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Introduction to special issue

The impact of mandatory non-financial reporting on corporate management, behavior and performance

Karen Maas, Peter Sampers

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Much has been written about 'why' companies are mindful of sustainability. Many papers have been published about their motivation such as the sustainability business case and stakeholder management. However, relatively little research has addressed the related 'how' questions. Amongst the how questions, the one dealing with how companies can and do integrate sustainability performance measurement, management control, reporting and communication is particularly underexplored.

A setting in which this question can be studied is created by a mandatory change in disclosure and reporting requirements. The question then can be: What is the impact of mandating non-financial reporting through the recent EU Non-Financial Reporting Directive (NFI Directive) on corporate management, behavior and performance? How will companies affected change their management of sustainability and the related reporting?

For instance, companies routinely collect lagging indicators for their financial (and managerial) accounting systems. Although these lagging indicators are useful, they mainly provide information about past performance and are less relevant for future oriented management decisions. To improve sustainability performances (environmental, social and economic), firms also need to consider leading indicators. Current trends such as 'Integrated Thinking and Integrated Reporting' stimulate this way of thinking while encouraging firm's managers to integrate sustainability issues within the firm's vision, strategy, risk management, management accounting, control and reporting systems. Although these elements are often addressed separately, it is becoming increasingly urgent that all are addressed in an integrated and holistic manner in order to improve sustainability performance and long term value creation.

The six articles in this Special Issue of MAB build upon existing research and extend and consolidate the results of ongoing discussions on sustainability reporting and the effect of reporting on strategy, policies and performance.

The first paper '*The expected impacts of regulating non-financial reporting*' is a paper by the special issue editors, Maas and Sampers, to sketch the scene. Maas and Sampers, critically assess the expectations of the EU directive for non-financial reporting to *"increase transparency by increasing the quantity of information available, to increase companies' performance, to increase accountability, and to enhance the efficiency of capital markets."* (EC 2013), by a literature review. Although these changes are expected to occur and deemed to result in final social, environmental and human rights impacts ("performance"), it is not immediately clear whether the implementation of this mandatory regulation actually will lead to the desired effects. The article provides an overview of what we know and don't know about the actual results of (mandatory) sustainability reporting.

The other five articles describe the current situation, mainly in the Netherlands, of non-financial reporting and assess the trends, the impact of regulation and differences between topics, sectors, listed and non-listed firms.

De Waard, Marra, Kranenburg and Van Oorschot describe in their paper *'Transparent Carbon Disclosures: depth in Carbon-reporting of Dutch listed and non-listed companies'* to what extent companies in the Netherlands (listed, non-listed family owned and a reference group of non-listed other companies) report their strategies, implementation and performance regarding carbon emissions and reduction. They find that on average listed companies are far more transparent than non-listed companies, however, non-listed companies that score high in the Dutch Transparency Benchmark are just as transparent about carbon emissions as listed companies. Furthermore, they find that most carbon disclosures are still of a mainly qualitative nature and are at present mostly a means of storytelling rather than a means of thorough analysis on how climate change risk might affect them and how they have to respond to mitigate financial and societal risks.

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Stolker, Keskin den Doelder and Sidhu, examine in their paper *'Climate-related reporting by publicly listed companies in The Netherlands: an attention-action mapping'* companies' reported attention to climate as well as their climate-related actions. It shows that although there are noticeable climate attention and action differences among AEX companies, over time the companies as a whole have started doing more in relation to climate. In terms of attention, there is an increase in the inclusion of climate considerations in strategy making and, in terms of action, there is an increase in the inclusion of climate in risk management. Still, there is huge room for improvement in terms of attention to climate and the taking of climate-related actions, as well as reporting actions to shareholders and stakeholders. The article underscores the important role that non-executive directors on (supervisory) boards can play in this regard.

Krukkert and De Waard assess in their paper *'Het effect van verificatie op volledigheid van klimaat-gerelateerde informatie'* the effect of verification on the completenes of climate related information.

Based on previous research it is expected that assurance will have a positive effect on the quality and completeness of non-financial information provided in sustainability or integrated reports. The study of Krukkert and De Waard confirmed this expectation and found that assurance indeed has a positive effect on climate-related information, specifically for companies in the utility sector. They found that the introduction of the EU NFI Directive had only limited impact on this effect. Assurance on non-financial information increases the completeness and thereby the reliability of information on greenhouse gas emissions.

Hubers and Thijssens investigate in their article *'Human rights reporting under increasing institutional pressure'* how the EU NFI Directive influenced sustainability reporting−in particular human rights disclosure−by taking an institutional perspective. The Directive is not seen as an isolated event, but rather as a consequence of the ongoing interaction of different forces within the institutional context. They investigated how human rights disclosures have developed over the years with a longitudinal research using content-analysis of human rights disclosure in annual and sustainability reports covering the 2002–2018 period. Their analysis of 17 years of annual reporting shows a steady linear increase in the extensiveness of human rights disclosure of Dutch financial services companies, with no strong deviations when the EU NFI Directive became applicable. Notwithstanding an overall increase over the years, the proportion of human rights information in both annual and sustainability reports remains fairly low.

Finally, in their article *'Reporting about value creation – Evidence from the Netherlands'*, Nandram and El Harchaoui provide insights into whether Dutch AEX and AMX listed companies are making any progress on reporting about value creation in their 2018 annual reporting. Their analysis shows that reporting about value creation can be more specific and that companies can pay more attention to any possible destruction of value. Additionally, companies can provide better insight into the long term and other effects of their chosen strategy in their value creation models. In their paper they show a number of examples of good practice as inspiration for companies to improve their reporting.

The articles in this special issue provide a contemporary view of the impact of (mandatory) non-financial reporting on corporate management, behavior and performance that will interest any MAB reader. Looking backward at the articles in this special issue, it becomes obvious that we are just at the beginning of our journey to provide objective, reliable and high quality information on long term value creation in company reports. The articles nicely show that the reports often contain many words but is not always clear what these words mean and how they impact the expected financial and non-financial performance of companies. We do hope this special issue stimulates practitioners to further improve non-financial disclosure and academics to work on further research related to this subject.

We would like to thank the authors of the articles in this special issue for their contribution and Chris Knoops for the very pleasant cooperation in editing this special issue. We hope you enjoy reading this issue.

- **Prof. dr. K.E.H. Maas**, Professor of Accounting & Sustainability, Department of Accounting and Finance, Open University, Heerlen, and Impact Centre Erasmus, Erasmus University Rotterdam.
- **Prof. dr. P. Sampers**, Professor of Financial Accounting, Department of Accounting and Finance, Open University, Heerlen, and Department of AIM, Maastricht University, Maastricht.

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