KPMG

ESG barometer for the Netherlands

Towards sustainability

Sustainability agenda status update for companies in the Netherlands

January 2022

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Key issues

1.

Companies agree on the importance of ESG, implementation is lagging behind.

2.

Companies mainly focus on ESG efforts related to profitability.

3.

Executives and policymakers show hardly any interest in new EU directives.

4.

The CSRD creates opportunities and risks.

5.

Companies are asking for help with the implementation of the CSRD. The government is mentioned by 59%, the highest percentage.

Introduction

With the 2019 Green Deal, Europe is fully embracing the transition to a sustainable economy. Whereas the old economy focused primarily on the financial performance of companies, the new economy is about commitment in terms of sustainability, including climate change, human rights and diversity. International treaties and new laws and legislation ensure that this commitment is becoming increasingly less non-committal.

As one of the key logistics hubs for import and export in Europe, the Netherlands plays a crucial role in the formidable sustainability task Europe has committed itself to with the Green Deal. The purpose of the Green Deal is to impose obligations, step by step, on companies to focus on people, the environment and society: ESG. The abbreviation stands for Environmental, Social and Governance. Part of this programme is the anticipated introduction of the Corporate Sustainability Reporting Directive (CSRD) in 2023, which represents an important next step in reporting ESG efforts. The number of companies in the Netherlands that must meet these new reporting requirements will rise rapidly under the CSRD. Apart from introducing an obligation to list the corporate activities, the new EU directive requires businesses to anchor sustainable targets into their strategy.

In this research report, KPMG outlines the status of the new ESG policy for businesses and the extent to which businesses in the Netherlands are ready for the new legislation. As part of our research, research company Motivaction questioned more than 250 financial executives and policymakers. KPMG also examined the financial statements of the largest 25 listed companies and the largest 25 non-listed companies in the Netherlands.

This report provides an insight into the extent to which companies value ESG topics, and whether they have already implemented targets, strategy, systems and processes for sustainable operations. In addition, companies were questioned about their familiarity with CSRD, its expected impact and the risks and opportunities they see as a consequence of the implementation of this new EU directive.

This report therefore provides a picture of the broader ESG task companies in the Netherlands are facing. The report's intention is to increase awareness of the task that lies ahead.

1. Substantial transition task

for companies in the Netherlands

Companies are facing a tremendous sustainability task to keep our planet habitable. They are expected to take responsibility for the impact of their own activities as well as those of their supply-chain partners on people, the environment and society.

KPMG research shows that the majority of large companies in the Netherlands recognize the importance of having their own sustainability policy in place, and have taken some steps in this respect. However, the approach they take varies widely.

Investors, clients and employees are placing increasingly higher demands on the non-financial performance of companies. Companies must therefore account properly and more extensively for the impact of their own activities as well as those of their supply-chain partners. This applies not only to sustainability efforts and the origin of raw materials, but also to issues such as labour conditions, sustainability of products and governance, which are becoming increasingly important.

For many companies, this increased focus on non-financial values means they have to make far-reaching changes to their strategy, operations and risk management. Costs and other adverse effects arising from operational activities can no longer simply be passed on to third parties. Agreements will have to be made with supply-chain partners on issues including labour conditions and impact on the environment.

Companies that actively commit themselves to people, the environment and society are already reaping the benefits. For example, three quarters of consumers consider it important for companies to fulfil a role in society, and employees increasingly value the importance of their employer's ESG efforts. Companies that have embedded sustainability into their corporate DNA are also more successful in attracting talent. Furthermore, investors are more attracted by companies that prioritize non-financial values, not least because these companies have a lower risk profile and, on average, higher returns on investment. This is due to the fact that the consequences of climate change and social developments can have a negative impact on a company.

Importance of sustainability acknowledged

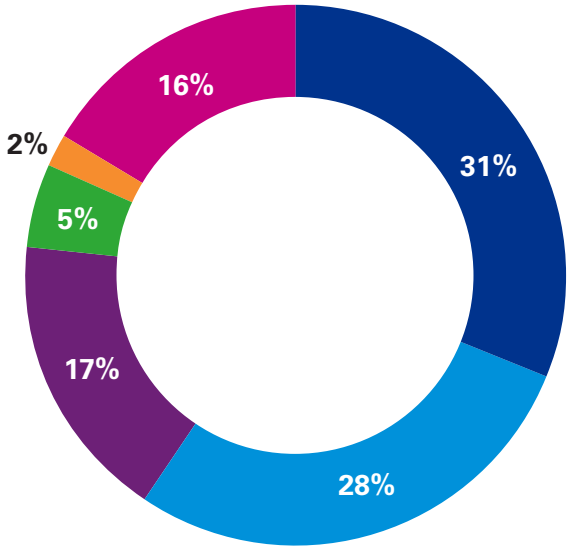
Companies are aware that sustainability is a factor that is crucial to their success, now and in the future. Our research involving 261 respondents in companies in the Netherlands shows that 93% of the respondents indicate that their company is practising some form of corporate social responsibility. The approach they take varies, but it is clear that almost all companies pay attention to non-financial values. A slight majority (51%) of companies do this because they feel it is important to contribute to a better world. Almost half of the respondents indicate that this is in line with corporate targets (49%) and for 41% of companies this is part of their mission.

A vast majority of the respondents (81%) indicate that they have taken steps to develop a sustainability policy for people, the environment and society, and 59% of the respondents indicate that they have determined their targets and strategy. However, in many cases implementation is lagging behind. Only 17% of respondents indicate that they have their targets, strategy, processes and systems in good order. And 5% of the companies state that they have everything in good order but still need to train their staff.

Degree of development of sustainability policy

To what extent has your organization developed a sustainability policy for ESG?

(Basis – responsibility / advisory within the company
min. 250 employees (applies to all subsequent tables), n = 261



- We have determined concrete targets and strategies which we report on in our annual report
- We have determined targets and strategies
- Our targets, strategies, processes and systems are ready
- Everything is ready, but we need to train people
- Other
- I don't know / no opinion

Due to rounding differences, the percentages in the tables in this document do not always add up to 100%.

Sustainability policy approach varies

Our research shows that the way in which companies approach their ESG policy varies widely. This is caused mainly by the fact that ESG is a term that leaves considerable room for interpretation. Companies use it as a synonym for sustainability policy, corporate social responsibility or non-financial values. In addition, there are various directives for ESG reporting, as a result of which it is not always clear to the responsible financial directors what exactly they should be reporting on.[1]

[1] For more information on how organizations can drive their non-financial values, see also our whitepaper Prioritize your non financial values.

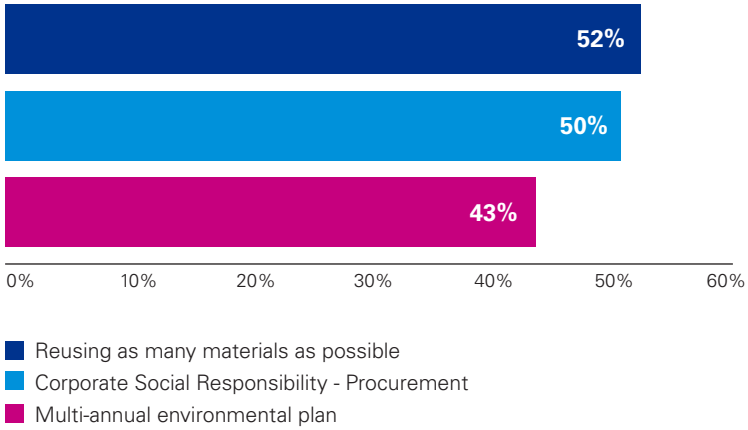
Measuring non-financial values

ESG is increasingly becoming the basis for the development and assessment of sustainability policy. It represents the key areas of non-financial values on which companies have an impact. Improvements and accomplishments in these areas are critical to the transition towards a sustainable economy. Examples of these values include decreasing greenhouse gas emissions, safer labour conditions and transparent accounting methods. The focus on these topics is becoming an increasingly important factor in the valuation of companies by investors.

Most mentioned implementations of sustainability policy at companies with more than 250 employees

In what ways is your organization committed to ESG?

(Basis - all, n = 261)



2. Looking for direction

within a sustainable economy

Traditional financial and economic barometers such as financial performance are no longer the only indicators of success in the transition towards a new, sustainable economy. To accelerate the transition, the EU is focusing on restructuring the capital flows to the advantage of companies that are becoming more sustainable and report on this process. As a result, the impact of corporate activities on people, the environment and society is gaining in importance when determining the value of a company. Many companies are currently examining how to report on these non-financial values.

KPMG research shows that companies in the Netherlands are primarily focussing on ESG topics directly related to profitability.

Sustainability is a term that leaves substantial room for interpretation. ESG is a term commonly used to describe how a company contributes towards a better world, and it encompasses Environmental (E), Social (S) and Governance (G) factors. These three pillars are used to determine the impact of corporate activities on topics such as the use of raw materials and water, greenhouse gas emissions, labour conditions, discrimination and combatting corruption. The specific ESG topics that are relevant to a particular company depend primarily on its sector and operations, but also on its mission and identity.

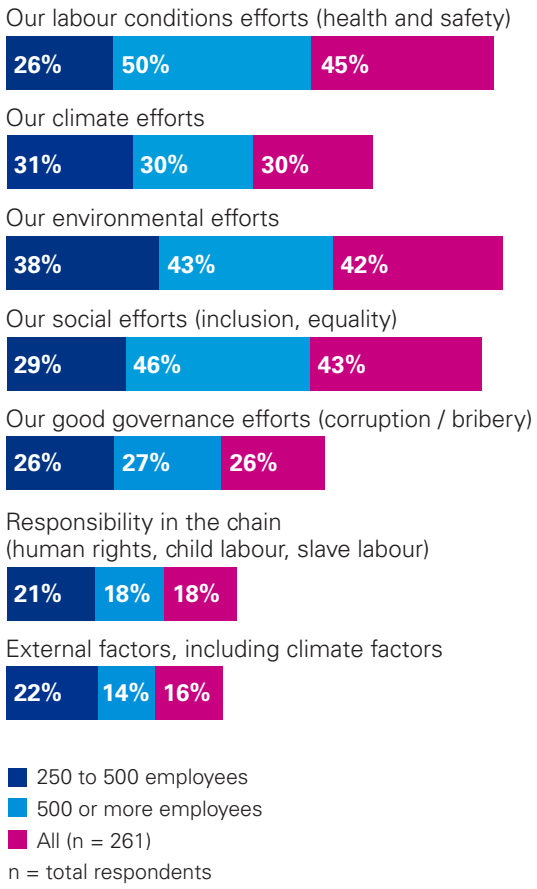
No international standard for ESG efforts

Many companies use ESG as a starting point for the development and implementation of their sustainability targets. In this way, companies provide insight to investors, clients, employees and other stakeholders. At the moment, however, there is no international consensus on how ESG efforts should be reported. This leads to uncertainty, it complicates comparing efforts and therefore results in a lack of transparency on the ESG performance of companies.

To end this uncertainty, the International Financial Reporting Standards Foundation (IFRS) announced the formation of the International Sustainability Standards Board (ISSB). The ISSB standards are a step towards standardising sustainability reporting. The first final ISSB standards for climate reporting and the presentation of other sustainability aspects will become available in mid-2022.

Partly as a result of the varying standards applied to ESG performance now, the way in which companies report on sustainability varies widely. Over the past years this has led to large differences in the scope of ESG ambitions. Whereas one company may classify its sustainability policy solely as the separate collection of waste paper at headquarters, another company may focus on fully recycling materials throughout its production chain. As a result, it is difficult to assess the value of ESG efforts, and some companies may even be greenwashing. For Investors and consumers it becomes difficult to assess the precise commitment, and in the end an uneven playing field is created.

Key non-financial indicators for your own organization



Tightening legislation

To standardise companies' sustainability efforts, the EU is developing more targeted sustainability legislation in general and, in particular, legislation for the transition to a sustainable economy. An example of this is the EU Taxonomy Regulation (part of the EU Sustainable Finance Action Plan) which is aimed at directing public and private capital towards sustainable activities. To this end, market transparency is required on the definition of sustainable activity and the related conditions. The EU Taxonomy offers a structure for companies, financial institutions and governments to classify their activities in a uniform manner, thereby creating insight into the sustainability performance in a number of specific areas, and preventing greenwashing. In this manner, the EU intends to direct capital flows to support the transition towards a climate-neutral continent by 2050.

Accountability

Over the past years, an increasing number of companies have been exploring ways to report and share their ESG efforts with third parties. For now, ESG is not part of traditional financial reporting, meaning that not all companies have to account for their sustainability performance in their annual report. As a result, there are large differences in the reasons why and the way in which companies currently report on their ESG efforts. Many companies are currently opting to share their ESG efforts as part of the United Nations' Sustainable Development Goals (SDGs). And ISO guidelines (ISO 26000) and B Corp certification are also increasingly used.

Companies that are further advanced in addition usually opt for one or more international frameworks to guide them in their ESG reporting. Leading frameworks include the Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting.

Standards Board guidelines (SASB). These frameworks offer the possibility to report on social topics such as labour conditions, diversity and human rights. They often serve as a guideline for ESG efforts and the related KPIs.

> "An example of this is the EU Taxonomy Regulation which is aimed at directing public and private capital towards sustainable activities."

How companies commit to ESG

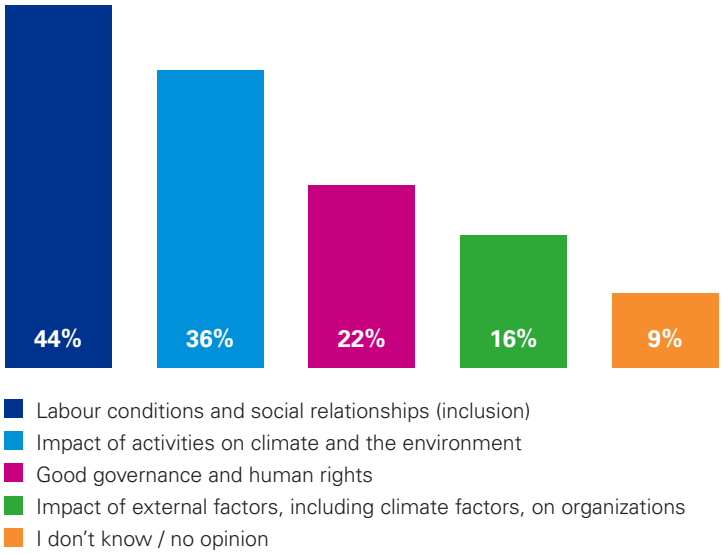
Profitability leading factor on ESG topics

Our research shows that companies in the Netherlands focus mainly on ESG topics that are directly related to the company's profitability, such as staff health and savings on materials. Topics where this relationship is less obvious, such as biodiversity and climate impact, usually get less focus.

For the time being, most companies in the Netherlands are themselves responsible for clarity on terminology used and substantiation of their claims. In addition, the number of companies that report in an integrated manner, so both on financial and non-financial values, is limited.

This means that many companies have to take major steps in order to comply with tighter laws and legislation that apply to a substantial part of EU companies with more than 250 employees. Under this legislation, companies must comply with integrated reporting.

Key non-financial indicators that companies focus on



The strategic importance of ESG

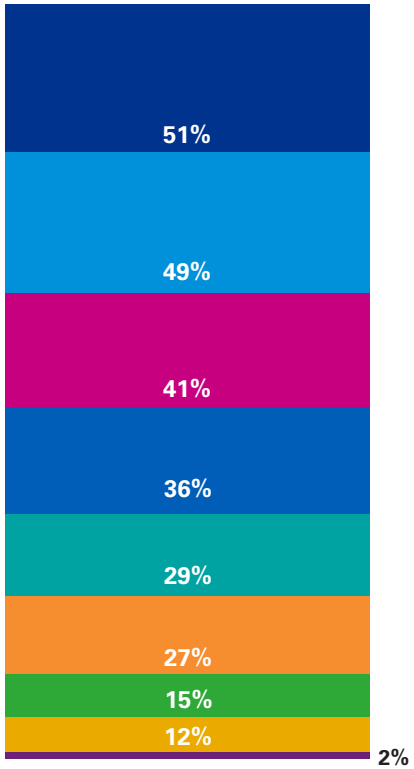
The transition towards a sustainable economy puts pressure on existing business models in nearly all sectors. This is a challenge that, at the same time, offers tremendous opportunities. Companies that prioritize ESG and therefore work on a sustainable world make themselves future-proof. An example: there are insurance companies that advise municipalities on the construction of roads, which reduces the risk of flooding. By investing now and sharing their expertise, insurers are expecting lower value damage claims in the future.

Furthermore, investors are attaching greater value to companies' sustainability efforts in general and their ESG efforts in particular. ESG reporting provides lenders with a clearer picture of the possible risks related to social developments and climate. A very important fact, given that an increasing number of institutional investors indicate that they only want to invest in companies with a net-zero ambition.

One of the measures mentioned most frequently under the Environmental pillar of ESG is the reduction of greenhouse gases, which requires adjustments to the production processes that are currently not always profitable. On the other hand, it is only a matter of time before an additional tax burden is placed on greenhouse gas emissions. At the moment, the 10,000 largest emitters in the EU (of which 400 are based in the Netherlands) already have an obligation to reduce their greenhouse gas emissions. However, those emitters can trade emission rights via the European Union Emissions Trading System (EU ETS).

Companies are expected to reduce their emissions in line with the Paris Agreement and limit global warming to 1.5 degrees Celsius by 2050. The EU is currently putting this process into practice by, among other things, reducing the total number of allowances released for trading every year.

Incentives to focus on ESG topics



- We believe it is important to contribute to creating a better world
- This is in line with our organization's targets
- This is part of our corporate mission
- That is obvious
- It is necessary to make our sector more sustainable
- This is part of our positioning and marketing
- We want to compensate for the negative effects of our operations
- We can afford this from a financial point of view
- I don't know

3. New EU Directive: impact unknown

At the beginning of 2021, the European Commission announced the introduction of the Corporate Sustainability Reporting Directive (CSRD). This European directive is expected to enter into force in 2024 and entails tighter reporting obligations for companies in the Netherlands. Under the directive, companies have to draw up clear sustainability targets and report progress in their annual reports.

KPMG research shows that companies are still insufficiently aware of the implications of the CSRD. Lack of knowledge and capacity are therefore the biggest challenge.

Our research involving 261 respondents shows that only 28% of the respondents is familiar with the term CSRD. Just under 17% of the respondents actually know what the new directive involves. Respondents with ultimate financial responsibility appear to be better informed than respondents that are not closely linked to ESG reporting. In general, the new legislation is welcomed: 65% of the respondents refer to the CSRD as 'a good development'.

Conditions for compliance with the CSRD

All companies that meet at least two out of the three criteria set out below have an obligation to report on their non-financial performance from 1 January 2024:

- On average, equal to or more than 250 employees
- Balance sheet total more than EUR 20 million
- Net turnover more than EUR 40 million

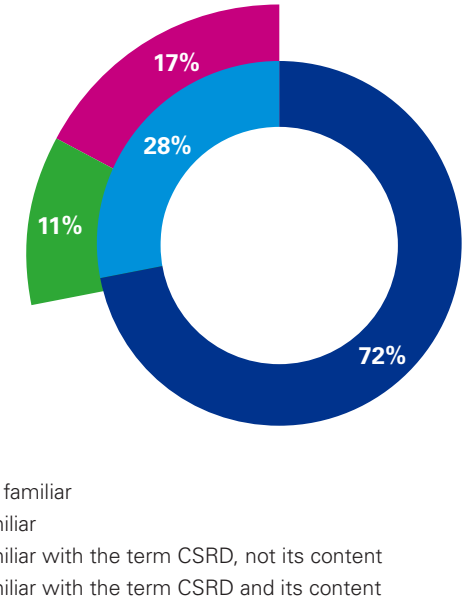
In addition, the reporting obligation laid down in the CSRD applies to a limited extent to some small and medium-sized enterprises (SMEs) if they meet two out of the three criteria set out below:

- Between 50 and 250 employees
- Balance sheet total between EUR 4 million and EUR 20 million
- Net turnover between EUR 8 million and EUR 40 million

Despite a low level of familiarity with the CSRD, more than a third of the respondents (36%) expect the new directive to be applicable to their company. Almost half (49%) is not sure, and 15% thinks it is not applicable. Forty-five percent of the respondents who know that the rules apply to their company expect the impact of the new EU directive to be substantial or very substantial.

The new EU directive is considerably stricter than the current applicable legislation. From 2023 onwards, a significantly larger number of companies will fall within the scope of the reporting requirements. In the future, some 50,000 companies in Europe and some thousands of companies in the Netherlands will have to comply with the new reporting requirements. This figure is expected to increase over the coming years.

The vast majority of businesses is unfamiliar with the new EU rules on ESG reporting



Terminology

— **CSRD:** The Corporate Sustainability Reporting Directive (CSRD) requires companies to report on the impact of corporate activities on the environment and society, and requires the audit (assurance) of reported information.

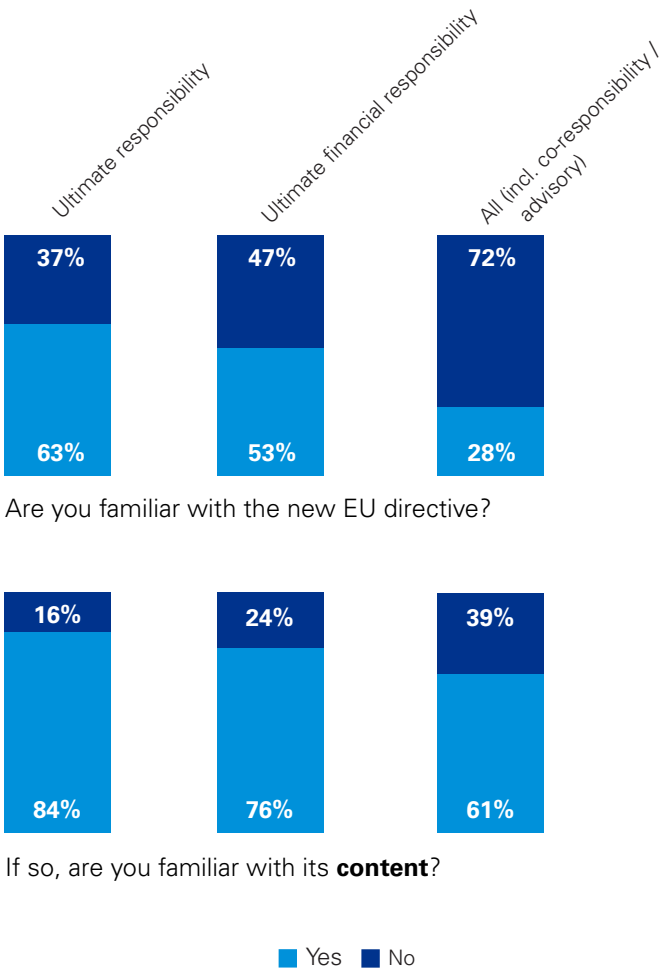
— **EU Green Deal**: The purpose of the Green Deal is to make Europe the first climate-neutral continent by 2050. It is the EU's response to achieving the targets laid down in the 2015 Paris Agreement. The EU's action package 'Fit for 55' works towards the first step: reducing net emissions by at least 55% by 2030.

— **EU Taxonomy:** The EU Taxonomy is a classification system that can be used to indicate if a financial product or investment is environmentally sustainable. Its purpose is to make it easier for investors to opt for sustainable investments.

— **NFRD:** The Non-Financial Reporting Directive (NFRD) is the predecessor of the CSRD and has a more limited scope. For example, the NFRD currently imposes an obligation on some one hundred companies in the Netherlands to report on ESG factors. In the future, the CSRD is expected to impose this obligation on some thousands of companies.

— **SFDR:** Under the Sustainable Finance Disclosure Regulation (SFDR), asset managers have to disclose their ESG risks, policies and results. Its purpose is to make European clients aware of the impact of investments and to make it easier to compare financial products in terms of sustainability.

Both financial policymakers and directors are insufficiently familiar with the CSRD



CSRD in context

The CSRD is a follow-up to the Non-Financial Reporting Directive (NFRD), a directive from 2018 applicable to companies with more than 500 employees. This new reporting directive forms part of a larger package of EU measures. For example, the CSRD is linked to the EU Green Deal and aligns with the Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy and, in the long term, the Sustainable Corporate Governance Directive.

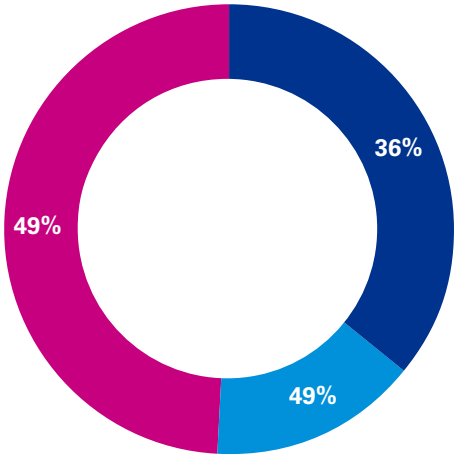
The introduction of the CSRD not only leads to an increase in the number of companies with an ESG reporting obligation, but also changes the scope of their accountability. In addition to the current rules on environmental protection, human rights and good governance, most companies with more than 250 employees will have to meet an additional set of requirements starting in 2023.

Lack of knowledge and capacity are biggest challenge

KPMG research shows that a lack of knowledge and capacity are the biggest challenge. For example, a third of the respondents indicate the following as their challenge: 'understanding what the new EU measures involve' (32%). In addition, respondents mention the following challenges for implementing the new legislation: 'determining targets, strategy, processes and systems' (27%) and 'availability of sufficient knowledge and resources to implement the rules' (25%).

Furthermore, research shows that non-listed companies in particular need to take considerable steps to comply with the new obligations under the CSRD. Listed companies have had to comply with the NFRD for some time now, and are used to reporting on their ESG efforts. This puts them in a better position to meet the requirements under the CSRD. KPMG research shows that 60% of listed companies are 'almost ready' to meet the requirements under the CSRD, as opposed to 20% who are 'far from ready'. For non-listed companies, these percentages are practically reversed: only 16% is 'almost ready' and 64% is 'far from ready'.

Does the CSRD apply to your company?



- Yes, this applies to our company
- No, this does not apply to our company
- I don't know

CSRD: key action points

The CSRD largely follows the substantive rules of the SFDR and, in addition, uses the EU Taxonomy. All reports and strategic plans arising from the CSRD must be made available in an electronic manner. The five key action points for companies under the new directive are:

1. Reporting based on the double materiality approach

The most significant change with respect to current legislation is the introduction of the double materiality approach, meaning that companies on the one hand have to report on their impact on traditional materiality, for example on the impact of their business on sustainability issues. On the other hand, companies have to report on the risks they run as a result of, for example, climate change or scarcity of raw materials.

2. Formulating long-term ESG targets and policy

Under the CSRD, companies must set clear ESG targets and annually publish their progress on these targets. As a result, the focus on sustainability is no longer optional or voluntary, but mandatory, and must be embedded in the company's long-term vision and strategy, and must also be applied to its policies.

3. Due diligence for own operations and supply chain

Companies must report and audit the impact of their own operations and production processes. This also applies to the impact of the activities of their supply chain partners. In this way, companies can no longer hide unethical practices or environmental damage.

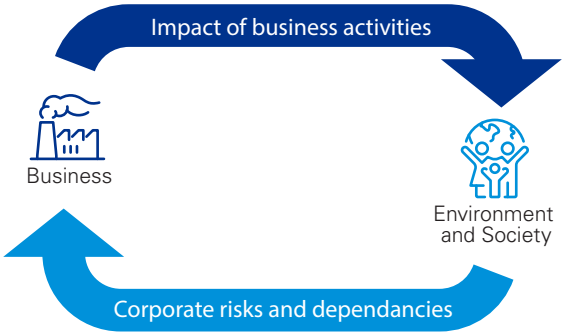
4. Transparency on division of roles and responsibilities

The new EU directive makes it mandatory for companies to clearly identify who and which departments within the organization are responsible for ESG targets and for progress made on achieving the targets. Companies must identify the external parties that are also responsible for realising the ESG efforts.

5. Integrated reporting and mandatory external assurance

Not only does ESG reporting have to meet the standards approved by the European Commission, but the sustainable targets and performance linked to those targets must also be incorporated into the annual report. An independent auditor must then audit the data, as is currently already the procedure for financial performance.

Schematic illustration of the double materiality approach



4. Companies recognize advantages

of new EU directive, but are also concerned

Companies are expected to embed sustainability in all their corporate processes, both internally and in the supply chain. The introduction of the Corporate Sustainability Reporting Directive (CSRD), a set of new requirements for sustainability reporting, must support companies in that process. The introduction of new measures and the preparations linked to it will have a considerable impact on companies in the Netherlands.

Although 38% of the respondents expect the introduction of the new directive to offer advantages, research shows that the majority sees risks and has concerns.

The new directives are part of the European Green Deal and impose strict demands on companies' ESG efforts and reporting. Almost all companies in Europe with more than 250 employees (some 50,000 in total, including several thousands in the Netherlands) will have to set clear non-financial targets, for example for greenhouse gas emissions or board diversity. The EU directive therefore acts as a catalyst for the transition to a sustainable economy.

KPMG research shows that a substantial part of Dutch companies is getting ready for a sustainable economy. Respondents indicate that their company is ready to take responsibility. Almost half of the 261 respondents is already working on ESG topics, for example because these topics are in line with the organization's targets (49%) or part of its mission (41%).

Early compliance with CSRD offers advantages

Part of the companies (38%) expects the introduction of the CSRD to offer advantages: they seize the tightened reporting requirements as an opportunity to stand out and become more attractive to investors.

Early compliance with CSRD also offers many other advantages: new insights arise when companies get a grip on the non-financial indicators relating to corporate activities. For example, new opportunities for cost savings (including energy reduction) and innovations in the production process.

In line with the proposed tightening up of climate ambitions, the EU will introduce more stringent legislation on ESG over the coming years, affecting both large companies and SMEs. Early anticipation of how this affects your own corporate activities and drawing up strategic plans to reduce any negative impact will ensure that your company is more agile and future-proof to face these challenges. Actively focussing on ESG provides you with a competitive advantage over companies that have no reporting obligation yet.

In addition, early compliance with ESG reporting in the long term offers scope for streamlining your own production and supply chain from a sustainability point of view. In this way, you can enter into strategic partnerships and identify future bottlenecks at an early stage. This guarantees the continuity of the supply chain at the time the directives enter into force.

Companies are concerned and recognize risks

KPMG research shows that companies consider their current lack of knowledge and capacity as challenges to the implementation of the reporting requirements. Furthermore, they are concerned about additional investments, increasing bureaucracy without any significant effect, an opaque supply chain and the creation of an uneven playing field.

> Companies are concerned about additional investments, increasing bureaucracy, an opaque supply chain and an uneven playing field.

Half of the respondents (50%) is convinced that the implementation of the CSRD will result in substantially higher costs. At the same time, companies do not have a clear idea of the concrete investments required to comply with the new directives. A majority (59%) of the respondents does not know which investments are required for setting up systems and processes for reporting non-financial factors. The creation of a paper tiger is mentioned by 44% of the companies as an additional cost factor. Only 28% of the respondents think that the new legislation will terminate greenwashing.

Many companies are concerned about implementation

Respondents often mention the anticipated complexity of the implementation. Of the respondents that indicate awareness of the fact that the CSRD is applicable to their company, about a third (31%) indicate that they find understanding the new measures a challenge. The introduction of the reporting requirements has a substantial impact on data collection, data analysis and reporting. Under the new directive, from 2023, large businesses, for example, must be able to account for the origin of the raw materials used, the processing conditions, the transportation methods and the environmental impact of the entire chain.

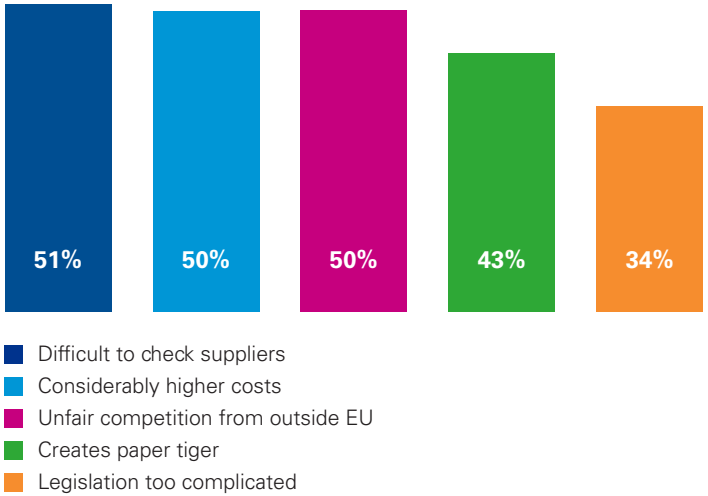
More than half of the respondents indicate that it is difficult to check their suppliers. Formulating clear targets and being accountable for the entire supply chain will be a huge challenge for many companies. A number of practical difficulties play a role if supply-chain partners are located abroad. Language barriers, limited availability, the difficulty of generating data and deviating legislation are only some of the bottlenecks here.

Finally, half of the respondents is concerned that the stricter requirements for ESG reporting will create an uneven playing field for companies in Europe compared with companies elsewhere in the world.

Impact of new directives

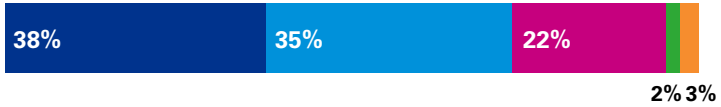
Policymakers recognize the importance of sustainability policies and ESG reporting. In general, they consider the introduction of the CSRD a positive development and recognize the opportunities that stricter legislation brings. At the same time, they also acknowledge the challenges, particularly for investments, knowledge and capacity, bureaucracy and competition from outside of the EU. Nevertheless, 70% of the respondents that know the new legislation applies to their companies expect to be ready by the time the new legislation is introduced.

Major concerns about the CSRD

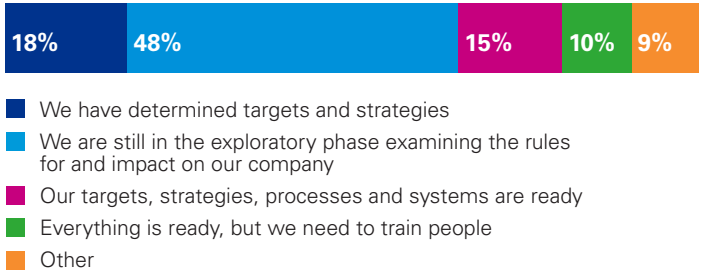


To what extent are companies ready for the introduction of the CSRD?

Companies that know the rules apply to them



Companies that do not know the rules apply to them



5. Assistance required

with implementation of new EU directive

From 2023, almost all EU companies with more than 250 employees have to comply with the new directives for sustainability reporting. The Corporate Sustainability Reporting Directive (CSRD) requires companies, among other things, to account for the impact of their corporate activities on people, the environment and society.

KPMG research shows that there is a considerable lack of clarity for companies in the Netherlands about the new directive for ESG reporting. Over the coming years, businesses see a role for external organizations to offer assistance with the implementation of the new legislation. The first party companies turn to is the government.

Under the new directives, companies must report on their ESG efforts in the short, medium and long term. This means that companies have to draw up measurable targets and analyse the risks and opportunities. They are also obliged to map how sustainability issues can pose a risk to operations. Reporting on these topics must be incorporated in the company's annual report and therefore be audited by an external auditor. Although the audit of this information is initially less strict (limited assurance) than the usual audit of financial reporting (reasonable assurance), the level of assurance is expected to be brought in line in the future. This makes the CSRD a far-reaching measure that requires fundamental changes in operations.

In addition to determining the sustainability strategy and key indicators, companies have to establish reporting systems and processes for data collection involving all links in the supply chain. With the limited time frame available before the directive enters into force, it is crucial for companies to act now.

Non-listed companies insufficiently prepared

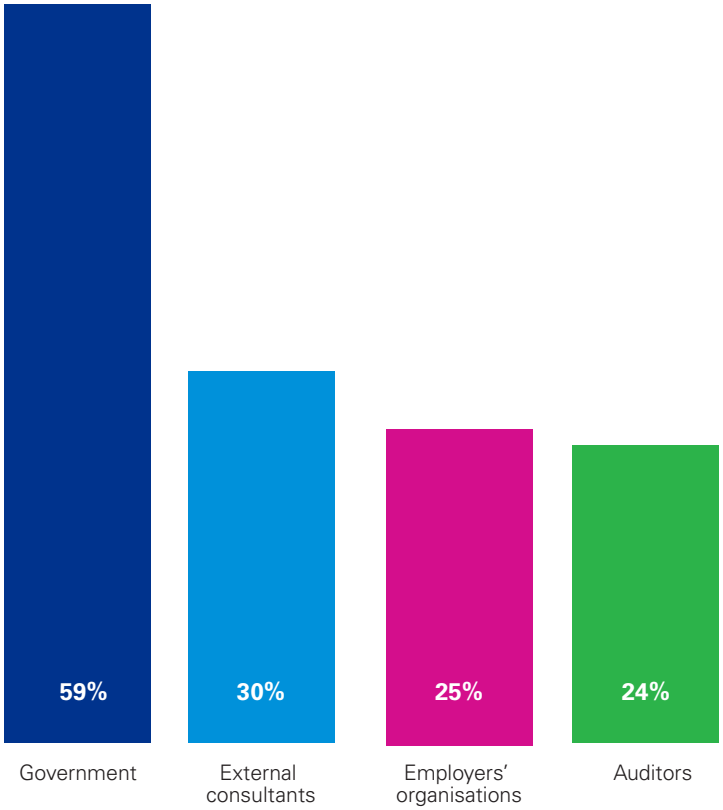
KPMG research shows that non-listed companies in particular are insufficiently prepared for implementing the new legislation. KPMG concludes that at the moment only 20% of non-listed companies that are subject to the CSRD have their non-financial reporting audited externally. Furthermore, connecting risk management to sustainability (through the double materiality approach) has the highest priority. The assurance requirements under the CSRD are also considered a major focus.

Many listed companies are already publishing their ESG efforts in their annual reports. For example, 16 out of 25 companies (64%) has provided assurance on their sustainability reporting. Three companies (12%) reported partially, and six (24%) not at all. Especially, for companies that are already having all or part of their ESG efforts audited, it is important to map where current reporting falls short of the tighter requirements applicable under the CSRD.

Companies expect government to help out

Our research shows that companies need external parties to assist them in complying with the stricter requirements. A large majority (59%) expects help from the government to implement the new directive. In addition, businesses mention external consultants (30%), employers' organizations (25%) and auditors (24%) as the key parties to assist in the implementation.

Companies expect assistance from:



Role for auditors in ESG efforts

The respondents in our research indicated that they mainly see an audit role for auditors in the implementation of the new directive. Of the respondents, 29% indicates that auditors have to assess CSRD compliance; 37% considers that, in addition to assessing, reporting should be part of their tasks.

Less than a third (31%) of companies considers that they have the correct in-house knowledge to implement the new rules. Given the current tight labour market conditions, hiring expertise could be a challenge: many companies will not be able to hire the expertise required. Companies therefore depend for some extent on external expertise in terms of compliance with the directive. First during the start-up phase when drawing up ESG targets and strategy, but also during later phases such as developing knowledge and capacity and setting up processes and systems. The next step involves assessing progress on ESG targets, followed by the corresponding reporting.

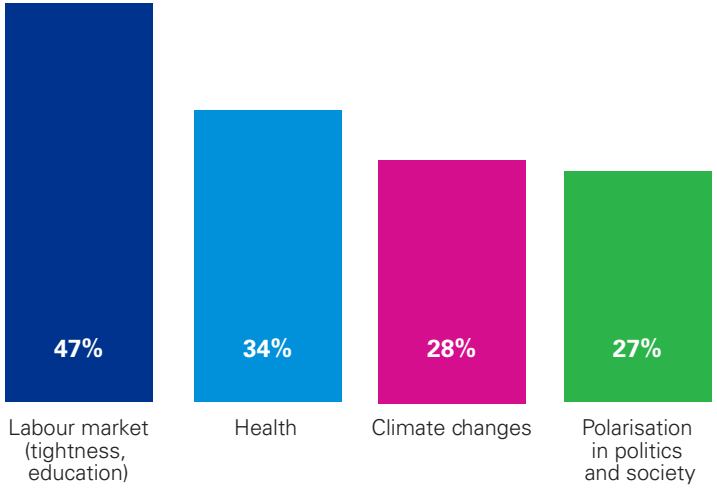
Need for leadership and knowledge transfer

KPMG research shows that financial executives are generally better versed in the new legislation than other executives within the organization. ESG efforts have to be integrated into the corporate strategy, and the tighter directive will in practice have an impact on the organization as a whole.

The transition towards a sustainable economy demands a great deal from companies in terms of their transformation. Not only do companies have to develop capacity for data collection and data processing, they also have to develop soft skills to appreciate the corporate activities from a more socially involved mindset. An inclusive and diverse work floor, with more attention to the vulnerability of people and planet, also has to find the answers to essential questions such as: 'What are our targets apart from making profit?', 'What is our vision of the future?', and 'What is the extent of our responsibility?'

This new approach requires progressive leadership capable of unifying the organization to commit to ESG targets. A considerable number of companies is already working on this, but will also require knowledge and support to ensure that the transformation is successful.

Largest external risks to operational activities identified by companies



CSRD requires reassessment of chain-partner relationships

To comply with tighter rules under the CSRD, companies will have to intensify their relationships with suppliers and customers. Reassessing these relationships will have to focus on the parties' shared interests. The relationship will rise above the transactional nature and focus more on exchanging data and developing sustainable solutions together. Leaders must let go of traditional anchors and find new methods of working together.

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Name of publication: ESG barometer for the Netherlands: Towards sustainability

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