Opinion of the European Economic and Social Committee on 'An appropriate framework for the transparency of companies'

(own-initiative opinion)

(2017/C 075/03)

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(for/against/abstentions)	

1. **Conclusions and recommendations**

1.1. The Committee considers it essential that companies are transparent and supports any initiative that helps to make doing business sustainable and predictable over the long term. Transparency is important for all parties, for the companies themselves, and for improving their image and boosting the trust of workers, consumers and investors.

1.2. The Committee recognises that most companies operating in the EU are indeed transparent. Even so, a series of scandals have recently shown that transparency needs to be improved to become generally a part of companies' sustainable strategies. Investors and shareholders are increasingly paying attention not only to the profitability indicators of businesses but also to qualitative CSR ([1]) indicators that help reduce social risks and ensure that businesses can develop in a sustainable way. To meet the needs of enterprises and other stakeholders, information should be material and cost-effective to collect.

1.3. The Committee notes that Member State governments should motivate and encourage companies to make transparency an asset because it is also a good opportunity for business and support them in fulfilling these requirements.

1.4. The Committee thinks it important to focus simultaneously on both the effectiveness and scope of the information being filed and on its quality and veracity. Improving transparency should focus both on the results achieved and the process of reporting and disclosing information. Reporting should be forward looking as well as providing information on past performance.

1.5. The Committee recommends that the Commission set further steps to enable companies to meet their transparency obligations and to remain globally competitive.

1.6. Generally the EESC understands that small and medium-sized companies are operating under different conditions. For this reason the rules for them should be simplified to allow them to report in a more suitable way in order to ensure full transparency. The EESC welcomes the capacity-building project to assist SMEs to meet these challenges.

([1]) COM(2011) 681 final.

1.7. The Committee believes that any further initiative on disclosure of information should focus on the information that stakeholders really need which should include a common set of indicators and at the same time should take into consideration the nature of the company and the sector in which it is operating.

1.8. The Committee stresses that corporate social responsibility (CSR) and transparency policy within an enterprise are ineffective without the commitment of its employees and they should therefore be involved in consultations between the social partners.

1.9. While the audience of corporate reporting is increasing, more stakeholder groups are interested in more aspects of corporate affairs. The Committee thinks it is important, therefore, to evaluate the current reporting model and to make it appropriate to its purpose.

2. A general context

2.1. In 2010, the Commission published a **communication containing 50 proposals for improving the internal market**. It stated that businesses, too, must play their part in the concerted effort by demonstrating their responsibility and transparency towards not only their employees and their shareholders, but also towards society at large. The Commission stressed that there was room for improvement in the management of businesses, especially on the composition and diversity of boards of directors, including the representation of women, in order to improve employment, business and trade ([2]). Business ethics and values have been recognised as a contribution to economic recovery.

2.2. In 2011, the Commission published **a renewed EU strategy for 2011-2014 for corporate social responsibility** (CSR) ([3]) in which it put forward a new definition for this as 'the responsibility enterprises for their impact on society'. One building block in the strategy was an action plan that pursues the integration of financial and social reporting.

2.3. In 2012, the Committee adopted its opinion on the EU's renewed CSR strategy ([4]), stressing that in the difficult economic and political climate the CSR policy initiative provided an opportunity to engage positively with the business community. It is important to recognise different motivations behind CSR activity. Various benefits are outlined in the communication, and these should be better promoted alongside good practice examples to inform and encourage enterprises to make a stronger commitment to CSR.

2.4. In recent years, the Committee has produced many other opinions, which are mentioned in this opinion. These opinions stress the importance of corporate social responsibility, company transparency, disclosure of non-financing information and involvement of the relevant stakeholders — investors, consumers, employees and their trade union representatives, NGOs — in the process. In the current opinion the Committee would like to focus on an appropriate framework for the whole process.

3. For socially responsible and transparent companies

3.1. The economic crisis of 2008 and its social consequences have to some extent damaged citizens' confidence in business and public and investor attention has focused on companies' social and ethical conduct. More stakeholder groups are now interested in more aspects of corporate affairs.

3.2. Investors want transparency and control of their investment and want to know how their money is affecting the environment and society in a negative or positive way. The most important sources of non-financial information for investors are sustainability/CSR reports and annual reports. Qualitative policy statements are important to assess financial reward, but quantitative key performance indicators (KPIs) are viewed as essential.

([2]) COM(2010) 608 final.
([3]) COM(2011) 681 final.
([4]) OJ C 229, 31.7.2012, p. 77.

3.3. Workers are the first casualties of companies that play little heed to legal rules and their lack of transparency. And yet, employees pay a pivotal role in the development of their companies: their job security, their pay, their health and their working conditions depend on this. They have the right to require transparency and to be informed and involved in the decision regarding the financial situation and the social, environmental and economic policies in their companies.

3.4. Consumers want transparency and expect it in specific areas important for them. It is very much in the interests of companies, in terms of their relations with other stakeholders (workers, citizens and consumers) to pursue a policy of transparency. This often simply means giving customers the facts and helping them make informed buying decisions. In the end, it is these businesses that will earn the loyalty of more informed customers ([5]). The food industry is a highly sensitive area in this respect. The latest research from the Centre for Food Integrity (CFI) ([6]) proves that increased transparency translates into increased consumer trust in food and sets out a clear path to achieve this.

3.5. With globalisation, a large number of business partners and stakeholders are interested in more information on a wider range of corporate affairs from a large number of countries.

3.6. Transparency builds trust and businesses need society's trust. Nevertheless, there is frequently a gap between what the public expects and how they perceive businesses to behave. This gap is caused partly by instances of irresponsible behaviour by some enterprises, as well as by some enterprises exaggerating their environmental or social credentials. Insufficient public awareness of the achievements of enterprises and the constraints under which they operate also contributes to this discrepancy.

3.7. **This was the reason that, in 2009, the European Commission started a series of workshops on corporate transparency.** European businesses welcomed this as an initiative coming at exactly the right time — amid the crisis, when transparency and corporate social responsibility (CSR) in general might have the potential to help restore public trust in business, which had also been to some extent damaged by the ongoing crisis. The initiative targeted the various groups of stakeholders (employers, trade unions, NGOs and the media) and the probe was supposed to serve as a guideline for further steps to be taken by the Commission.

3.7.1. The lessons drew from the initiative:

— Many companies have already achieved positive results in transparency. CSR is now part of companies' business strategies.

— Access to information is important for a range of stakeholders, but they require different information for different purposes. The conditions and needs in different sectors vary.

— Opinions vary, in particular, when it comes to key performance indicators (KPIs). Most other interests in Member States prefer a clear core of indicators, including labour and environmental issues. The view of businesses is that flexibility is needed and one model for all is not the right solution.

— The key question for SMEs is the capacity to provide information. Where there is a wide spectrum of stakeholders, each one requiring different information and with different expectations, the administrative burden for enterprises can be high.

— The transparency process should focus both on results achieved as well as the process of reporting and disclosure of information. CSR should be incorporated into business strategies and integrated reporting is one way to do it.

([5]) https://www.visioncritical.com/5-brands-employed-transparency-marketing-and-won/

([6]) *A clear view of transparency and how it builds consumer trust*, 2015 Consumer trust research, The Centre for Food Integrity.

— Transparency and the practice of publishing CSR reports is an extra asset for companies and their employees, for the beneficiaries of their products and services — who are the consumers and citizens — and for investors.

4. **The Commission is stepping up the requirements on transparency and non-financial reporting**

4.1. In the EU strategy for CSR, the Commission states that disclosure of social and environmental information, including climate-related information, can facilitate engagement with stakeholders and the identification of material sustainability risks. It is an important element of accountability and can contribute to building public trust in enterprises. To meet the needs of enterprises and other stakeholders, information should be material.

4.1.1. The Commission also acknowledges that a growing number of companies disclose social and environmental information. SMEs often communicate such information informally and on a voluntary basis. One source estimates that about 2 500 European companies publish CSR or sustainability reports, which puts the EU in a position of global leadership ([7]).

4.2. In 2013 the Commission, acting on a European Parliament initiative, drew up a legislative proposal concerning **the transparency of the social and environmental information provided by undertakings in all sectors** ([8]). The goal of the amendment to the 'accounting directives' was to set a requirement for certain large companies (for the moment around 6 000 companies and entities in the EU) to disclose relevant non-financial and diversity information in their annual reports.

4.2.1. The directive is in some countries transposed into national law following a consultation with businesses, so that the implementation takes advantage of the flexibility of a directive, does not go beyond its scope, provides legal security for businesses and meets their real requirements. In this connection, the EESC has drawn up an opinion ([9]) in which it stresses the right to benefit from this flexible and appropriate mechanism for improving communication with shareholders, investors, workers and other stakeholders and welcomes the fact that this proposal is targeted only at large companies.

4.2.2. The Commission is just preparing non-binding guidelines on non-financial reporting based on the outcomes of the public consultation. To facilitate the follow-up consultation with the stakeholders ([10]) the EC has introduced an illustrative background paper mapping the key principles on non-financial disclosure. The reported non-financial information should be material, reliable, balanced and understandable, comprehensive and concise, strategic and forward looking, stakeholders-oriented, company/sector specific, qualitative and quantitative, and consistent.

4.3. In line with the Europe 2020 strategy, which calls for improvement of the business environment in Europe, the Commission in 2014 published a **proposal for a directive, the aim of which is to support the creation of a modern and efficient corporate governance framework for European undertakings, investors and employees** ([11]) that corresponds to the needs of today's society and to the changing economic environment.

4.3.1. The proposal should contribute to the long-term sustainability of EU companies and to a more long-term perspective for shareholders, that ensures better operating conditions for companies whose shares are traded on regulated markets in the EU. In its opinion ([12]) the Committee stressed that the proposal would lead to a more stable, sustainable corporate governance and investment environment in Europe and also noted that in its impact assessment the Commission argues that its proposals would lead to only a marginal increase in the administrative burden on listed companies. It will be important to assess this balance during the evaluation of the directive.

4.4. In October 2015, the Commission published a new strategy entitled 'Trade for all: Towards a more responsible trade and investment policy', which offers a vision of EU policy directed at reflecting the need for a more responsible and more transparent trade policy.

([7]) CorporateRegister.com.
([8]) COM(2013) 207 final.
([9]) OJ C 327, 12.11.2013, p. 47.
([10]) Workshop with stakeholders relating to the non-binding guidelines on disclosure of non-financial information, 27.9.2016 in Brussels organised by the Commission's DG FISMA.
([11]) COM(2014) 213 final.
([12]) OJ C 451, 16.12.2014, p. 87.

4.4.1. In the chapter entitled ‘A trade and investment policy based on values’, the Commission announces a strengthening of consumer rights by reinforcing corporate social responsibility initiatives and due diligence across the production chain, with a focus on respect of human rights and the social — including labour rights — and environmental aspects of value chains. The Commission wants to proceed by improving the sustainable development dimensions of free trade agreements.

4.4.2. In its opinion ([13]) focused on decent work in global supply chains (GSCs) the Committee says: ‘The EESC has much experience in the field of sustainability, with participation in the implementation and monitoring of dedicated chapters in the free trade agreements (FTAs), involvement in a wide range of civil society committees that enable it to propose a fair balance between necessary legal requirements in the field of human and labour rights, transparency, the fight against corruption and the necessary flexibility of MNEs to organise and develop their global supply chains (GSCs) in an effective manner suited to the various local situations’.

4.4.3. Higher standards for the publishing of reports on non-financial matters could be an important issue in trade policy. Regulation at the global level, including trade agreements, should boost transparency on the publication of non-financial information in countries such as the United States and China to ensure a level playing field for European companies.

4.4.4. The EC intends to strengthen incentives, in particular for multinationals, to provide information on due diligence, **a more ambitious approach to mineral extraction in conflict-affected areas** ([14]), a search for new areas for an enhanced partnership for responsible value chains and the publication of an overview of companies’ reports on the responsible value chain.

4.4.5. As far as the Commission’s requirements regarding ethical trade and promotion and protection of human rights are concerned, new requirements on businesses can also be expected as a result of the implementation of its Action Plan on Human Rights 2015-2018 ([15]). In its conclusions the Foreign Affairs Council (June 2016) underlines the critical role of business transparency in enabling markets to recognise, incentivise and reward respect to human rights.

4.5. In January 2016, the Commission presented its **anti-tax avoidance package** with a view to ensuring efficient taxation and greater tax transparency.

4.5.1. One of the areas being carefully scrutinised that **will affect multinational enterprises and groups** is **country-by-country reporting** (the obligation to prepare a statement containing the transactions in the group, data concerning revenue, profit, income tax paid, and so on and submit it to the tax authorities). At this stage, the package covers the sharing of information between Member State tax authorities.

4.6. At the beginning of April 2016 ([16]), the Commission proposed that multinationals publish a separate statement on the income tax they pay, along with other tax information. Multinationals with a consolidated net turnover exceeding EUR 750 million will have to meet these additional transparency requirements, whether or not they are domiciled in the EU. This obligation also applies to their branches and subsidiaries. In this context the Committee has just adopted an opinion on combating tax evasion ([17]) in which it encourages the Commission to be more ambitious in requiring fiscal transparency from companies by lowering the EUR 750 million turnover threshold or by drawing up a schedule stipulating a gradual decrease in the threshold.

4.6.1. Nevertheless the Commission should take into consideration the principles of the EU internal market and the competitiveness of the Union. Unilateral demands within the EU could lead to unintended consequences if non-EU enterprises were exempted from this obligation. Non-EU enterprises should therefore be covered by this obligation via the negotiation of international trade agreements.

([13]) OJ C 303, 19.8.2016, p. 17
([14]) JOIN(2014) 8 final
([15]) SWD(2015) 144 final
([16]) COM(2016) 198 final.
([17]) OJ C 487, 28.12.2016, p. 62.

4.7. The European Commission works with other international organisations, such as the Organisation for Economic Cooperation and Development (OECD), the International Labour Organisation (ILO), the WHO and the World Bank and strengthens synergies with their instruments for good corporate governance, transparency and corporate responsibility ([18]). These instruments are regularly revised and establish requirements for the responsibility and transparency of companies in their social, environmental and human-rights policies. They also encourage risk prevention and analysis and stipulate due diligence measures. The instruments are primarily meant for multinationals, but they are also supposed to serve as guidelines for companies operating at national levels. Any revision of such instruments should focus particularly on their better implementation.

4.8. The increasing global and European demands for corporate transparency are transferred to companies operating in the Member States. The role of the European Commission should be to guide and coordinate EU Member State policies and thus to reduce the risk of divergent approaches ([19]).

4.8.1. The Commission's strategy for responsible business and the recommendations for the Member States often prompt the assumption at national level that responsible entrepreneurship and transparency should be administered and supervised only by the state.

4.8.2. Business recognises itself as a driver for transparent and responsible behaviour. This was also recognised in the Commission communication on 'Implementing the partnership for growth and jobs: Making Europe a pole of excellence on corporate social responsibility' ([20]).

4.8.3. The primary responsibility of every company is to create value not only for its shareholders but also for its employees, its environment and its community and to generate and preserve jobs. The Member States should create the right conditions to facilitate this and support companies' efforts to be responsible and transparent.

5. **To look for an appropriate framework for corporate reporting**

5.1. The Committee recognises that non-financial reporting is very important for corporate reporting as it helps create a complete picture of corporate affairs.

5.2. For companies, the regulatory environment for doing business is getting more and more complex. To better address stakeholders' needs an appropriate framework of corporate reporting should be set and, at the same time, unnecessary administrative and financial burden should be avoided. CSR and transparency should also be promoted and used as an opportunity for companies to avoid social risk and ensure their own sustainable development.

5.3. During the last decade, the focus on different aspects of Non-financial information (NFI) has been increasing. There are a number of international frameworks for the disclosure of social and environmental information, including the Global Reporting Initiative (GRI).

5.4. The question raised is *whether all these stakeholders can be served by the same report or with a set of reports*. Should there be a patchwork of reports or a concept of a single comprehensive one — like, for example, the concept 'Core&More ([21])' proposed by the Federation of European Accountants (FEE) in 2015?

5.5. The discussion of future corporate reporting needs to take into account the variances in the information needs of different stakeholders groups depending on the size and nature of the reporting entity.

([18]) OECD Guidelines for Multinational Enterprises; ILO Tripartite declaration of principles concerning multinational enterprises and social policy.
([19]) COM(2011) 681 final.
([20]) COM(2006) 136 final.
([21]) The future for corporate reporting — creating the dynamic for change, FEE, October 2015.

5.6. As the European Economic and Social Committee points out in its opinion on 'Disclosure of non-financial information', the Commission is asked to launch or facilitate a process that brings together the 'multiple stakeholders [22] in order to better define the guiding principles and benchmarks that will aid comparison and, in the long term, standardisation'.

5.6.1. The Committee has in this respect already underlined the need for corrective action against the distortion of corporate values through short-term thinking. It also urged in its opinion on 'Employee involvement' [23] the need to map out ways in which EU policy can redirect the current trend for one-sided corporate transparency in the interests of shareholders towards a broader understanding of a business as a 'sustainable company', which is in the interests of long-term corporate development.

5.7. Even if the future of sustainable business will be strongly linked to the social environment and consumer respect, any further initiative on disclosure of information should focus on stakeholders' real needs.

Brussels, 14 December 2016.

The President
of the European Economic and Social Committee
Georges DASSIS

(22) OJ C 327, 12.11.2013, p. 47.
(23) OJ C 161, 06.06.2013, p. 35.