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Foreword

Welcome to the first KPMG study of corporate reporting in the Netherlands. The study is based on a wider international methodology that KPMG has developed to analyze corporate reports and which resulted in our global study Room for Improvement.

Derived from this, we have analyzed the results and trends for the 23 major non-financial Dutch companies - listed and/or with a turnover of at least EUR 10 billion.

Why carry out such an analysis? At KPMG, we have believed for a long time that business reporting can and should be improved. This is not about better reporting for reporting’s sake, but to enable better decision-making by investors and other stakeholders. The capital markets rely on relevant and well-presented information. But they need more than just the numbers. Quite apart from its backward-looking nature, financial performance alone does not and cannot tell the whole story of a company and nor does it enable stakeholders to assess the potential success of a business for the long-term. This is why corporate reporting needs to step up and give a fuller, more long-term view.

Moves are being made in the right direction. In recent years we have seen a number of companies starting to experiment with value creation models in their reports. But the evolution of these over time show that it is not that easy to define such a model and to translate it into meaningful input (capital) and output (value) indicators. It is even harder to show how this is integrated into everyday decision-making.

Recent developments such as the inclusion of long-term value creation in the Dutch corporate governance code, the international debate on moving away from short-termism, and regulatory developments such as the implementation of the European Non-Financial Information Directive have strengthened us in our view that as auditors we have a role to play in shaping, implementing and researching the agenda to improve reporting.

Alongside our participation in a range of international and European initiatives on corporate reporting, this study forms part of our efforts to contribute.

Bringing a detailed analysis of Dutch reporting trends across nearly two dozen multi-national corporations, including a focus section on long-term value creation given its particular relevance now to the Dutch market, we hope this report and the views we express in it will add to the momentum for improving corporate reporting, in the Netherlands and internationally.

We also hope that you will join us in our journey to shift the focus in reporting from short-term to long-term and from financial to integral performance reporting – as the basis for better decision-making that will benefit the whole financial and stakeholder community.

Mark Vaessen
Head of Department of Professional Practice
Global Chair Better Business Reporting

Wim Bartels
Partner Corporate Reporting
Our vision on reporting and long-term value creation

We strongly believe that the purpose of every company is to create sustainable value for investors and other stakeholders that goes beyond one or two reporting cycles. There must be a long-term perspective for the business: it is not to survive (and hopefully thrive) for the next five years, but to do so for the benefit of all involved on a genuinely long-term basis – decades or even centuries.

In short, it is about long-term value creation. This value creation should have a wide meaning, beyond simply ‘financial value creation’, because a successful and productive business will benefit communities in all kinds of ways – adding value to many different stakeholders: employees, communities, suppliers and partners, not just investors.

However, the annual reports that are the scope of our research are primarily oriented to inform the investors of companies. There is a logic to this, because financial value creation is critical for a company to thrive over the long-term: without proper access to finance and a financially profitable business, the company wouldn’t be able to create any other value.

But there needs to be a wider focus on other forms of value creation for the long-term – and these need to be reflected in companies’ reporting.

A lot has been debated and proposed over the past years in relation to short-termism and the integration of long-term value creation into business and reporting. Companies are seen to be far too focused on realizing short-term results in the interest of stock prices and meeting shareholders’ objectives only. If these are not achieved, shareholders try to (literally) take over management’s role and improve short-term financial results through mergers, acquisitions or management changes - as we have seen in the Netherlands a few times in recent years.

Recent developments

The discussion about the future of the reporting model is an active - and global - one and there have been many relevant developments in recent times. To name but a few: we have seen the launch of the integrated reporting framework by the IIRC and an ever-growing uptake of the principles in this framework by many companies around the world; major investors and asset managers¹ have voiced their concern to receive more insight into the strategic framework for long term value creation of a company; non-financial indicators are becoming integrated into regulations; in the Netherlands, long-term value creation is now part of the Dutch corporate governance code. We are also starting to note more analysis of the financial risks and effects on value creation of external impacts, for example as identified by the Taskforce on Climate-related Financial Disclosures with respect to climate change.

In addition, the importance attached to intangible assets (such as brand/reputation, R&D and innovation) is increasing. Indeed, intangibles today comprise as much as 84% of corporate valuations, compared to just 32% in the mid-eighties². Consequently, there is an increasing difference between the book and market value of companies. Moreover, in certain industries such as technology and financial services, intangibles have become critical success factors that are a source of competitive advantage. Investors are therefore increasingly looking beyond the financial results of companies and using the performance of intangibles as proxies for the health of a company and its prospects for success over the longer-term. As a result, corporate reporting on intangible value drivers has become an ever more important part of the mix. Over the coming years, we expect to see reporting on intangibles to increase in detail and specificity with a growing range of KPIs that relate to the business model and strategy of the company.

² Ocean Tomo, Intangible Asset Market Value Study 2017
What needs to change?
All of this tells us two things:
1. The current system of managing companies’ value, and the resultant reporting on it, needs an overhaul.
2. If we want to achieve a fundamental change, it is not about reporting per se, but about the actual strategy of the company – answering such questions as ‘what is the core purpose of the company?’, ‘what is the value we want to create and for whom?’ and ‘what is driving that value?’

At KPMG we therefore see long-term value creation as an enterprise level topic that could redefine strategy, stakeholder orientation, value measurement, management systems and processes, reporting and – ultimately – the scope of internal and external assurance. With that, it is a board level issue, both for executive and non-executive board members.

In this study we take stock of corporate reporting with an eye to long-term value creation: do companies explain their sources of value creation sufficiently? Do they explain their long-term strategic roadmap with related targets? Are the operational and baseline factors for financial performance addressed in reporting? Is the value of an organization’s intangible assets sufficiently analyzed and explained? Have external impacts that may have an impact on value creation been identified? And does the report tell investors about potential future developments and expectations in an informative manner?

For the purpose of our research we have used a simple structure that addresses the various aspects of business performance, from the essential sources to final outputs and views on the future as shown below. Our scope relates to the financial stakeholder - the investor primarily - who is informed by the annual report.

<table>
<thead>
<tr>
<th>Basis of long-term value creation</th>
<th>Fundamental sources of value creation</th>
<th>Strategy &amp; strategic roadmap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose, Business objectives, Values, Long-term business model</td>
<td>Customer base, geographic focus, product base, expansion, rationalisation, efficiency</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outlook on future value creation</th>
<th>Objectives</th>
<th>Outlook on performance</th>
<th>Risks &amp; opportunities from:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term objectives &amp; targets</td>
<td>Short-term financial forecasts, operational &amp; ESG performance</td>
<td>Strategy, business assets, relationships, external trends, external conditions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance</th>
<th>Financial performance</th>
<th>Baseline performance</th>
<th>Operational performance</th>
<th>External impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying performance, GAAP</td>
<td>Cost base, run rate, investments, dividends</td>
<td>Brand, R&amp;D, Customers, Staff, Efficiency, Products</td>
<td>Environmental, Society, Customer, Employee</td>
<td></td>
</tr>
</tbody>
</table>
Main findings — the ‘must dos’ for improvement

There is much to commend in Dutch companies’ corporate reporting. For example, nearly three-quarters of them report on how the company is creating long-term value for investors and other stakeholders, there is a strong focus on reporting on social and environmental impacts, and they are generally good at reporting on wider strategic issues. But when looking at where specific improvements can be made, we have identified a number of points that can be broken down into six main areas:

1. **Build a strong narrative structure**
   Companies should report in a smarter and more structured way. Instead of taking regulatory requirements and other external information demands or traditional approaches as the starting point for structuring their reporting, companies should focus on their own narrative about their short and long-term strategy, key business priorities, how they measure their performance against these - and how all of these are creating value for investors and relevant stakeholders, now and in the future.

2. **Disclose the health drivers**
   Performance reporting by Dutch companies should place more emphasis on the future performance and competitive position of the company. Next to short-term financial and operational metrics, companies could disclose so-called health metrics. These non-financial metrics are effectively pre-financial indicators, for example relating to R&D or the corporate brand, that give an indication about the robustness of company performance in the future and if it is on track against the long-term strategy. Instead of giving explicit forecasts that companies fear they will be held accountable for, reporting on future scenarios, would be another way for companies’ reports to take a more forward-looking aspect.

3. **Disclose relevant intangibles**
   Dutch companies should spend more time measuring what needs to be measured, not only what is easy. Due to, amongst other factors, changing societal expectations and the technological and sustainability revolution, intangible value drivers (e.g. trust, human capital, stakeholder relations, R&D, unique business processes etc.) are increasingly becoming critical but scarce assets for any organization. To give investors and other stakeholders a better and more holistic picture of the current and potential future performance and competitive position of the business, Dutch companies should provide more insight into the performance of their relevant intangible value drivers.

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Extending horizons © 2018 KPMG Advisory N.V.
4. Balance short-term with long-term information

Investors are generally looking for information and metrics about the future success of the business and viability of earnings. Descriptions about the corporate strategy could be more focused on the long-term strategy, with objectives, metrics and milestones mapping to future years with a minimum four to five-year time horizon. In addition, companies should better articulate the key trends affecting them and any possible future disruptive events - and how both of these may impact their risk/ opportunity-profile, together with how the long-term strategy addresses or anticipates such impacts.

Beyond the traditional strategy cycle
In our research only 43% of companies report on their long-term strategy, with a four to five-year time horizon.

Milestones
Of the companies that do report on their long-term strategy, only 42% articulate the corresponding milestones.

This means that, overall, 84% of companies are not meeting the best practice standard of reporting on long-term strategy with milestones included – so clearly there is room for many organizations to improve here.

Long-term business drivers
Less than 50% of Dutch companies report on their long-term business drivers and corresponding business risks and opportunities.

5. Report priorities of real major risks

The quality of risk disclosures could be improved by giving better insight into risk priorities and providing related contextual information. Many risk disclosures appear to have been published in order to comply with regulations rather than to help investors understand what the most important concrete risks are and how they are prioritized and managed. Companies could help investors by focusing more on those concrete events and trends that may impact the business and strategy in the short, medium and long-term and show prioritization in terms of the size of the impact and likelihood.

Risk overload
Companies in the Netherlands identified an average of 17 risks each. In most cases they are shown as simple listings, suggesting a lack of focus on the most important matters. Sometimes, less is more.

Strategic risks
Only a quarter of Dutch companies are most concerned about risks that relate to product relevance, strategy execution and acquisition and integration strategies – and most of the time these are described in generic terms only.

Forward-looking
Only 9% of Dutch companies consider the challenge of ensuring the continuous relevance of the business into the future as a key business risk.

6. Comply with the corporate governance code

Some companies in our sample do not yet comply with the long-term value creation requirements of the revised Dutch corporate governance code. In particular, more companies could set out how the interests of relevant stakeholders have been taken into account when developing the long-term strategy and/or making significant strategic decisions in the reporting year.

Stakeholder interests
Only 15% of companies indicate how they have taken stakeholder interests into consideration in their long-term strategy development process and/ or when making relevant strategic decisions during the book year.

Role of the Supervisory Board
22% of companies’ Supervisory Boards do not give an account either of their involvement in the establishment of the long-term strategy, or of the way in which they monitor its implementation.
Findings
Long-term Value Creation

As indicated in the foreword of this report, the integration of long-term value creation into corporate reporting is an emerging business theme, in the Netherlands and globally.

This is based on the general notion that corporate reporting should provide investors and other stakeholders with a holistic and meaningful picture of a company’s business model, strategy, performance and competitive position. For this to be the case, two things in particular are needed:

a. Reporting on the drivers of both short and long-term company value

Investors are generally looking for metrics about the viability of business models and corporate earnings. They need information that says something about this future performance, both in the short and long-term, such as plans for future growth with goals and metrics, and how future opportunities and risks could impact the future success of the business. In other words, they need forward-looking and predictive metrics.

b. Reporting on broader non-financial matters and stakeholder interests that may impact company performance in the longer run

Megatrends such as the technological and sustainability revolutions are changing the risk and opportunity landscape of companies. As a result, non-financial and intangible factors have become more critical to the competitive position of a company and need to be reported on to provide a holistic picture of company performance.

Such a holistic way of reporting would not only support investors and other stakeholders in making better business decisions, it would also be a contributing factor in beginning to counteract the widespread short-termism in the capital markets. If companies increasingly emphasized their long-term strategies, objectives and metrics (i.e. put more emphasis on long-term value creation) this could contribute to a transition in the investor-company dialogue from one focused on the next quarter’s financial results to one that takes a more strategic and long-term view.

Indeed, it is partly in order to combat short termism that new corporate governance codes in several jurisdictions around the world give long-term value creation a central position. For example, the revised Dutch corporate governance code calls on management boards to develop a view and a corresponding strategy on long-term value creation, including a requirement for both the management and the Supervisory Board to report on it.

The findings below present an overview of the extent to which the largest non-financial companies with operations in the Netherlands are indeed reporting on long-term value creation.

Key findings

In many respects, reporting on long-term value creation is still in its infancy in the Netherlands. As we will see later in this report, most performance information reported in annual reports is backward-looking and financially oriented – as it is in most of the rest of the world. Only a minority of the information is focused on the longer term business drivers, strategy and performance metrics.

Overall, a commendable 74% of Dutch companies report on how the company is creating long-term value for its investors and other stakeholders (see figure 1). Most companies use the IIRC framework of the six capitals to report on how they create value. However, the way companies do this differs both in depth and presentation of the value creation model.

Limitations in detail

We begin to see the limitations when we analyze it in more detail. For example, fewer companies (only 43%; see figure 2) report on their corresponding long-term strategy – even though it is a requirement of the revised Dutch corporate governance code to report on both their view on long-term value creation and the affiliated strategy. Most companies do not report beyond their two to three-year strategic planning horizon. Some companies, however, apply a longer horizon of five years.

To aid investors in measuring progress towards a long-term strategy or roadmap, and encourage them to adopt a longer-term view of their investments, companies could report the key milestones and material businesses risks and opportunities corresponding with the long-term strategy. However, our research shows that most Dutch companies do not provide this information. Of the companies that
do report on their long-term strategy, only 42% articulate the corresponding milestones. If we look at how companies articulate their view of the core determinants of future company success, we see a similar picture. 48% of Dutch companies do not fully report on their long-term business drivers and corresponding business risks and opportunities. Just over a third (35%) of companies only articulate the impact of megatrends, sector trends and other key business drivers in their risk section, and most of them do not make any distinction between short, medium and long-term business risks (see figure 3).

The Performance section of this report will discuss the findings of our analysis regarding the types of financial and non-financial key performance indicators Dutch companies use to report about their short, medium and long-term performance.

The interests of stakeholders
Another key requirement of the revised Dutch corporate governance code is that companies should pay attention to the interests of all their major stakeholders when developing their long-term strategy. But our findings show that only 15% of companies indicate how they have taken stakeholder interests into consideration in their long-term strategy development process and/or when making relevant strategic decisions during the book year.

This is despite the fact that most companies report in detail on stakeholder engagement/dialogue and materiality assessment processes in their annual report. However, most companies do not report on “how” the outcomes of these stakeholder engagements influenced relevant strategic decisions or their long-term strategy. For example, how regard was given to employee interests in a strategic decision to digitize parts of the core business process. A potential explanation for these outcomes is that stakeholder engagement and materiality assessment processes are not yet fully integrated into the strategy planning cycles, enterprise risk management systems and other relevant strategic procedures.

Supervisory Boards
Our analysis also reveals that a significant proportion of Supervisory Boards need to take a more active role. Supervisory Boards have a critical part to play in developing and monitoring the company’s long-term value creation strategy given that one of their responsibilities is to safeguard the interests of all stakeholders. However, almost a quarter (22%) of the Supervisory Boards of the companies we looked at do not give an account either of their involvement in the establishment of the long-term strategy, or of their role in monitoring the implementation of the strategy.

FIGURE 1 % of companies disclosing a view on long-term value creation

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>26%</td>
<td>74%</td>
</tr>
</tbody>
</table>

FIGURE 2 % of companies disclosing long-term strategy

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>57%</td>
<td>43%</td>
</tr>
</tbody>
</table>

FIGURE 3 % of companies reporting on long-term business drivers

<table>
<thead>
<tr>
<th>No reporting about long-term trends beyond the risk section</th>
<th>Reporting about longer term trends, but implications for business are lacking</th>
<th>Reporting about long-term trends, incl. corresponding business risks/opportunities and/or implications of long-term strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>52%</td>
<td>13%</td>
<td>35%</td>
</tr>
</tbody>
</table>
or of the way in which they monitor its implementation. This is also one of the requirements though of the revised corporate governance code.

Remuneration and long-term incentives

Turning to remuneration for Executive Boards, here a long-term element is better integrated. All companies that provide detailed information about their remuneration policies in the annual report have a long-term incentive component in their remuneration schemes. In addition, in 52% of companies the total short and/or long-term remuneration of the Managing Boards is dependent on both financial and non-financial (stakeholder) performance. Most of the time non-financial metrics are environmental or social performance metrics.

Despite this, the link between the company’s long-term strategy and future business drivers on the one hand, and the long-term incentive components and performance indicators of remuneration on the other, is not always clear. It should be an area of focus for companies in the Netherlands in future years to make the link more explicit and explain how it works in practice.

Conclusion: The journey has only just begun

Overall, companies in the Netherlands have made an encouraging start to the reporting of long-term value creation, although it remains in its infancy. This is perhaps to be expected, given that the new requirements in the Dutch corporate governance code are relatively recent.

In particular, there is further to go in the detail and depth provided, for example around long-term strategy, key milestones and material business risks. Companies also need to provide more detail on how they have taken the interests of stakeholders into consideration.

Supervisory Boards also need to step up and take a more active role, and give a fuller account of this in the organization’s reporting.

Furthermore, whilst long-term elements are generally quite well integrated into remuneration, clearer linkages could be made about how this links to the long-term strategy of the business.

These are early days for the reporting of long-term value creation and an encouraging start has been made. The journey is set to continue.

FIGURE 4 % of Supervisory Board reports that included information about the Supervisory Board’s involvement in the establishment of the long-term strategy, and the way in which it monitors its implementation.

We noticed that some companies...

Report on stakeholder in addition to shareholder interests

Incorporate a value creation model with value drivers and value delivered to stakeholders

Whereas others...

Focus on shareholders only

Limit reporting on value creation to a high-level description
Findings
Companies in the Netherlands do reasonably well in this regard, with a strong focus on business asset risks (see figure 5 below). On average Dutch companies report on 17 risks: countries such as Germany, the United States and Canada report higher numbers of risks, whereas companies in countries such as Spain, Switzerland and Brazil report on half or fewer the number of risks.

Dutch companies tend to focus their risk reporting on business asset, customer relationship and strategy risks over risks related to governance and external conditions.

Compared to the international average, Dutch companies appear to be more concerned about risks related to staff, infrastructure and brand/reputation with percentages that are all at least 50% higher than the international scores from our 2016 benchmark database.

For business strategy risks, Dutch companies are most concerned about product relevance, strategy execution and acquisition & integration strategies – a quarter of Dutch entities name all of these as a risk to the company. However, change management risks or the challenge of ensuring the continuous relevance of the business into the future are only addressed by 13% and 9% of Dutch companies respectively.

**Conclusion: A balanced approach - but further to go**

On the face of it, companies in the Netherlands seem to show a balanced approach to risk reporting. However, their reporting could be improved by giving greater detail and contextual information which would help investors: disclosure of risks is mostly limited to a simple listing without further prioritization or explanation around size/impact or timeframe.

Furthermore, Dutch entities pay limited attention to risks regarding the strategy of the company as a whole, for example where a brewery would be impacted by alcohol regulations, climate change or droughts. Incorporating more information on this – giving a long-term strategic view on risks - would help investors gain a perspective on long-term value creation at the organization.

**FIGURE 5** Business asset risks

- Infrastructure (incl. IT) 78%
- Staff 78%
- Supplier 52%
- Society 43%
- Brand 43%
- Natural resources 43%
- Customers 20%
- Knowledge 22%
- Licensed resources 9%

We noticed that some companies...
Disclose the expected trends of risks and related mitigating factors

Whereas others...
Don’t address the impact of risks on the business and do not provide sufficient detail of risks identified.
Findings
Most Dutch companies show not only their objectives for serving shareholders’ interests, but include objectives for other stakeholder groups (such as communities and employees) as well.

Related to this point, they pay significant attention to the environment, societal interests and employee issues – much more so than the global average (environment 70% vs 31%, society 87% vs 41%, employees 91% vs 52%).

**Setting a good example**

Dutch corporates appear to be in the vanguard of reporting on these wider strategic issues. However, with the recent implementation of the NFI Directive in the EU, applicable to EU companies from 2017 financial years onwards, we can expect the gap to narrow as organizations across Europe increase their focus on reporting numbers for environmental, social, governance and diversity aspects in their annual reports.

For now, though, companies in the Netherlands are setting a strong example. However, at the same time there are a number of improvements that could be made.

**Areas for improvement**

However, the focus in this reporting is relatively short-term. Only half of Dutch companies address long-term prospects, which is lower than the global average. Most Dutch organizations report on short-term factors such as efficiency, expansion and rationalization – but only a minority report on long-term factors such as customer experience (30%) and reputation (17%).

Reporting with respect to customers shows a number of limitations. Although every company reports on its customer base, a third of them do not explain their customer-focused objectives. Moreover, key to any business’ success is the ability to retain customers for the long-term through customer satisfaction and high service levels – such as can be measured through the Net Promoter Score. However, less than a third of Dutch companies account for their approach to retain customers and drive up the quality of the customer experience – instead merely describing the current customer base.

The fact that less than one in five companies addresses reputation in their reports is also surprising. Both reputation and customer experience are surely two key drivers for the long-term success of a business and investors could be looking for metrics that show developments in brand value, reputation trackers or customer retention for example.

Turning to business risks, companies do disclose them in dedicated sections in their reports (see page 16 of this report for more detail.) In a number of cases, the mitigating actions against these risks are defined in terms of strategically oriented measures and actions. However, these links are not made the other way round, i.e. an explanation in the strategy section as to how the strategy could mitigate (or increase!) the risks identified. Such links would strengthen investors’ understanding of the reasons behind certain strategic decisions, and would improve reporting.

**Describing the business model**

Another important aspect in helping investors and stakeholders to understand the business is the business model description. This gives investors an insight into the resources at the disposal of the company and how it is configuring them to help execute the business strategy.

The business model description should cover not the physical structure, resources and capabilities of the company, but intangibles such as the employee base, customer base, brand and market positioning, and relationships with suppliers. The knowledge and expertise that resides within the company is another significant aspect to draw out – but one that often gets overlooked.

Dutch companies generally score well on explaining their business model – as the graphic below demonstrates. In
most aspects, Dutch companies are well above the global average. However, one area that should be noted in particular for improvement is regarding suppliers. Once again, companies in the Netherlands are well ahead of the global score – but one surely cannot be satisfied that only half of our sample cover the area.

The operating model for the supply chain, relationships with suppliers and potential dependencies, the strategy around partnerships – these are all important topics, especially in a globalized world whose supply chains are significantly intertwined and might be at risk when we are likely to be facing not only resource scarcity but also import tariff battles as we have been seeing on the global political stage recently.

FIGURE 6 Business model factors reported
We draw three main conclusions from our analysis of the strategy content in annual reports:

Firstly, the focus should be more on long-term strategy and value-creation, particularly linking long-term success drivers such as customer experience and reputation to the company’s strategy.

In addition, the links between the strategy chapter and risks identified in the risk section could be strengthened to enhance understanding of strategic choices made.

Finally, in the globalized context that companies operate in today, the business model descriptions should pay better attention to the relationships with and dependencies in the company’s supply chain.

We noticed that some companies...

- Detail the strategy description by business unit
- Connect the strategy to risks, impacts and KPIs

Whereas others...

- Do not provide detail on strategy development beyond a three-year horizon
- Don’t show milestones and do not provide a clear time horizon for the strategy
Findings
Performance

For obvious reasons, performance reporting looks back at the past period and tells investors about progress made across various performance areas. Historically, financial performance has been seen as the primary information that investors need to assess a company’s progress and outlook.

Performance is driven by certain pre-financial value drivers that, in our view, actually have more fundamental predictive value than historical financial performance alone. Not only this, but historical performance is only of value if it is put into context alongside future objectives, forecasts and plans – both for the short- and long-term.

To the extent that financial performance information is of relevance, we would argue investors are interested in the underlying performance: the cost base, revenue run rate, investment impacts and so forth. It is information of this kind that provides a solid basis for short-term expectations.

Now look at the results from our research of where companies’ focus actually is:

As the graph shows, fewer than 10% of companies provide forward-looking perspectives for their business and performance. In light of today’s calls for long-term capitalism, longer-term investing and a focus on long-term value creation, we must hope that the relatively short-term approach Dutch companies are demonstrating over their performance reporting changes into a stronger, more strategic focus on the future of the business.
Giving a longer-term perspective
Of course, we are aware of the challenges that raises: the future cannot be forecast with certainty, such reporting may create legal liability issues, and updating the information year-on-year could impair a company’s credibility if it keeps changing.

In our view, the solution here is that forward-looking information on financials should be caveated - not to be treated as forecasts but rather as scenarios, with more focus on telling a comprehensive story with supporting numbers than on providing concrete numerical targets or predictions. There may, however, be more scope to provide numerical targets on certain non-financial metrics such as CO2 emissions for example that would underpin the (financial) health of the organization.

It is also striking that in the Netherlands – as in other countries – the inclusion of more forward-looking information is limited, with less than one third of organizations providing short-term forecasts and expectations. We would encourage companies to provide – and other parties such as investors and regulators to ask for - more information on this in order to keep the annual report a decision-useful document.

Pre-financial factors
As argued earlier, a company’s success is driven by pre-financial factors: the intelligence and diversity of its employees, the quality of its relationships with customers, the priority given to R&D, to name a few. In fact, we have grouped these factors into six categories that between them ultimately reveal the operational health of a company and are therefore of critical relevance to investors for assessing an organization’s long-term ability to create value. Many of these factors are intangible by nature, in line with today’s recognition that it is intangibles that make up a significant proportion of any company’s value.

The six areas we have identified relate to:

- Brand
- R&D
- Staff
- Efficiency
- Customers
- Products

FIGURE 9 Companies reporting an operational performance measure
Reporting on these areas varies considerably. The companies that we have reviewed may share quantitative performance measures or may just limit their reporting to contextual information (such as generic descriptions, case studies and activities).

As we can see from this chart, Dutch companies tend to report most fully about product performance, such as new products launched and product quality, and staff-related indicators such as retention and expertise.

Let us now take a more detailed look at each category in turn.

**Brand performance**

The brand/reputation of a company is one of the most material assets of any business. The true value of a brand is often – sadly – only really seen once it has been lost, e.g. impacted by inappropriate (fraudulent) behavior by or within the company, as we have seen a number of examples of in recent years. From an investor’s perspective, it is therefore critical to understand an organization’s brand performance: how it is developing and how it is protected.

What we see from this is that brand/reputation is in fact a blind spot for many companies in reporting – just as it is in accounting. In many ways, this is understandable due to the complexity of attaching any well-substantiated value to the brand. Nevertheless, it is an important area to explore further as argued above. Measures that have been adopted by some multi-national organizations that can provide more confidence over the long-term value creation capability of a business include: showing scores in brand rankings; the share of key individual brands in the market; and the estimated value of the brand. As we have seen recently, brand reputation is hard to gain and easy to lose. Therefore, information presented should be supported by a good explanation of the mechanisms in place to protect the brand and values of the company (e.g. codes of conduct, values statements, marketing and PR controls). Investors need to be sufficiently confident that the high ranking of today will not have disappeared tomorrow.

**Customer & sales performance**

In the post-financial crisis period that we have experienced over the past ten years, client centricity has made a comeback in companies’ purposes and objectives as a means to regain customer trust. This trust is increasingly being tracked by leading indicators such as the Net Promoter Score, illustrated measures

A range of brand and market measures can help to communicate performance in managing the health of the brand. Some measures may be derived externally (e.g. market share), but their inclusion in the report allows management to provide its perspective on performance.
as a recognition that sales levels in themselves are not the right indicator for customer retention. Arguably, even the Net Promoter Score needs further development, into more precise indicators such as customer lifetime.

The data from our research show that the two leading types of measures, customer satisfaction and customer retention, are only reported by a small percentage of companies in the Netherlands. Of those reporting, the vast majority provides context about their customer base and further actions they are taking to serve customers - but more informative insight into the quality of the relationship with customers is lacking.

**Research & development**

Surprisingly, reporting on research & development, in any form relevant to most industries, is missing for nearly half (44%) of the companies researched. The rest (56%) provide information on R&D by means of a general description of context and capability. The number of companies that add meaningful performance information such as on the knowledge base, development pipeline or new product history is very limited. Effectively, we only found a few individual cases where such measures were reported. Clearly, there is scope for Dutch companies to do much more here - although, in their defence, the same is true for many companies internationally.

**Efficiency reporting**

The insights that companies give around their production efficiency measures will inform investors about the underlying quality of the cost base. Measures could vary, from the quantified impacts of certain cost initiatives, the fixed/variable cost base and production yields, to utilization and capacity limits.

It appears that this type of efficiency information is rarely reported by large Dutch companies (again, similar to the picture internationally). Many provide a description about their production processes and how they focus on efficiency, but a very limited number actually includes cost analyses or utilization data in their annual report. This may relate to the fear of sharing competitively sensitive information; it will be very relevant information for investors though in order to conduct their analyses.

One factor that is reported by about a third of companies regards cost savings achieved in the past period. This is a single-period number, however, and does not give a solid basis for future expectations with respect to efficiency.

**Staff-based performance**

Internationally it is striking to see that 1 out of 4 companies does not report on performance measures in relation to their staff, nor provide a description of relevant employee matters. In the Netherlands companies perform much better, although even here 1 in 10 companies ignores employee matters in the annual report.

As many companies note in their reports, employees are amongst the most valuable assets the organization has. Just as with customers, the most relevant information for investor
decision-making is not the simple number of employees, but rather the extent to which staff are satisfied in their jobs and want to continue working for the company. There is definitely room for improvement here: a number report on staff satisfaction in some respect, but only one of the companies that we researched reported on staff retention.

**Product performance**

Sales volumes at a product level, together with other contextual information about specific product lines, provides valuable insights into whether a company is deriving real value from the products it is delivering. Such information is likely to be of high importance to investors in helping them understand whether the company can be expected to maintain its position in the market.

It is encouraging to see that almost 40% of Dutch companies report on new products developed or launched during the year – although it is still a minority that provide more detailed insights into actual product performance. What is more, fewer than 10% of companies report on product quality and safety, which would suggest that investors do not have the tools from the annual report to assess whether this core element of any business is in sufficiently good shape.

We noticed that some companies...

- Provide a deep analysis of financial performance by business unit, geography
- Pay balanced attention to economic, environmental and social value created
- Have a balanced key performance overview for financial and non-financial indicators

Whereas others...

- Only provide two-year historical data without sufficient narrative discussion
- Have prepared an annual report with some sustainability information added
- Provide a wide array of indicators throughout the report, losing sight of priorities
**Impacts: social, environmental**

From a wider perspective, value creation is not only about the performance achieved for the benefit of the company itself and its investors, but also about the value created or destroyed for other stakeholders. Companies do not operate in isolation after all, but are connected to a wider network of stakeholders in multiple ways: they have environmental, economic and social impacts on society.

Reporting on such issues is an area where, to their credit, companies in the Netherlands take the lead. Globally, companies score low in reporting on their environmental, financial and social impacts on society. But Dutch companies stand out for their reporting here, particularly on their environmental impact.

**FIGURE 13** External impacts reported
Conclusion: Positives that need to be built on

There are many aspects in which Dutch reporting stands up well, with organizations generally taking a progressive and constructive approach to informing shareholders and wider stakeholders about the company’s performance and longer-term prospects.

Nevertheless, our analysis of annual reports in the Netherlands across the six dimensions that drive financial performance shows that there are some significant ways in which reporting could be improved. Annual reports are not providing enough of the information needed to give a good understanding of organizations’ value creation ability. Most strikingly, brand/reputation and R&D are under-reported. We would encourage companies to develop a greater range of quantitative public disclosures, in these and the other areas, in order to improve the information value delivered to investors.

Furthermore, where reports do go beyond merely contextual information (descriptions), they frequently limit disclosure to lagging, less insightful indicators. A more forward-looking emphasis is needed. As we have seen throughout this report, it is forward-looking indicators that provide a genuinely useful, long-term value creation perspective on the company.

We must not, however, overlook the positives in the Dutch market. Companies here stand out for their progressive reporting on their wider social and environmental impacts. The Rhineland model, with its emphasis on a social market economy, seems to have found its way into reporting and so has helped anticipate in advance some of the wider stakeholder orientation that is required through the Dutch Corporate Governance code.
Length of reports

What is the optimum length for an annual report? This is something that has itself been debated over many pages – with the general feeling that reports have simply become too long and unwieldy.

However, it seems almost impossible to prescribe a ‘correct length’. Every business is different and after all, given the complexity of today’s businesses and the various aspects that need to be covered, one needs some considerable space to set out a description of the business, the risks facing it, strategy and performance.

Our research shows that Dutch companies are doing comparatively well in terms of the conciseness of their reports, with an average length of 184 pages compared to the global average of 204 pages. This puts them on a par with a country such as the UK, and about 50 pages more concise than some other European countries.

However, the issue of length is more complex than simply the total number of pages. One also needs to consider the length of the various component parts. Here is a snapshot of the average length of the key sections across the Dutch companies we analyzed:

From this, we can see that there remains a high focus on traditional, past-oriented information: over 50% relates to the financial statements & notes and governance & remuneration, whereas information on a description of the business and, more importantly, performance and prospects amounts to only 35% of the total report.

Presenting the story

We have also noticed that many reports do not follow a logical structure: they do not go ‘outside-in’ for the company as a whole so as to present a story that external audiences will find more accessible, and they do not start with a thorough performance analysis but rather with a short overview of key performance (which is not always linked to strategy and other parts of the report). They are regularly structured by individual topics or business segments and use case studies rather than giving a comprehensive view of performance, making it harder to understand the links between individual parts of value creation and the actual value created. Furthermore, descriptions of the business model often tend to be dispersed throughout parts of the report rather than discussed in a specific section.

All of these factors combined mean that it is often difficult for a reader to gain a genuine understanding of the business and how it is performing against its strategy and in terms of value creation.
We propose two options that would make future reports better and more meaningful:

– Extend and increase information on the business model and performance & prospects (with an emphasis on prospects, see Chapter X) in a way that addresses the underlying performance and value creation model

– Consider a Core & More concept as suggested by AccountancyEurope amongst others as a way to keep annual reporting concise whilst also, through utilizing technology to create portals and online or downloadable content, making all relevant details easily accessible to interested parties

Ultimately, the issue is not how long annual reports are – although they certainly should not become longer than they are at present – but how useful. We consider that through our two proposals, their usefulness could be significantly enhanced.

We noticed that some companies...

Show a concise and effective overview of the company’s strategy, performance and outlook

Whereas others...

Produce more traditional reports of greater length that are not structured to tell a story

Methodology

This report is based on analysis of the 25 non-financial companies consisting of listed companies and/or companies with turnover higher than EUR 10 billion (2017 figures). Companies have only been included when they have substantial operations in the Netherlands (thus excluding groups of companies with only holding companies in the Netherlands). The scope comprises both listed and non-listed companies and only those that had issued a public annual report. For two companies these were not available, making the final selection 23 companies.

The research focused on the companies’ narrative reporting, i.e. the directors’ reports. This part of the annual report should describe the business model, the strategy, performance, risk and – for the first time in 2017 – aspects of long-term value creation.

Obviously, the narrative reporting included significant amounts of quantitative information, both financial and non-financial. Many performance disclosures are embedded throughout the texts of annual reports. Where such disclosures contained meaningful performance information, we took account of them in our analysis. However, vague statements such as “the business performed well” were not included.

The research did not consider other reports such as sustainability reports or separate corporate governance reports, under the assumption that material information for investors should be included in the annual report.

We based our research on an internationally modeled research approach developed by KPMG that views corporate reporting from the perspective of long-term strategy. The results of this approach have been recorded in a benchmarking database. Based on key categories of the above-mentioned aspects, reports have been analyzed and translated into the results that we have presented. For long-term value creation, we applied our own-developed questionnaire that addresses the key aspects based on the Corporate Governance Code and the elements of long-term value creation as known from external sources as well as our own vision based on experience.
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