information can be improved.

During the different stages, seven research questions are answered. The first four questions are related to the current situation. The latter three questions aim to provide a view into the future.

Questions related to the current situation:

1. What is the quality of the current sustainability reports of the Dutch AEX and AMX companies in terms of relevance for investors' decisions (risks and opportunities), (quantitative) support, accountability, auditability and comparability?
2. Are sustainability issues linked to the risks and opportunities of the companies' strategies?

3. Are the results of the two aforementioned questions influenced (positively or negatively) by the use of the RJ 400 Directive and the GRI reporting framework?
4. What are the motives for AEX and AMX companies to publish an integrated report² or a separate sustainability report?

Questions related to the future:

5. Is the instrument of KPIs, as proposed by the EFFAS/DVFA, appropriate to improve the quality of the sustainability reports (relevance for investors' decisions (risks and opportunities), (quantitative) support, controllability and comparability)?
6. What environmental and social KPIs are useful for Dutch listed companies to report on the most important risks and opportunities for the company's strategy? Differ between sectors: e.g. finance, food sector, construction, offshore and chemical?
7. What roadmap can be used to support the use of those KPIs, taking into account comparability, the need for customisation and the consequential workload for the companies?

Different research methods and approaches have been used: (a) a desk study of all (sustainability) reports of the AEX and AMS companies listed on the Euronext Amsterdam Stock Exchange providing sustainability information (research questions 1 – 3); (b) a survey sent to all AEX and AMX companies (research questions 1 – 4), (c) several interviews³ with companies, (institutional) investors and assurance providers (research questions 5 – 7), and (d) a literature study (research questions 1, 5, 6 and 7).

During the literature research, reporting frameworks and guidelines like the Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), World Intellectual Capital Organisation Industry (WICI), KPI Project, Fédération de Experts Comptables Européens (FEE) and ESG Indicators in Annual reports, have been reviewed. In addition, guidelines providing indicators schemes, KPIs and other impact indicators have

² For integrating reporting Eumedion uses the definition of the IIRC: Integrated Reporting is a new approach to corporate reporting that demonstrates the linkages between an organisation's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing. See also <http://www.theiirc.org/about/>

³ List of interviewees is provided in Appendix IV.

been reviewed as well. Over a thousand different impact-related indicators as identified by various initiatives, for example the Impact Reporting & Investment Standards (IRIS), the World Business Council for Sustainable Development (WBCSD) and the Millennium Development Goals (MDG), have been reviewed and clustered into sustainability themes to identify the key impact areas that a sustainability report is expected to cover. Finally, information from representative and research networks have been used as background material; including information from European Sustainable Investment Forum (Eurosif), Principles of Responsible Investment (PRI) and the Global Impact Investing Network (GIIN).

Outline of this report

The remainder of this report is as follows. In Chapter 2, the data collection and sample selection, as well as our research design are described. Chapter 3 describes the current situation, including the first empirical results regarding this phase. Chapter 4 gives a view on possible future developments. Finally, in Chapter 5, we present our main conclusions and recommendations.

2. Data and sample selection

In this section, we describe the sample selection procedure and the dataset. Our study focuses on the 50 largest Dutch publicly listed companies. All the selected companies had to be listed on the Euronext Amsterdam Stock Exchange as of May 31, 2011. We examine the annual - and/or (separate) 2010 sustainability reports of these companies. During the sample selection process, two companies are excluded from the final sample: Aperam N.V. and TNT Express/Post.nl. Aperam is only listed on the Amsterdam Stock Exchange as of 26 January 2011. As a result, the company has not published a statutory annual - and/or sustainability report for the 2010 financial year. Shortly before our reference date of May 31st, TNT was split into two separate entities: TNT Express and PostNL.⁴ In the company's annual report of 2010, this scenario had already been considered, however, unfortunately not to the extent that it was possible to extract sufficient information for both new individual entities. Therefore, it was decided to include only TNT under the pre-merger situation (for which sufficient sustainability information was available) in the final sample. Hence, our final sample includes 48 companies; which can be divided into 23 AEX companies and 25 AMX companies. Table I provides an overview of the companies in our sample. We derive our data from the statutory annual - and/or sustainability reports for the 2010 financial year.⁵

Table I: Final sample⁶

AEX companies (N=23)	Sector	AMX companies (N=25)	Sector
AEGON N.V.	Financials	Aalberts Industries N.V.	Industrials
Koninklijke Ahold N.V.	Consumer Services	AMG Advanced Metallurgical Group N.V.*	Industrials
Air France-KLM S.A.	Consumer Services	Arcadis N.V.*	Industrials
Akzo Nobel N.V. *	Basic Materials	Advanced Semiconductor Materials International N.V.	Technology
ArcelorMittal S.A.	Basic Materials	Koninklijke BAM Groep* N.V.	Industrials

⁴ The split was announced on May 25, 2011.

⁵ In some cases (when explicitly referred to in the annual- or sustainability report) the company website has been consulted to check for any additional background information.

⁶ The companies with an asterisk (*) participated in the questionnaire.

AEX companies (N=23)	Sector	AMX companies (N=25)	Sector
ASML Holding N.V.	Technology	BinckBank N.V.*	Financials
Koninklijke Boskalis Westminster N.V.	Industrials	Brunel International N.V.*	Industrials
Corio N.V.	Financials	CSM N.V.*	Consumer Goods
Koninklijke DSM N.V.*	Basic Materials	Delta Lloyd N.V.*	Financials
Fugro N.V.	Oil & Gas	Eurocommercial Properties N.V.*	Financials
Heineken N.V.	Consumer Goods	Heijmans N.V.*	Industrials
ING Groep N.V.*	Financials	Imtech N.V.*	Industrials
Koninklijke KPN Nederland N.V.	Telecommunicati on	Logica plc	Technology
Koninklijke Philips Electronics N.V.*	Consumer Goods	Mediq N.V.*	Consumer Services
Randstad Holding N.V.	Industrials	Nutreco Holding N.V.	Consumer Goods
Reed Elsevier N.V.	Consumer Services	Ordina N.V.	Technology
Royal Dutch Shell plc*	Oil & Gas	Pharming Group N.V.	Health Care
SBM Offshore N.V.*	Oil & Gas	SNS REAAL N.V.	Financials
TNT N.V.	Industrials	Koninklijke Ten Cate N.V.*	Industrials
TomTom N.V.*	Technology	Unit 4 Agresso N.V.	Technology
Unibail-Rodamco S.A.*	Financials	USG People N.V.	Industrials
Unilever N.V.	Consumer Goods	VastNed Retail N.V.*	Financials
Wolters Kluwer N.V.	Consumer Services	Koninklijke Vopak N.V.*	Industrials
		Wavin N.V.*	Industrials
		Wereldhave N.V.*	Financials

2.1 Research design

In order to determine the disclosure practices of sustainability related information, a checklist is constructed to analyse the content of the information provided. This checklist contains specific disclosure items relating to sustainability. Most of the disclosure items included in our checklist is derived from the Global Reporting Initiative (GRI)⁷ sustainability reporting framework and the Dutch Accounting Standards Board (DASB) RJ 400 standard⁸. These standards are identified as the most commonly used standards. Furthermore, other sources of information, such as recent academic literature and the German-European DVFA⁹/EFFAS¹⁰ standard are used to complement our checklist. This has resulted in a checklist comprising 46 separate disclosure items, which are classified into 6 different categories (general, financial, employees/social, ethics, environment and other). The complete checklist is disclosed in Appendix II.

This checklist is used to examine the content of the provided sustainability information and enables us to collect objective and consistent information. After having downloaded all statutory annual (sustainability) reports, the relevant sections are analysed by a research team consisting of five members. The researcher records the relevant disclosure information in a separate Excel worksheet file, which subsequently is added to all the other files to construct a single database with all of the relevant information. The worksheet also contains references to the specific location in the annual report; this allows verification of the data.¹¹ The results are used to cross-check findings and identify potential inconsistencies. Any inconsistencies are discussed, verified and solved. The results of all the individual companies are entered into one database. Most of the items in the checklist are assessed based on closed type questions with a binary character (yes/no). This allows us to determine average scores for both the entire sample as well as per index. Finally, multiple cross-sectional analyses are performed to obtain an in-depth view of the data collected.

Next to this desk study analysing the content of the sustainability information provided, a survey is sent to all 48 sample companies. The companies are invited to fill in the

⁷ <https://www.globalreporting.org>

⁸ Raad voor de Jaarverslaggeving. <http://www.rjnet.nl/RJ/Richtlijnen/Handreiking+MVO/default.aspx>

⁹ Deutsche Vereinigung für Finanzanalyse und Asset Management (German Association for Financial Analysis and Asset Management).

¹⁰ European Federation of Financial Analysts Societies.

¹¹ Prior to the data collection, a pilot was conducted in order to test the validity of the checklist. The data acquired during the pilot were cross-checked by the research team and a team of representatives from Eumediton for a set of 5 companies. Any differences or inconsistencies in the checklist were adjusted accordingly.

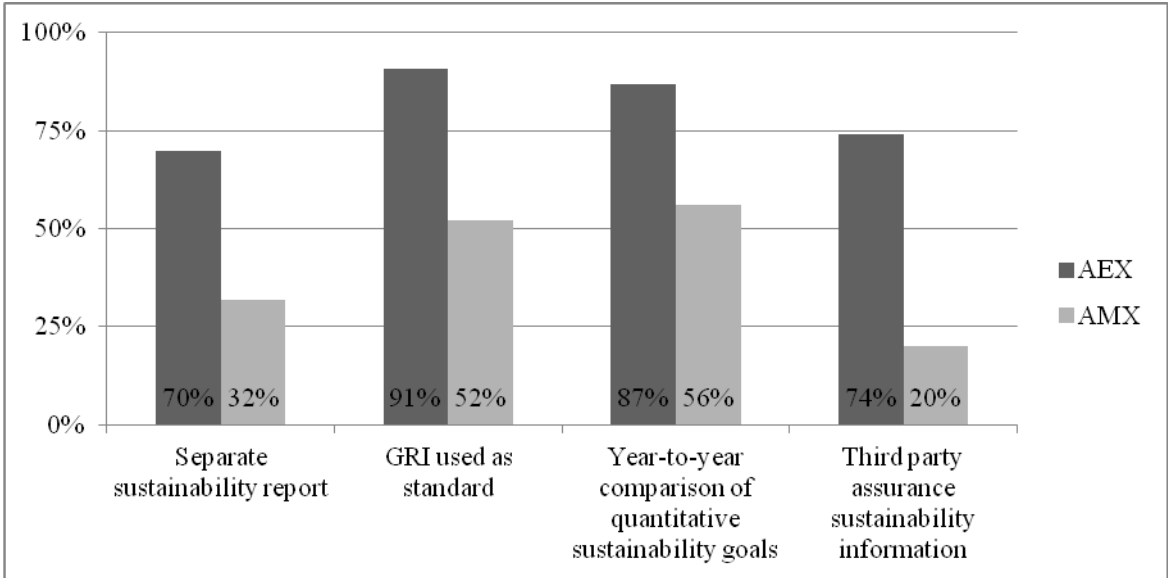
online questionnaire. The questionnaire aims to support and triangulate the desk analysis and get better in-depth information about the choices made related to sustainability reporting. 22 of the 48 sample AEX and AMX companies participated in the survey (46%). The questionnaire is provided in Appendix III. The participating companies are specified in Table I with an asterisk (*).

3. Current situation

3.1 Current disclosure practices of sustainability information

Figure I exhibits some of the key characteristics of contemporary sustainability reporting in the Netherlands. On average, half of the companies publish a separate sustainability report and the other half includes sustainability information in the annual report. The analyses of the results show a wide variety in the sustainability information provided in the reports. Some companies use an advanced form of integrated reporting (i.e. Koninklijke DSM N.V, Koninklijke Philips Electronics N.V), while others issue extensive separate sustainability reports (i.e. AEGON N.V, ASML Holding N.V and Koninklijke KPN Nederland N.V). On the other hand, there are also several companies (predominantly AMX companies) that do not provide detailed sustainability information. A number of companies suffice with a (brief) sustainability section in the annual report and occasionally some companies dedicate only one or two pages in the annual report to sustainability. In the survey, one company indicated that it does not publish any information on sustainability at all.

Figure I: Current disclosure practices regarding sustainability reporting



The first column of Figure I indicates that AEX companies (70%) publish a separate sustainability report significantly more often than AMX companies (32%). All companies that

indicated they publish an integrated¹² annual report indicated that the reason for this was that sustainability performance and strategy has become an integral part of how business is done. One company was an exception to this trend and indicated the main reason for integrated reporting was the reduced workload by not having to publish all information twice. It is important to notice that companies also use the term integrated reporting when they provide sustainability information in their financial report, but this does not necessarily mean that financial and sustainability information is in fact integrated in one report.

Yet, the reason most of the responding companies provided for publishing a separate sustainability report, instead of incorporating the sustainability information in the annual report, was to bring more attention to the topic of the company's sustainability. One company indicated that sustainability cannot be audited the same way as financial information. This was also indicated by one of the interviewed persons, who indicated that a Form-20F¹³ does not give enough "freedom" to include sustainability information, let alone integrate it.

The second column of Figure I illustrates that, on average, approximately 70% of the companies use GRI as its sustainability reporting standard. AEX companies (91%) apply GRI standards considerably more frequently than AMX companies (52%). In paragraph 3.4, we further elaborate on the use of GRI reporting standards and some of its main characteristics.

The third column of Figure I portrays the use of quantitative sustainability goals (KPIs) on a year-to-year comparison.¹⁴ On average, roughly 70% of the companies apply sustainability KPIs on a year-to-year comparison. AEX companies (87%) apply sustainability KPIs substantially more often than AMX companies (56%).

Finally, the fourth column of Figure I shows that nearly half (46%) of the companies pursue third-party assurance for the provided sustainability information. Once more, AEX companies (74%) seek third-party assurance significantly more often than AMX companies (20%).

A more thorough cross-sectional analysis (see Table II) on third party assurance reveals some interesting information as well. Nearly three-quarters (73%) of the companies with assured sustainability information (n=22) issue a separate sustainability report, whereas only about one-third (31%) of the companies with non-assured sustainability information

¹² Remarkably, 9 companies indicated they use integrated reporting. Those companies were Mediq, AMG, CSM, DSM, Philips, Ten Cate, Imtech, BinckBank and AkzoNobel.

¹³ Standardised and regulated annual reports in the USA (SEC regulation).

¹⁴ Some of the more commonly used KPIs appear to be: (i) a breakdown of workforce by employment type and gender, (ii) voluntary contributions to civil society, (iii) work days lost due to occupational incidents, injuries and illness, (iv) initiatives to reduce greenhouse gas emissions and reductions achieved, and (v) information about stakeholder dialogue or stakeholder management.

(n=26) publish such a separate sustainability report. In 95% of the cases, the assured sustainability information is prepared in accordance with GRI reporting standards.¹⁵ Alternatively, in only 50% of the cases is the non-assured information prepared in accordance with GRI reporting standards. 68% of the respondents of the survey indicated they regard the added value of third party assurance as valuable, while 32% does not see an added value in this. Remarkably, 36% of the companies without an assured sustainability report regard the role of such assurance as valuable, while 27% of the companies with an assured sustainability report indicated in the survey they don't see the added value of the assurance

Table II: Cross-sectional analysis of third-party assurance

	Assured (N=22)		Non-assured (N=26)	
	Yes	No	Yes	No
Separate sustainability report	73%	27%	31%	69%
GRI used as standard	95%	5%	50%	50%
Sustainability explicitly linked to corporate strategy	41%	59%	35%	65%
Sustainability explicitly linked to company risks/opportunities	68%	32%	38%	62%
Sustainability part of executive remuneration	59%	41%	12%	88%
Year-to-year comparison of quantitative sustainability goals	95%	5%	50%	50%
Certificates of shares	9%	91%	8%	92%

A similar parallel can be drawn from the links to the company's corporate strategy (assured 41%, non-assured 35%), risk management (assured 68%, non-assured 38%) and the use of sustainability criteria in executive remuneration (assured 59%, non-assured 12%). In addition, companies with assured sustainability information apply sustainability KPIs (95%) considerably more often when compared to companies with non-assured information (50%). Finally, the company's share structure (whether or not certificates of shares) seems to play no major role in this respect.

¹⁵ This also has an effect on almost all the other items in our checklist directly derived from the GRI reporting framework. There is a strong correlation between assurance and the increased use of (individual) GRI indicators.

3.2 Linking sustainability aspects to the company's strategy and risk management

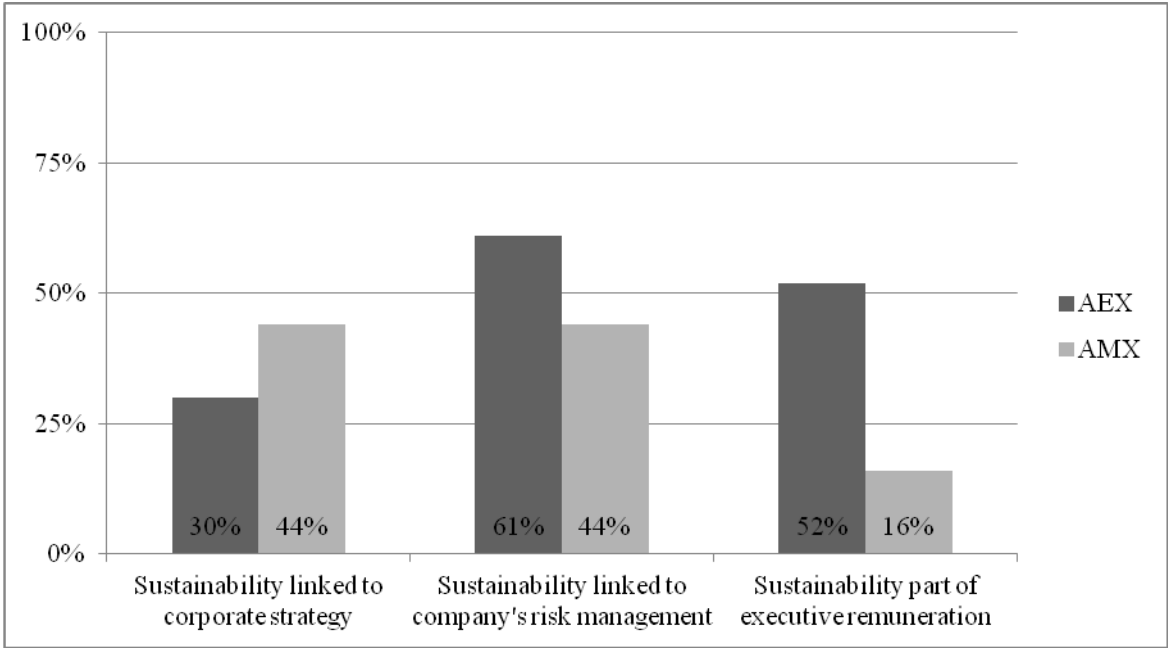
Figure II presents the interrelatedness of sustainability with various other corporate aspects like company strategy, risk management and executive remuneration. The first column of Figure II shows the link between sustainability and the corporate strategy. On average, about 38% of the companies include sustainability in the corporate strategy. AMX companies (44%) clearly make a link to corporate strategy more often than AEX companies (30%). At first glance this may seem to be rather surprising, but prior research¹⁶ already established that, on some occasions, in particular when it comes to performance measures, AMX companies report more extensively than AEX companies. Interestingly, 21 out of 22 respondents indicated they include sustainability in the corporate strategy. Either companies do include sustainability in their corporate strategy, but don't report on that matter, or there is a "gap" between the perception of what inclusion of sustainability in the corporate strategy implies for the companies and the researchers.

The second column of Figure II presents the link between sustainability and the company's risk management. Overall, slightly above 50% of the companies link sustainability to the company's risk management. AEX companies (61%) make the link to risk management more often than AMX companies (44%). The response of the companies in the survey confirmed our observations. 82% of the respondents indicated that potential risks related to sustainability issues are identified and 50% indicated that potential risks related to sustainability issues are reported in the risk paragraph of the annual report.

The third column of Figure II demonstrates the use of sustainability criteria in executive remuneration. On average, precisely one-third of the companies (n=16) apply sustainability criteria in executive remuneration. AEX companies (52%) include sustainability criteria substantially more often than AMX companies (16%).

¹⁶ See: NBA: Transparency of Management Commentary: an empirical study of annual reports concerning economic analysis and strategy related information (2011). Research conducted by Shareholder Support; Mertens, Meliefste and Blij.

Figure II: Interrelatedness of sustainability with other corporate aspects



Further analysis on ‘sustainable remuneration’ reveals that 44% of the companies (n=7) set explicit sustainability targets and weightings, while the remaining 56% of the companies (n=9) only mention the inclusion of sustainability targets, but then again do not disclose the explicit targets or actual weightings. 6 out of these 7 companies provide a year-to-year comparison on their sustainability targets. The section below demonstrates two enlightening examples:

TNT N.V. Annual Report 2010, page 159

‘The remuneration package consists of a base salary and a variable component of a maximum of 100% of base salary in addition to pension provisions.

The variable income scheme represents a multi-stakeholder approach with four focus areas:

- Financial: 50%, of which 35% is based on the achievement of EBIT, adjusted net cash flow from operating activities and ROIC targets; 15% is based on TSR targets, backward looking to the previous three years.
- Employees: 15% is based on management development and achieving engagement survey objectives.
- Environment: 15% is based on achieving CO₂ efficiency improvement targets and health and safety objectives.
- Customers: 20% is based on improving customer focus, measuring customer focus through customer satisfaction surveys.

All targets and objectives are quantitative. The actual targets/objectives are defined based on three-year strategic plans of the company.’

Koninklijke KPN Nederland N.V. Annual Report 2010, page 62

‘Short-term incentives (STI)

General:

At the beginning of each year, the Supervisory Board sets financial and operational (non-financial) target ranges for the Board of Management.

Targets:

Targets typically are Revenue, EBITDA, Profit before Tax, various measures of customer satisfaction, diversity, compliance, Net Promoter Score, Corporate Social Responsibility, market shares and strategic progress.

The CEO and CFO targets are based on Group-level performance, while for the other members of the Board of Management a combination of Group-level and individual segment targets applies.’

The section above shows that there are various methods to incorporate sustainability criteria in executive remuneration utilised in the Netherlands. TNT N.V. quite extensively describes its executive remuneration policy: ‘15% of the variable component relates to management development, 15% is based on achieving CO₂ efficiency improvement targets and health and safety objectives and the remaining 20% is based on improving customer focus’. On the other hand, Koninklijke KPN Nederland N.V. is not that explicit in its sustainability objectives regarding executive remuneration: ‘targets typically are various measures of customer satisfaction, diversity, compliance, Net Promoter Score, corporate social responsibility, market shares and strategic progress.’

A similar parallel can be drawn from the widespread variety of sustainability indicators used. Some commonly used indicators are more general like: corporate social responsibility (CSR) targets; health, safety and environmental (HSE) targets; promoting diversity and improving reputation, whereas other frequently used indicators are quite specific such as: customer satisfaction, Dow Jones Sustainability Index (DJSI) ranking, employee engagement score, energy efficiency (improvement), fresh water use, Greenhouse Gas (GHG) reduction, green product sales and operational spills (Rosendaal & Maas, 2012).

Further cross-sectional analysis on the link between sustainability and corporate strategy provides the following new insights (Table III). Just over 60% of the companies that link sustainability to the corporate strategy (n=18) issue a separate sustainability report, while only 43% of the companies that do not link sustainability to the corporate strategy (n=30) publish such a separate report. Linking sustainability to corporate strategy furthermore correlates with a more frequent use of: GRI as a reporting standard (89% vs. 60%), a similar link to risk management (72% vs. 40%), assurance of sustainability information (50% vs.

43%) and the use of key performance indicators (83% vs. 63%). On the other hand, the use of sustainability criteria in executive remuneration is remarkably more common at companies that have not linked sustainability to their corporate strategy (37% vs. 28%). A possible explanation might be that companies which haven't integrated sustainability in the corporate strategy attempt to achieve the company's sustainability goals otherwise. In case sustainability is still separate from the corporate strategy, executives probably will not pay much attention to achieving sustainability (as it is not on their strategic agenda) and therefore require additional incentives to do so. Finally, the company's share structure (again) seems to play no major role.

Table III: Cross-sectional analysis of sustainability and corporate strategy

	Sustainability linked to strategy (n=18)		Sustainability not linked to strategy (n=30)	
	Yes	No	Yes	No
Separate sustainability report	61%	39%	43%	57%
GRI used as standard	89%	11%	60%	40%
Sustainability explicitly linked to company risks/opportunities	72%	28%	40%	60%
Sustainability information is assured by an independent third party	50%	50%	43%	57%
Sustainability part of executive remuneration	28%	72%	37%	63%
Year-to-year comparison of quantitative sustainability goals	83%	17%	63%	37%
Certificates of shares	6%	94%	10%	90%

3.3 Commitment of the Supervisory Board to sustainability

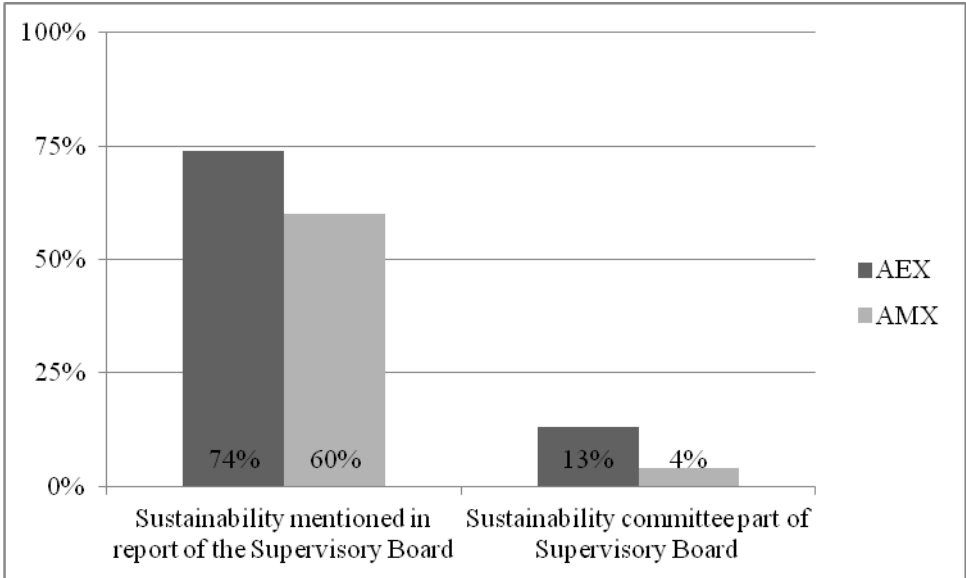
Figure III presents the commitment to sustainability within Dutch Supervisory Boards. The first column of Figure III indicates that, on average, precisely two-thirds of the companies mention sustainability in the report of the Supervisory Board. AEX companies (74%) refer to sustainability in their respective Supervisory Board reports more often than AMX companies (60%). On this point, we would like to comment that 'mentioning or referring to sustainability' usually goes no further than box-ticking (see example below). As a consequence, this does not imply that these Supervisory Boards are 'really' committed to sustainability and, as such, have devoted their commitment.

Koninklijke Vopak N.V. Annual Report 2011, page 14.

‘The Supervisory Board met on eight occasions during the year under review. None of the Supervisory Board members was frequently absent from the Supervisory Board meetings. Safety, Health, Environmental and Sustainability issues were among the topics discussed during each of these meetings. Also, other operational and financial objectives of the company were discussed at regular scheduled meetings.’

The second column of Figure III shows the presence of a sustainability committee within the respective Supervisory Boards. As becomes immediately apparent from the figure, sustainability committees within the Supervisory Board are quite uncommon in the Netherlands. There are only 4 companies (Koninklijke DSM N.V, Nutreco Holding N.V, Royal Dutch Shell plc and Unilever N.V) with sustainability committees within their Supervisory Boards.

Figure III: Commitment to sustainability in Supervisory Board



Supplemental analysis (see Table IV) on mentioning or referring to ‘sustainability’ in the Supervisory Board report did not provide too many new insights. The averages for both categories are rather close to each other. At most, we can say that where ‘sustainability’ is mentioned or referred to in the Supervisory Board report (n=32), there is a clear relation to an increased use of: GRI as a reporting standard (78% vs. 56%), and key performance indicators (81% vs. 50%). On the other hand, it appears that companies not mentioning or referring to

‘sustainability’ in the Supervisory Board more often link sustainability with the company’s risk management (63% vs. 47%).

In addition, one would probably expect to find a stronger relationship between commitment to sustainability in the Supervisory Board and the use of ‘sustainability performance measures’ in executive remuneration (38% vs. 25%). In the event a Supervisory Board is more committed to sustainability (by the presence of a sustainability committee within the Board or mentioning sustainability in the supervisory report), a logical next step would be the inclusion of sustainability indicators in executive compensation, as it is ultimately the Supervisory Board who proposes the executive remuneration policy/incentive schemes to the Annual General Meeting of shareholders. Yet, our data shows otherwise. Even if sustainability is mentioned in the Supervisory Board report (N=32), still 62% of those companies do not have sustainability indicators included in executive remuneration.

Table IV: Cross-sectional analysis of sustainability mentioned in the Supervisory Board report

	Sustainability mentioned in Supervisory Board report (N=32)		Sustainability not mentioned in Supervisory Board report (N=16)	
	Yes	No	Yes	No
Separate sustainability report	53%	47%	44%	56%
GRI used as standard	78%	22%	56%	44%
Sustainability explicitly linked to company strategy	38%	62%	38%	62%
Sustainability linked to company risks/opportunities	47%	53%	63%	37%
Sustainability information is assured by an independent third party	50%	50%	38%	62%
Sustainability part of executive remuneration	38%	62%	25%	75%
Year-to-year comparison of quantitative sustainability goals	81%	19%	50%	50%
Certificates of shares	9%	91%	6%	94%

3.4 Use of GRI reporting standards and the RJ 400 Directive

The first paragraph of this chapter already described that, on average, approximately 70% of the companies use GRI as its sustainability reporting standard. Since the RJ 400

Directive is the conceptual framework for separate sustainability reporting for medium and large enterprises in the Netherlands and is also partially based on the GRI sustainability reporting standard, one would expect that companies apply the RJ 400 Directive as well. According to the data, this is certainly not the case, as only 8% of the companies explicitly refer to the use of RJ 400 in its annual- and/or separate sustainability report (not tabulated). This, however, does not directly imply that the RJ 400 Directive is almost never used. An alternative explanation might very well be that companies implicitly use the aforementioned Directive but not explicitly refer to it. However, the survey outcome showed the same results. 18 companies indicated using GRI, while only 2 indicated to use RJ 400. Remarkably, 11 companies use their own internally developed guidelines, of which 8 companies use their own guidelines next to the GRI guidelines. 82% of the respondents indicated that GRI provides enough guidance regarding sustainability reports. One company, however, indicated that GRI should be completely based on integrated reporting.

Table V presents some of the most frequently disclosed GRI indicators included in the checklist. As it is beyond the scope of this report to discuss Table IV in full detail, we briefly discuss some of its highlights. In general, AEX companies more frequently apply GRI indicators than AMX companies. The only exception is the ‘breakdown of total workforce by employment type and gender’ in the employees/social category. AMX companies (slightly) more often apply this GRI indicator than AEX companies. In the Ethics category, the high percentage(s) of ‘voluntary contributions to civil society’ are particularly notable. Companies apparently attach great value to emphasise their community involvement. A similar phenomenon is observed with the ‘initiatives to reduce greenhouse gas emissions and reductions achieved’ indicator in the environment category. Again, companies like to stress the initiatives taken to reduce Greenhouse Gas Emissions. Finally, with respect to the last category (other), we note that almost all companies indicate ‘whether improvements could be made’ and provide information ‘on actions taken during the year’. Once more, companies seem to pay much attention to highlighting positive contributions and achievements. On the other hand, information on ‘number of convictions for violations of corruption related laws or regulations and amount of fines paid / payable’, ‘percentage and total volume of water recycled and reused’ and ‘information about biodiversity’, is not often reported.

Table V: Most frequently disclosed GRI indicators

Category:	AEX (N=23)	AMX (N=25)
<u>Employees/social:</u>		
Total workforce with breakdown by employment type and gender	91%	96%
Total number and rate of employee turnover broken down by gender	70%	44%
Average hours of training per year per employee broken down by employee category	61%	24%
Total number of fatalities	65%	24%
Total number of injuries	70%	24%
Work days lost due to occupational accidents, injuries and illness	87%	64%
<u>Ethics:</u>		
Voluntary contributions to civil society	96%	76%
Number of convictions for violations of corruption related laws or regulations and amount of fines paid / payable	57%	16%
<u>Environment:</u>		
Initiatives to reduce greenhouse gas emissions and reductions achieved	91%	68%
Percentage of materials recycled	74%	32%
Energy saved due to conservation and efficiency improvements	78%	60%
Percentage and total volume of water recycled and reused	43%	28%
Total weight of waste by type and disposal method	78%	40%
<u>Other:</u>		
Company indicates whether improvements could be made	96%	84%
Information on actions taken during the year	100%	84%
Information about customer satisfaction and reputation	65%	48%
Information about stakeholder dialogue or stakeholder management	96%	76%
Information about biodiversity	61%	40%

Supplemental cross-sectional analysis (see Table VI) on a company's GRI score did not generate too many new insights. Approximately 70% of the companies obtaining a GRI score¹⁷ of A or A+ (n=10) publish a separate sustainability report, whereas only 45% of the companies with a lower GRI score issue such a separate sustainability report (n=38). In addition, the commitment towards sustainability (link to corporate strategy, link to risk management) appears to be larger for companies obtaining a high GRI score, in comparison

¹⁷ There are three different GRI application Levels: A, B and C. The application levels define the amount of GRI standard disclosures that have been covered in a sustainability report. Reporters are required to assess their own Application Level. In addition to the GRI Application Level, the status of Plus - "+" - can be added to an Application Level when the sustainability reporting has been externally assured.

to companies with a relatively lower GRI score. A relatively high GRI score is furthermore given in cases of assurance of sustainability information (90% vs. 34%) and the use of key performance indicators (100% vs. 63%). We can therefore make a general conclusion, as expected, that a higher GRI score is positively correlated with the amount of sustainability information provided and the number of GRI indicators applied.

Table VI: Cross-sectional analysis of GRI score

	A or A+ level (N=10)		Other ¹⁸ (N=38)	
	Yes	No	Yes	No
Separate sustainability report	70%	30%	45%	55%
Sustainability explicitly linked to company strategy	50%	50%	34%	66%
Sustainability linked to company risks/opportunities	70%	30%	47%	53%
Sustainability information is assured by an independent third party	90%	10%	34%	66%
Year-to-year comparison of quantitative sustainability goals	100%	0%	63%	37%
Certificates of shares	10%	90%	8%	92%

The interviewees’ overall opinion toward the (intention of) GRI reporting framework is rather positive. According to one of the interviewees, “the GRI application level really says something about the quality of sustainability information provided”. Alternatively, another interviewee states that “GRI application at A (+) level is not necessarily better than application at B (+) level”. “The focus is too much on the assessment report instead of what lies underneath.” The same interviewee expects that particularly the sustainability leaders are going to report less KPIs in the near future. However, considering that under the current GRI framework a company faces the risk of a downgrade in GRI score (with all its potentially unpleasant consequences) when reporting fewer indicators, it is still questionable whether this actually will happen. In particular from a corporate perspective, this is seen as a definite shortcoming of the GRI reporting framework and potentially inhibits the shift towards a more quality ‘oriented’ approach. Another frequently heard point of criticism on the GRI reporting framework is that it does not stimulate “integrated thinking”. Then again, it is also said that the GRI reporting framework provides considerable insight into all important sustainability

¹⁸ Other scores include: B+ level, B level, C+ level, C level, or no score at all.

factors and could be of assistance in defining the most significant risks and opportunities for a company.

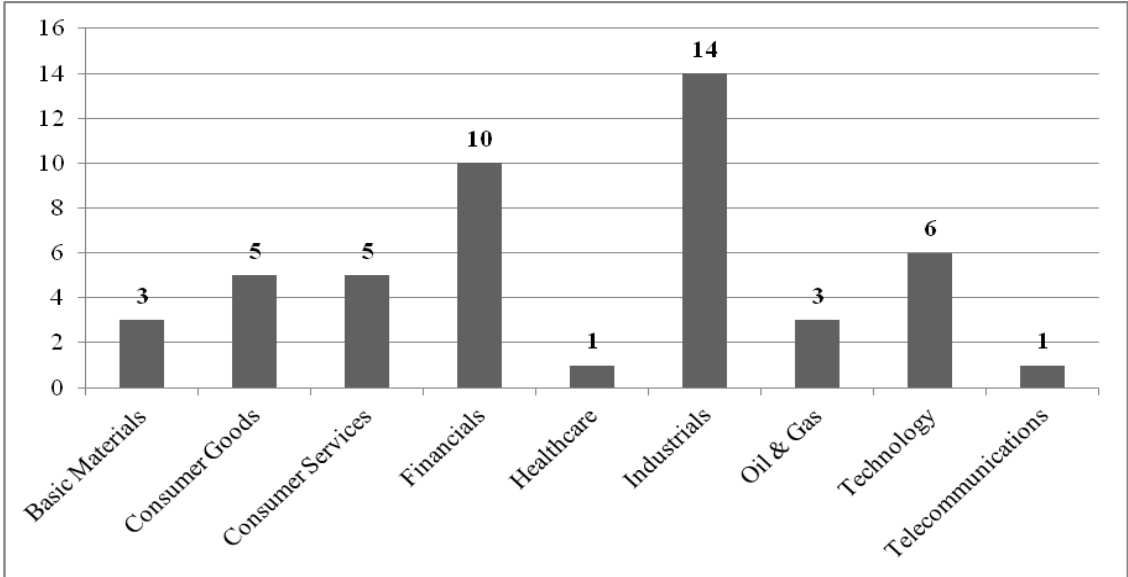
3.5 Influence of firm characteristics on sustainability disclosures

In this section, we briefly discuss the influence of various firm characteristics on sustainability disclosure(s). The following characteristics will be subsequently addressed: (i) industry, (ii) firm size and (iii) shareholder structure.

3.5.1 Industry

In order to categorise our research population in an unambiguous and consistent way, we use the Industry Classification Benchmark (ICB). The ICB is a definite system categorising companies (and securities) worldwide, enabling the comparison of companies across four levels of classification.¹⁹ Note that the companies are only classified at ‘industry’ level. Figure IV illustrates that the most represented industries are: Industrials (14), Financials (10), Technology (6), Consumer Goods (5) and Consumer Services (5).

Figure IV: Descriptive statistics of industry (N=48)



¹⁹ <http://www.icbenchmark.com>

Table VII (see page 25) presents some of the main characteristics of sustainability reporting classified by industry. The table also provides information on several governance issues and the financial situation of the companies. This information is used in the further analysis of the data. As it is again beyond the scope of this report to discuss the table in full detail, we briefly discuss some of its highlights.

Taking a closer look at Table VII, we first of all notice that ‘technology companies’ (n=6) relatively provide less information in all areas. In our view, this could be (at least) partially attributable to the smaller size of the listed company. As the following section will demonstrate, firm size significantly influences the sustainability information provided.

Second, with respect to companies in the ‘oil and gas industry’ (n=3), it appears that sustainability disclosures are slightly above average. All companies in this industry use GRI as the reporting standard and make a link between sustainability and the company’s risk management.

Third, the sustainability disclosures of ‘industrial companies’ (n=14) exhibit a striking resemblance with those of ‘technology companies’. In almost all areas (except for the year-to-year comparison of quantitative sustainability goals), scores are below average. Again, we partially attribute this to the size of the firms in this category.

Fourth, relating to ‘financial companies’ (n=10), we notice that sustainability is less often linked to the companies’ corporate strategy (20%) and risk management (30%). For the rest, the scores are about average.

Fifth, with regard to companies in the ‘consumer services industry’ (n=5), we notice that relatively many companies publish a separate sustainability report (80%) and use GRI as the reporting standard (80%). On the other hand, it appears that sustainability is less often linked to the companies’ risk management (40%) and executive remuneration (20%).

Sixth, the sustainability disclosures of companies in the ‘consumer goods industry’ (n=5) and ‘basic materials industry’ (n=3) are generally above average. Firm size (again) seems to play a major role in this respect, nevertheless it still remains noteworthy.

Finally, the ‘telecommunications industry’ (n=1) and the ‘healthcare industry’ (n=1) solely comprise one single observation (Koninklijke KPN Nederland N.V and Pharming Group N.V, respectively) and are therefore not particularly suited for a fair comparison by industry.

Table VII: Industry, sustainability disclosure(s), corporate governance issues and revenues

Item:	Average (N=48)	Basic Materials (N=3)	Consumer Goods (N=5)	Consumer Services (N=5)	Financials (N=10)	Healthcare (N=1)	Industrials (N=14)	Oil & Gas (N=3)	Technology (N=6)	Telecommu- nications (N=1)
Separate sustainability report	50,0%	33,3%	80,0%	80,0%	60,0%	0,0%	28,6%	66,7%	33,3%	100,0%
GRI used as standard	70,8%	100,0%	100,0%	80,0%	60,0%	0,0%	64,3%	100,0%	50,0%	100,0%
Sustainability explicitly linked to company strategy	37,5%	66,7%	60,0%	40,0%	20,0%	100,0%	35,7%	33,3%	33,3%	0,0%
Sustainability linked to company risks/opportunities	52,1%	100,0%	80,0%	40,0%	30,0%	0,0%	50,0%	100,0%	33,3%	100,0%
Sustainability information is assured by an independent third party	45,8%	100,0%	80,0%	60,0%	40,0%	0,0%	28,6%	66,7%	16,7%	100,0%
Sustainability part of executive remuneration	33,3%	66,7%	80,0%	20,0%	40,0%	0,0%	7,1%	66,7%	16,7%	100,0%
Year-to-year comparison of quantitative sustainability goals	70,8%	100,0%	100,0%	60,0%	60,0%	100,0%	71,4%	66,7%	50,0%	100,0%
Certificates of shares	8,3%	0,0%	20,0%	0,0%	10,0%	0,0%	7,1%	33,3%	0,0%	0,0%
Avg. total number of block holders	2,58	2,00	1,80	2,80	2,40	1,00	3,36	1,33	2,67	2,00
Average Revenue(s)²⁰	10.507	33.600	18.749	13.078	11.811	2	3.912	8.612	1.971	13.324
Avg. total % of block holders	25,8%	25,4%	22,3%	19,0%	27,8%	16,3%	34,5%	8,8%	23,4%	10,0%

²⁰ In EUR million in 2010.

3.5.2 Firm size

A second firm characteristic that may affect sustainability disclosure(s) is firm size. We measure firm size by using total revenues per company. In order to categorise our population in an unambiguous and consistent way, we rank the entire population (by revenue) and then divide the population into four quartiles (n=12). As a consequence, the first quartile comprises the 12 companies with the highest revenue and the fourth quartile consists of the 12 companies with the lowest revenue. Table VIII presents some descriptive statistics on firm size.

Table VIII: Descriptive statistics on firm size²¹(in EUR million in 2010)

	Average	Median	Std. Deviation
First quartile (N=12)	31.971	24.517	20.361
Second quartile (N=12)	5.792	4.724	2.667
Third quartile (N=12)	2.073	2.142	627
Fourth quartile (N=12)	530	530	369
Total	10.507	3.078	16.525

Table IX shows the most important results regarding the influence of firm size on sustainability disclosure(s). We notice that virtually all outcomes are linearly distributed. This indicates a very substantial influence of firm size on the sustainability information provided. The only significant exception appears to be the link to corporate strategy. The results are mixed in this perspective: 42% of the companies with the highest, as well as the lowest revenues, make a link to corporate strategy, whereas only 33% of the companies in the second and third quartile make such a link. Another item that is not entirely linearly distributed is the assurance of sustainability information. Companies incorporated in the fourth quartile have their sustainability information assured more often than companies in the third quartile.

²¹ All amounts are in EUR million in 2010.

Table IX: Firm size and sustainability disclosure

Item:	Average (N=48)	First quartile (N=12)	Second quartile (N=12)	Third quartile (N=12)	Fourth quartile (N=12)
Separate sustainability report	50,0%	75,0%	58,3%	41,7%	25,0%
GRI used as standard	70,8%	100,0%	83,3%	58,3%	41,7%
Sustainability explicitly linked to company strategy	37,5%	41,7%	33,3%	33,3%	41,7%
Sustainability linked to company risks/opportunities	52,1%	66,7%	58,3%	58,3%	25,0%
Sustainability information is assured by an independent third party	45,8%	91,7%	66,7%	8,3%	16,7%
Sustainability part of executive remuneration	33,3%	66,7%	41,7%	16,7%	8,3%
Year-to-year comparison of quantitative sustainability goals	70,8%	91,7%	91,7%	58,3%	41,7%
Average revenue(s)	10.507	31.971	5.792	2.073	480
Avg. total % of block holders	25,8%	19,7%	18,0%	33,6%	31,8%

3.5.3 Shareholder structure

A third firm characteristic that could influence sustainability disclosure(s) is shareholder structure. We examine the following three characteristics in this perspective: (i) certificates of shares, (ii) the total number of blockholders²² and (iii) the total percentage of shares²³ collectively held by all blockholders.

(i) *Certificates of shares*

Table X presents the influence of share certificates on several sustainability reporting features. At first sight, it appears that companies with share certificates more extensively report on sustainability in almost all areas (except for the link to corporate strategy) than companies without share certificates. However, taking the average revenues for both (sub-) samples into consideration, it is clearly more obvious that these differences are caused by firm size. In addition, our results should be interpreted with extra caution given the small number

²² A blockholder is a shareholder; holding at least 5% of the share capital and/or voting rights in the company.

²³ Total percentage of shares and/or voting rights.

of companies with share certificates (n=4)²⁴ and the large number of companies without share certificates (n=44).

Table X: Influence of share certificates on sustainability disclosure(s)

	Share certificates (N=4)		No share certificates (N=44)	
	Yes	No	Yes	No
Separate sustainability report	75%	25%	48%	52%
GRI used as standard	100%	0%	68%	32%
Sustainability explicitly linked to company strategy	25%	75%	39%	61%
Sustainability linked to company risks/opportunities	100%	0%	48%	52%
Sustainability information is assured by an independent third party	50%	50%	46%	54%
Sustainability part of executive remuneration	75%	25%	30%	70%
Year-to-year comparison of quantitative sustainability goals	75%	25%	71%	29%
Average revenue(s)²⁵		26.027		9.096

(ii) *Total number of blockholders*

Table XI shows the effect the total number of blockholders has on various sustainability reporting characteristics. We obtain almost analogous results as in the previous (share certificates) analysis. Companies with a smaller number of blockholders (shareholder holding at least 5% of the share capital or voting rights in the company) (n=25), appear to provide substantially more sustainability information in virtually all areas (yet again, except for the link to corporate strategy) than companies with a larger number of blockholders (n=23). Once more, our results should be interpreted with some care given the significant differences in firm size (revenues) across both sub-samples.

²⁴ Companies with certificates of shares are: Fugro N.V, Heijmans N.V, ING Groep N.V and Unilever N.V.

²⁵ In EUR million in 2010.

Table XI: Influence of the total number of blockholders on sustainability disclosure(s)

	Nr. of blockholders ≤ 2 (N=25)		Nr. of blockholders > 2 (N=23)	
	Yes	No	Yes	No
Separate sustainability report	64%	36%	35%	65%
GRI used as standard	76%	24%	65%	35%
Sustainability explicitly linked to company strategy	32%	68%	43%	57%
Sustainability linked to company risks/opportunities	56%	44%	48%	52%
Sustainability information is assured by an independent third party	60%	40%	30%	70%
Sustainability part of executive remuneration	44%	56%	22%	78%
Year-to-year comparison of quantitative sustainability goals	84%	16%	57%	43%
Average revenue(s)²⁶		14.849		4.895

(iii) *Total percentage of share capital collectively held by blockholders*

Table XII: Descriptive statistics on the percentage of share capital collectively held by all blockholders combined

	Average	Median	Std. Deviation
First quartile (N=12)	51,8%	49,1%	0,123
Second quartile (N=12)	29,7%	29,5%	0,051
Third quartile (N=12)	16,6%	16,5%	0,032
Fourth quartile (N=12)	5,0%	5,2%	0,047
Total	25,8%	20,6%	0,189

Our third and final feature of shareholder structure is the percentage of share capital held by all blockholders²⁷ together. In order to categorise our population in an unambiguous and consistent way, we rank the entire population (by total percentage of share capital held) and then divide the population into four distinct quartiles (n=12). As a result, the first quartile comprises the 12 companies with the highest percentage of blockholders and the fourth quartile consists of the 12 companies with the lowest percentage of blockholders. Table XII shows some descriptive statistics.

²⁶ In EUR million in 2010.

²⁷ Recall: a blockholder is a shareholder; holding at least 5% of the share capital and/or voting rights in the company.

Table XIII presents the influence of the total percentage of share capital collectively held by blockholders on various sustainability reporting characteristics. Unlike our results in the prior two ‘shareholder structure analyses’, our findings in this perspective are clearly not unambiguous. It appears, though, that those companies with the smallest total percentage of blockholders (4th quartile) report the most comprehensively and companies in the 2nd quartile report the least extensively. At first sight this may be expected, however, taking firm size (average revenues) into account, it is perhaps not that surprising. The average firm size of the second quartile is considerably smaller in comparison with firms in the other 3 quartiles.

Table XIII: Percentage of share capital held by blockholders and sustainability disclosure

Item:	Average (N=48)	First quartile (N=12)	Second quartile (N=12)	Third quartile (N=12)	Fourth quartile (N=12)
Separate sustainability report	50,0%	58,3%	16,7%	50,0%	75,0%
GRI used as standard	70,8%	75,0%	50,0%	66,7%	91,7%
Is ESG explicitly linked to company strategy	37,5%	25,0%	41,7%	58,3%	25,0%
Is ESG linked to company risks/opportunities	52,1%	41,7%	50,0%	58,3%	58,3%
Sustainability information is assured by an independent third party	45,8%	33,3%	16,7%	50,0%	83,3%
Sustainability part of executive remuneration	33,3%	25,0%	8,3%	33,3%	66,7%
Year-to-year comparison of quantitative sustainability goals	70,8%	75,0%	33,3%	75,0%	100,0%
Average Revenue(s)	10.507	10.967	1.822	11.475	16.053
Avg. total % of block holders	25,8%	51,8%	29,7%	16,6%	5,0%

4 The future of sustainability reporting

Next to the literature study, questionnaire and the analysis of the sustainability information from Dutch listed firms, eight interviews with ESG professionals (asset managers, auditors, corporations and pension funds) provided additional insights and more in-depth information. The information from the interviews enabled us to consider the role and future shape of sustainability reporting. Important questions that were discussed during the interviews are:

1. Is the instrument of KPIs as proposed by the EFFAS/DVFA appropriate to improve the quality of sustainability reporting (relevance for investors' decisions (risks and opportunities), (quantitative) support, accountability, auditability and comparability)?
2. What environmental and social KPIs are useful for Dutch listed companies to report on the most important risks and opportunities for the company's strategy? Differ between sectors: e.g. finance, food sector, construction, offshore and chemical?
3. What methods can be used to support the future use of KPIs, taking into account comparability, the need for customisation, and the consequential workload for the companies?

A general conclusion that can be drawn from the interviews is that the quality of sustainability reporting varies widely. This is partly due to the use of internal guidelines of companies. Comparability between companies and is therefore often limited, not so much on an issue level, but on indicator level and in terms of metrics. According to the interviewees, there is still much room for improvement, particularly at AMX companies. In retrospect, the following picture emerges. In the initial phase, the company and sustainability department operated parallel to each other. The second phase is characterised by an increasing emphasis (of the sustainability leaders) on risks and opportunities associated with sustainability. In the current phase, sustainability leaders pay plentiful attention to the influence sustainability has on stakeholder value. Another opinion shared by many of the interviewees is that the vast majority of companies do not tell a consistent story in their annual reports. The use of time-series stories and even more the use of related to time-series data is very limited. As a consequence, there is probably a substantial difference between what is actually done with

regard to sustainability and what is included in the annual report. Finally, it is interesting to witness the differences between sustainability leaders and followers at an intercompany level. One of the companies, for example, already uses an internal scorecard, whereas another company aims to develop its first company-wide CSR strategy this year (scheduled to be implemented in 2012). The interviewees all agree that the link between sustainability information and risks and opportunities is currently limited. Also, quantitative support, controllability and comparability are limited.

A comprehensive description of the company's corporate strategy is often missing in the annual report. Prior research has indicated that Dutch listed companies are not particularly transparent when it comes to strategy reporting (Mertens, Blij and Meliefste 2011). The average (strategy) disclosure score found in this study is equivalent to 72% of all disclosure items, mainly based on the IFRS Practice Transparency of Management Commentary. In addition, this study also shows that there is great diversity in disclosure on strategy reporting in the Netherlands. Specifically, the degree of depth, the quality of the provided information and the presentation of the information in the annual report show large differences between companies.

Annual reports are typically written for a wider audience and it remains unclear how sustainability fits into the corporate strategy. Also the incorporation of sustainability information in decision-making is still limited and not transparent. However, most interviewees agree that an adequate annual report should link all relevant ESG aspects to the company's strategy and risk management. Nevertheless, doing so is still a struggle for the companies. Regardless, there seems to be strong confidence that integrated reporting will help the companies, as well as the investors.

4.1 Appropriateness of the EFFA/DVFA instrument to improve the current situation

Research by the Harvard Business School indicates high interest among investors in sustainability information. On approximately 34 million occasions, investors and analysts accessed a list of environmental and social performance metrics over a two-quarter period using Bloomberg data terminals (Eccles & Serafeim, 2011). The same research reveals a huge gap in the perception of investors requesting sustainability information and companies providing sustainable information. Companies have the perception that they provide a lot of information and that investors do not use this information, yet investors keep asking for other

additional information. Investors have the perception that companies do not provide enough information or not the necessary relevant information (Eccles & Serafeim, 2011). Investors incorporating ESG analyses have shown to outperform their peers. As observed in a longitudinal study from Harvard and the London School of Economics, “high” sustainability companies significantly outperform their peers with 4.8% higher stock prices over the long-term (Eccles et al., 2011).

Investors use different approaches to take ESG issues into account, including negative ESG screening, positive ESG screening, engagement and ESG integration. Recent research shows that an increasing number of investors with a responsible investment philosophy are progressing beyond negative screening²⁸ and positive²⁹ screening of companies (e.g. EABIS, 2009, OECD, 2011, IFAC, 2012). The answers of the interviewees revealed a similar situation. Investors are willing to proactively encourage companies through engagement and dialogue to invest in sustainability. Investors are also more and more willing to invest in companies that still have large improvement opportunities related to sustainability. Instead of excluding those companies, they invest in these companies and actively engage with them. This is a positive development, but we also notice that the engagement approach of investors differs. Engagement is not conducted according to a fixed management framework, and the engagement process is not transparent.

Recent research from the International Federation of Accountants (2012) developed a list, see appendix V, of KPIs that investors use. They conclude that investors typically have proprietary approaches and models for assessing companies, but many seem to be gravitating to certain types of disclosures and key performance indicators (IFAC, 2012, p. 4). The set provided in this report is strikingly comparable with the criteria list we used for the analysis of the current disclosure of sustainability information from Dutch listed firms. Although most of the companies in our sample report information about these sustainability KPIs (see Table IV), these indicators are primarily lagging indicators (i.e. result-based). Examples of these indicators are CO₂ emissions, total waste and energy use. These lagging indicators do not necessarily provide information or an indication of the risks and opportunities related to sustainability, nor about the process behind the sustainability performance. It is precisely this kind of information investors need to assess and integrate ESG information into their investment decisions.

²⁸ Excluding specific industries or sectors from an investment portfolio.

²⁹ Using (external) ratings to select “best-in-class” investments.

These lagging indicators are often seen as hygiene factors and are commonly treated with a compliance (i.e. ‘ticking-the-box’) mentality. Next to this, there is a lot of confusion about the expected level of performance. The challenge for investors, as well as for companies, is how to communicate and interpret the information on the KPIs.

There is an apparent need for information on key performance areas including sustainability strategy, involvement of executives and how the organisation is guided toward sustainability in terms of vision and leadership. These are important governance issues which should be transparent for external stakeholders. Next to this information on how a company addresses sustainability and long-term opportunities and risks, information on key action plans, long-term planning and time-series, is needed. Based on the interviews, we conclude that information on sustainability targets, planning and a control system on a year-to-year basis would provide valuable additional information for investors.

On the other hand, to improve internal data collection and controlling, it would be helpful if companies would report on sustainability KPIs on a quarterly basis instead of on a yearly basis. This indicates that sustainability information is part of a management accounting system and the information is available to include in management decisions.

The interviewees do not see the current EFFAS/DVFA set of indicators as workable, although the idea and content are perceived as very valuable. From a company perspective, the indicators are too specific, involve too much competitive sensitive information and have been developed mainly from an investor’s perspective. The investors, on the other hand, do not have a clear opinion about the set of indicators. It seems that while they will continue to use their own assessment schemes, they do also recognise the need for a universal reporting framework.

4.2 Useful environmental and social KPIs to report on

With respect to the usefulness of KPIs, opinions vary across the interviewees. According to one of them, companies have to go ‘back to basics’ before they are able to define the right KPIs. Users, as well as providers, of sustainability information have no clear understanding about the relation between various indicators, the company’s strategy and the financial bottom-line. For example, it is unclear how to interpret a 10% CO₂ reduction. The key question is what the impact of such a reduction would be on the company’s strategy and its business. Therefore, it is important for companies to explain the materiality and the functioning of the indicator(s) applied. The interviewees emphasised that the use of KPIs is

important for internal management accounting and control reasons, as well as for external accountability and controllability reasons. KPIs work as a benchmark and metrics should always show improvements. On the other hand, companies have the perception that investors do not really take sustainability into account; financial return is and remains the most important factor.

According to one of interviewees, investors do not care so much about the specific data provided; it is more important to show that your company observes challenges and/or opportunities related to specific indicators and accordingly reports management and measurement issues related to these topics. Related to this, companies question the enormous flood of information they have to provide in order to be included in all the different benchmarks and prefer to provide sustainability data that actually delivers management information.

Recent research from the International Federation of Accountants (IFAC, 2012) provided a list of KPIs that investors use when considering possible investments. They conclude that investors typically have proprietary approaches and models for assessing companies, but many seem to be gravitating to certain types of disclosures and key performance indicators (IFAC, 2012, p. 4). The set provided in this report is amazingly comparable with the criteria list used in this research for the analysis of the current disclosure of sustainability information from Dutch listed firms.

Both companies and investors emphasise the need for a general reporting standard for sustainability information like the IFRS for financial reporting. This framework should be generic and sector-neutral, but provide enough opportunities to include sector and business specific information.

4.3 Roadmap to the future

The use of (a common set of) KPIs could be promoted through legislation, a “comply or explain” system, or initiatives from the industries in which companies are working. The first option, legislation, according to the interviewees, will be an option that would lead to an increased amount of common KPIs, however, the “added value” is often questioned, since there is a major risk companies will just try to meet the minimum requirements.

The second option, a “comply-or-explain” or an “apply-or-explain” based system was often the preferred option of the interviewees. This way, companies will still have the option not to publish information about the KPIs; however, an explanation would be necessary as to

why this information is missing. Furthermore, it could lead to "peer pressure" if most of the companies comply with this "sustainability code", and a few don't.

The third option where the industry would take initiative and define their own (industry-specific) KPIs is often regarded as the ideal option by the interviewees, yet it's also seen as somewhat unrealistic. "Ideally, industries would define their own (industry-specific) KPIs, but past experience has shown that this is often problematic," said one interviewee.

Two recent examples in somewhat related countries, Denmark and South Africa, remain inconclusive regarding what is to be preferred. Denmark recently introduced a comply-or-explain based system, whereas South Africa opted for a legal anchoring. According to an interviewee, both systems currently lead to similar results. In Sweden, it is obligated for state companies to produce a sustainability report according to the GRI guidelines.

A different solution, suggested by several interviewees, could be the introduction of an IFRS-like Directive for non-financial reporting. "This would greatly enhance comparability". Most of the interviewees that are in favour of developing an IFRS-like Directive think that this should be done by the International Integrated Reporting Council (IIRC). "Investors should make their criteria transparent and create the demand, after which the market will follow". The final step in this respect could be auditor assurance. The auditor then could indicate whether something is missing in the reporting".

While there is a request to include more qualitative and narrative information in financial reports, sustainability reports need more quantitative information and support. It seems that boundaries between financial and non-financial information and reporting is blurring. There is a need to further integrate financial and non-financial information.

Currently, the European Union (EU) is developing a set of non-financial KPIs that should at least be incorporated in the annual reports. It would be useful to use this set of KPIs as a standard. Next to these KPIs, it should be encouraged to provide information on concrete targets, year-to-year data, comparison and developments, and information on risks and opportunities. It would also be good to include not only information on achievements and positive contributions, but also on challenges, remaining problems and negative impacts.

5. Conclusions and recommendations

In this section, we present our conclusions and recommendations. We summarise (i) the current disclosure practices of Dutch listed companies, (ii) to what extent are sustainability aspects linked to the company's strategy and risk management, (iii) the influence of GRI reporting standards and the RJ 400 Directive, (iv) the influence of firm characteristics on sustainability disclosures, (v) what are the motives of Dutch listed companies to integrate sustainability in the annual report or to publish a separate sustainability report, (vi) appropriateness of the EFFA/DVFA instrument to improve the current situation, (vii) useful environmental and social KPIs to report on, and (viii) a roadmap to the future.

5.1 Conclusions

The current disclosure practices of Dutch listed companies

In general, we distinguish three variants of sustainability reporting: (i) a separate sustainability report, (ii) an annual report with a dedicated sustainability section, and (iii) an integrated annual and sustainability report.

Overall, 50% of the companies publish a separate sustainability report and the other 50% of the companies have a dedicated sustainability section in the annual report. Our survey results show that all companies that declared they publish an integrated annual report indicate that the entanglement of sustainability performance and strategy is the main reason for doing so. Hence, sustainability has become an integral part of how business is done. The reason to publish a separate sustainability report on the other hand was, for most of the respondents, to bring more attention to the topic of sustainability within the company. AEX companies (70%) publish a separate sustainability report significantly more often than AMX companies (32%) and most AMX companies have an annual report with a dedicated sustainability section.

With respect to the application of sustainability indicators, 71% of the companies have established sustainability KPIs and measure them on a year-to-year comparison. AEX firms (87%) define sustainability KPIs substantially more often than their AMX counterparts (56%).

Finally, regarding assurance, 46% of the companies seek third-party assurance for the provided sustainability information. Our survey results illustrate that 59% of the respondents

perceive (the added value of) third party assurance to be valuable, whereas 41% of the respondents does not see the added value. It furthermore appears that publishing a separate sustainability report, as well as reporting in accordance with the GRI framework, is strongly related to an increased rate in a company seeking third-party assurance on the sustainability report. AEX companies (74%) seek third-party assurance significantly more often than AMX companies (20%).

Linking sustainability aspects to the company's strategy and risk management?

Based on the information provided in the respective annual reports, 38% of the companies include sustainability in the corporate strategy. In our survey results, however, 21 out of 22 respondents (95%) indicate that they incorporate sustainability in the corporate strategy. Apparently, either companies do incorporate sustainability in their corporate strategy but don't report on this matter, or there is a "gap" between the perception of the companies and the researchers. Remarkably, (44%) more often provide a link to corporate strategy than (30%).

With regard to the link to risk management, 52% of the companies provide a link between sustainability and the company's risk management in the annual report. Our survey results are principally in line with our observations. 82% of the respondents points out that potential risks related to sustainability issues are identified and 50% mention that potential risks related to sustainability issues are reported in the risk paragraph of the annual report. AEX companies (61%) link sustainability to risk management more often than AMX companies (44%).

Finally, relating to the application of sustainability criteria in executive remuneration, 33% of the companies apply sustainability criteria in executive remuneration. 44% of these companies disclose the explicit sustainability targets, while 56% only mention the inclusion of sustainability targets, but then again do not disclose the explicit target(s). In addition, we conclude that there is wide variety in sustainability targets set. AEX companies (52%) include sustainability criteria in executive remuneration considerably more often than AMX companies (16%).

The influence of GRI reporting standards and the RJ 400 Directive

Overall, 71% of the companies apply GRI as its sustainability reporting standard, while only 8% explicitly refer to the use of the RJ 400 Directive. AEX companies (91%) use GRI reporting standards significantly more often than AMX companies (52%). Consequently, AEX companies also more frequently apply GRI indicators than AMX companies. We also

notice that companies like to emphasise ‘their positive contributions to society’ in reporting indicators, such as providing information on (sustainability related) actions taken during the year and reporting voluntary contributions to society

Our survey results more or less confirm our observations found in the annual reports. 82% of the respondents indicate they apply GRI reporting standards, whereas only 9% indicate use of the RJ 400 Directive. Interestingly, 50% of the companies indicate they use their own internally developed guidelines.

On average, 82% of the survey respondents indicate that GRI reporting standards provide sufficient guidance with respect to sustainability reporting. This view is shared by the majority of the interviewees. Their overall opinion towards the (intention of) GRI reporting framework is rather positive. However, there is also criticism. Some of the more frequently heard critiques from respondents include: “The focus would be too much on the report instead of what lies underneath”; “The GRI framework would not stimulate integrated thinking”; and, “In the event a company reports fewer indicators, one risks a downgrade in GRI score”.

The influence of firm characteristics on sustainability disclosures

Our analysis with regard to the influence of firm characteristics on sustainability disclosures included the effect of (i) industry, (ii) firm size and (iii) shareholder structure. With respect to ‘industry’, it seems that sustainability disclosures of companies in the ‘consumer goods industry’ and ‘basic materials industry’ are generally above average. Conversely, it appears that ‘technology- and industrial’ companies provide relatively less information. These results should be interpreted with some care however, given the substantial influence of firm size.

As aforementioned, firm size has a significant influence on the sustainability disclosure provided. In general, we can conclude that the larger the size of a firm (measured by total revenues), the more sustainability information is provided.

Finally, regarding shareholder structure, it appears that companies with share certificates and a relatively smaller number of blockholders provide more extensive sustainability information than companies with no share certificates and a larger number of blockholders. However, again these outcomes should be interpreted with great care. Our findings with respect to the influence of the total percentage of share capital collectively held by all blockholders are unfortunately too ambiguous to draw strong conclusions. It would be interesting to include this issue in future research.

Motives of Dutch listed companies to integrate sustainability information in the annual report or to publish a separate sustainability report

Our survey results show that all companies which declared they publish an integrated annual report indicate that the strong relation between sustainability performance and corporate strategy is the main reason for doing so. Hence, sustainability has become an integral part of how business is done for those companies. The reason to publish a separate sustainability report on the other hand was, for most of the respondents, to increase attention to the topic of sustainability within the company.

Appropriateness of the EFFA/DVFA instrument to improve the current situation

Most of the companies in our sample report information about lagging (i.e. result-based) sustainability KPIs. Examples of these indicators are CO₂ emissions, total waste and energy use. These lagging indicators do not necessarily provide information or an indication of the risks and opportunities related to sustainability, nor about the process behind the sustainability performance. It is precisely this kind of information investors need to assess and integrate ESG information into their investment decisions. The interviewees do not see the current EFFAS/DVFA set of indicators as workable, while the requested information is too detailed.

5.2 Recommendations

Useful environmental and social KPIs to report on

It would be useful to use a set of environmental and social KPIs as a standard. The list could be based on the set which is currently being developed by the EU or on the set of indicators from IFAC (2012). Next to these KPIs, it should be encouraged to also provide information on concrete targets, year-to-year data, comparison and developments, and information on risks and opportunities. Additionally, next to information on achievements and positive contributions, information on challenges, remaining problems and negative impacts should be provided as well.

Roadmap to the future

Both companies and investors emphasise the need for a general international reporting standard for sustainability information, for example a system comparable to the IFRS framework for financial reporting, but not necessarily IFRS's Directive-like system. This

framework should be generic and sector-neutral but provide enough opportunities to include sector and business specific information.

The use of (a common set of) KPIs could be promoted through legislation, a "comply or explain" system, or initiatives from the industries companies are working in. The introduction of a general international reporting standard for sustainability information is a reasonable option for progressing sustainability reporting and the usefulness of the information for investors a step further. An international body, network or platform could introduce such a system. The development of such an international framework could be part of the IIRC activities, GRI activities or could be initiated by the EU.

Currently, the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI) are working on a new framework for integrated reporting in which they try to combine the current demands for changes in financial reporting and sustainability reporting. The GRI will publish its new G4 guidelines – the next generation – in May 2013. Unfortunately the IIRC will not be able to publish its recommendations before that date. So the expectations are that the GRI will do some recommendations itself on integrated reporting with the knowledge its board acquires from the IIRC work in progress.

The European Commission is preparing its recommendations on financial reporting, to be published in September of 2012. Because already so many European countries have one way or the other based their non financial reporting guidelines on the GRI-framework, one may expect that the Commission will to a large extent follow the GRI.

Based on the results of this research and the current climate of different new developments, it seems that the following approach would integrate the expectations from both companies and investors alike:

1. A general international standard is formed;
2. A generic list of lagging indicators comparable to the list of IFAC (2012) is developed;
3. Guidance for the use of leading indicators and process indicators (e.g. targets, time-series data, process data, internal management, accounting and control) is formulated.

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GIIN, Global Impact Investing Network, www.thegiin.org

WICI, World Intellectual Capital Organization, WICI KPI Project, www.worldici.com

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Appendix II: Criteria set of sustainability information and indicators

		Score
General:		
1	Company name	
2	Index	
3	Sector	
4	Separate sustainability report?	
5	Year sustainability report (or annual report)	
6	GRI used as standard?	
7	GRI Score?	
8	CDP score?	
9	RJ 400 used as standard?	
10	Is ESG explicitly linked to company strategy?	
11	Is ESG explicitly linked to company risks/opportunities?	
12	Has the ESG report been audited?	
13	Sustainability committee as part of the Supervisory Board?	
14	Sustainability mentioned in report of Supervisory Board?	
Used standards		
15	Organisations the company reports about as participant or signatory (external)	Category
	
	
16	Internally developed standards	
	
	
Financial		
17	Total revenues (in EUR mln)	
18	% of sales in emerging markets	
19	Information about local purchases	
20	Information about new investments	
21	Expenditure on research and development	
22	Information about the value of import vs. value of export?	
Employees / social		
23	Total workforce with breakdown by employment type and gender	
24	Employee wages and benefits with breakdown by employment type and gender	
25	Total number and rate of employee turnover broken down by gender	

26	Specific goals regarding % of female in management?
27	Percentage of employees covered by collective agreements
28	Average hours of training per year per employee broken down by employee category
29	Expenditure on employee training per year per employee broken down by employee category
30	Cost of employee health and safety
31	Total number of fatalities
32	Total number of injuries
33	Work days lost due to occupational accidents, injuries and illness
34	Incidents on safety reported and explained?
Ethics / other	
35	Payments to governments
36	Contributions to political parties
37	Voluntary contributions to civil society
38	Number of convictions for violations of corruption related laws or regulations and amount of fines paid / payable
39	ESG part of remuneration?
40	Aggressive remuneration (CEO % target variable remuneration as part of total remuneration) in %
41	Code of conduct in place?
42	Breaches in code of conduct mentioned?
Environment	
42	GHG emissions
43	Initiatives to reduce greenhouse gas emissions and reductions achieved
44	Percentage of materials being recycled
45	Energy saved due to conservation and efficiency improvements
46	Percentage and total volume of water recycled and reused
47	Total weight of waste by type and disposal method
Other	
48	Company indicates whether improvements could be made?
49	Information on actions taken during the year
50	Year-to-year comparison regarding quantitative goals
51	Relationship between selected KPI's and business performance
52	Information about "competitiveness of anti-competitive behaviour"
53	Information about customer satisfaction and reputation
54	Information about stakeholder dialogue or stakeholder management
55	Information about Biodiversity
56	Information about land use
Shareholder structure	

57	Certificates of shares?	
58	Blockholders:	% of shares
	
	
	Used ESG indicators	
59	Indicator	Goal
	
	

Appendix III: Questionnaire

What is the name of your company?

What is your name?

What is your function?

1. Does your company publish sustainability information?

- a. Yes
- b. No

2. In case a sustainability report is published, what guidelines have been used? (more than one answer possible)

- a. GRI
- b. RJ 400
- c. Internal guidelines
- d. Other, namely.....

3. Is the sustainability information included in or part of the annual report, or has a separate sustainability report been published? Our company has a(n)

- a. Integrated report
- b. One report with a separate annual report section and sustainability report section
- c. Chapter in annual report (without separate sustainability report)
- d. Chapter in annual report (and separate sustainability report)
- e. Separate report
- f. No reporting on sustainability

4. In case the sustainability information is integrated in the annual report, what is the reason for this?

- a. Sustainability performance and strategy has become an integral part of how business is done
- b. The reporting cycle for reporting sustainability is the same as the financial reporting cycle, so we publish both report together in one publication
- c. By integrating reporting, we can combine both the financial and the sustainability audits
- d. Another reason, namely.....

5. Why does your company publish a separate sustainability report?

- a. Bring more attention to the topic of sustainability in the company
- b. The reporting cycle for reporting sustainability is not in the same as for financial reporting
- c. Sustainability can't be audited the same way as our financial report t
- d. Another reason, namely.....

6. If your company has currently a separate sustainability report, what would make you switch integrated reporting?

- a. Sustainability is integrated in the way business is done
- b. The reporting cycle for reporting sustainability is the same as the financial reporting cycle
- c. By integrating reporting, we can combine both the financial and the sustainability audits
- d. Another reason, namely.....

7. The majority of the sustainability reports are based on the GRI (G3) guidelines. Does this framework provide (in your opinion) enough guidance?

- a. Yes
- b. No

7a. Your answer was no. What should be added to the GRI guidelines to make this framework more appropriate for you?

.....

8. Is sustainability integrated in the strategy of your company?

- a. Yes
- b. No

9. Are potential risks related to sustainability issues identified?

- a. Yes
- b. No

10. Are potential risks related to sustainability issues reported in the risk paragraph of the annual report?

- a. Yes
- b. No

11. Does your company make use of KPIs in the area of sustainability?

- a. Yes
- b. No

12. If question 11 was answered yes, what were for your company the main reasons to choose for the KPIs currently in use?

.....

13. If you use specific KPIs for monitoring your sustainability performance, do they help you to improve your sustainability strategy?

14. Have you set sustainability-related targets for your company (such as reduction in Greenhouse Gases and electricity use by 15% by 2020) and do you publicly report on the progress and/or fulfilment of these targets?

15. Is executive remuneration in your company (partially) based on sustainability factors/targets/performance?

- a. Yes
- b. No

16. The added value of (mostly limited) third party assurance is

- a. Very valuable
- b. Valuable
- c. Not valuable

17. Do (potential) investors ask for sustainability information?

- a. Yes
- b. No

18. What kind of information (potential) investors ask for?

- a. General sustainability information

- b. Integration of sustainability in company strategy
- c. Potential risks and opportunities related to sustainability issues
- d. Other, namely

Appendix IV: Interviews

Date:	Organisation:	Interviewee
23-1-2012	KPMG	Dhr. W. Bartels
24-1-2012	Imtech N.V.	Dhr. Jeroen Leenaers en Mevr. A. van Houten
24-1-2012	APG	Dhr. E-J. Stork
26-1-2011	Samco Shell Pensioenfond	Dhr. B. van der Steenstraten
27-1-2012	TomTom N.V.	Mevr. A. Francis
7-2-2012	Teslin Capital Management B.V.	Dhr. M. Hartog en Dhr. F. Van Beuningen
7-2-2012	Koninklijke Philips N.V.	Dhr. S. Braaksma
7-2-2012	PricewaterhouseCoopers	Dhr. R. van der Laan en Mevr. A. Wentink

Appendix V: Typical Generic Metrics and Performance Indicators

1	Typical Generic Metrics and Performance Indicators investors look for	Related GRI Indicators
Environmental		
Climate change Greenhouse Gas (GHG) emissions	<ul style="list-style-type: none"> ▪ Total direct and indirect GHG emissions (scope 1 and 2) in tonnes/kilograms of CO2 broken down by type of energy source. This could also cover a percentage of operations included ▪ Total other direct GHG emissions (scope 3), including emissions from business travel by employees and supply chain ▪ Carbon price (or shadow) ▪ <i>Example intensity measure:</i> Tonnes/kilograms CO2 as percent of turnover 	EN16, EN17
Waste and waste recycling ratio	<ul style="list-style-type: none"> ▪ Total waste ▪ Type of waste (hazardous versus non-hazardous) produced by product and volume ▪ Percent of waste reused in the manufacturing process ▪ <i>Example intensity measure:</i> Waste per person or square foot/ meter and percentage recycled, or total waste per sales 	EN22
Water	<ul style="list-style-type: none"> ▪ Amount of water consumed (e.g., cubic meters) by quality/source and percent water usage from recycled sources ▪ <i>Example intensity measure:</i> Water consumption per unit of sales 	EN8, EN9, EN10
Fines/provisions	<ul style="list-style-type: none"> ▪ Monetary fines and non-monetary environmental sanctions ▪ Environmental provisions as reported on the balance sheet 	EN28
Energy efficiency/renewable energy	<ul style="list-style-type: none"> ▪ Total amount of energy used by the organization (e.g., MWh, KWh or Joules) ▪ Amount of energy consumed that was generated from a renewable energy source ▪ Financial impact of emission reduction initiatives ▪ Energy saved due to conservation and initiatives to reduce energy consumption ▪ Capex expenditure in “green” technology or to facilitate more sustainable practices ▪ <i>Example intensity measure:</i> Energy use per square foot/meter, or per sales 	EN3, EN4, EN5, EN6, EN7
Biodiversity	Location/size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity (such as trees and vegetation as well as wildlife and endangered species) value	EN11, EN12, EN13, EN14, EN15
Social		
Workplace health and safety	<ul style="list-style-type: none"> ▪ Workforce accidents (total) and fatalities ▪ Lost time from accidents (number of hours or days) ▪ <i>Example intensity measure:</i> Lost time injury frequency rate: i.e., lost time injuries per million man-hours (or total recordable injury frequency rate) 	LA7

<p>Human capital development training and qualification</p> <p>Human capital management: staff turnover, maturity, and diversity, absenteeism</p>	<ul style="list-style-type: none"> ▪ Training and qualification—total or average investment/expenses on training ▪ <i>Example intensity measure:</i> Investment or training hours per FTE, or broken down by employee category ▪ Employee turnover rate ▪ Maturity of workforce—(age structure/distribution); employee average age ▪ Diversity— percent women in workforce, percent minorities ▪ Pay differential between men and women at different levels ▪ Employee satisfaction (as a result of employee engagement) ▪ Percentage of employees covered by collective agreements ▪ Relationship with unions—strikes, days lost 	<p>LA0</p> <p>LA1, LA2, LA4, LA13, LA14</p>
<p>Governance</p>		
<p>Board effectiveness</p>	<ul style="list-style-type: none"> ▪ Board composition—independent directors as a percent of total board membership; separation of CEO and chair role; independent director composition of board committees, such as the audit committee ▪ Board duration—length of individual board member terms (years) ▪ Board remuneration—total amount of bonuses, incentives and stock options, amount of stock based compensation, long-term vs. short-term hurdles (link between remuneration structures and organizational strategy) ▪ Percent women at board level ▪ Indication of risk management policies and implementation 	<p>Profile disclosure1,2, LA13</p>
<p>Stakeholder Engagement</p>	<ul style="list-style-type: none"> ▪ Frequency of key stakeholder engagement ▪ Engagement mechanisms, e.g., meetings, surveys, briefings, use of on-line media ▪ Main issues arising from stakeholder engagement ▪ Steps taken to respond to stakeholder feedback 	<p>Profile disclosures 4.14-4.17</p>
<p>Conduct, litigation risks, corruption</p>	<ul style="list-style-type: none"> ▪ Records of breaches of codes of conduct and the associated costs ▪ Corruption— percent of revenues in regions with transparency rating (such as those developed by Transparency International) and/or number of business units analyzed for corruption risks ▪ Total amount of remediation and fines and, where applicable, expenditure on reclamation and decommissioning ▪ Payments to government(s) and total value of financial and in-kind contributions to political parties, politicians, and related institutions. ▪ Voting right parity 	