

April 2004

**Abstract**  
**of the mission report submitted to the Government**  
**Critical review of the application of article 116 of the NRE [new economic regulations] law**

**METHODOLOGY**

**1 - Content of the mission letter**

Four objectives for the mission entrusted to the 3 associations: EpE, Orée, ORSE.

- to analyse the problems companies have encountered in applying the law, and the relevance of the published information in the light of the expectations of stakeholders
- to describe the best practices applied by companies
- to review a representative sample of companies
- to give this task an international dimension.

**2 - Work done by the rapporteurs**

**a - Appraisal of companies' reports**

Detailed review with respect to the SBF120 companies using the different studies published on this subject.

Simplified analysis of the reports produced by the SBF250 companies.

Impossible to collect the other 450 reports (from smaller companies)

The rapporteurs had to cope with the problem of formally distinguishing between:

- anything covered by the mandatory requirements of article 116 of the NRE law and its Decree of application
- and those companies' reports on sustainability produced on a voluntary basis.

All concerned (the authorities, companies, authors of comparative studies, and so on) contribute to this confused situation.

**b - Interviews with companies and their stakeholders**

The following were interviewed in accordance with the mission letter:

- companies and their professional organisations
- trade unions and non-governmental organisations
- investors

**c - International comparisons**

The following were reviewed:

- the various national regulations in Europe
- the international studies of reporting practices
- GRI with a comparison of its content with the NRE decree

**I - A FIRST LOOK AT THE APPLICATION OF THE NRE LAW**

**1 - Analysis of the first generation of social and environmental reports**

**a - The extent of corporate compliance with article 116 of the NRE law**

The law applies to about 700 companies quoted on the Stock Exchange and governed by French law; each is required to report its social and environmental impacts each year as part of the annual report submitted by the Board of Management (or board of directors) to the annual general meeting of shareholders.

However a number of companies opted to include their report in another document (for example, their activity report or that on sustainability) either in addition or as an alternative.

A distinction has to be drawn between:

- the SBF120 companies that tried to report on all the topics defined by the NRE decree
- and the other 130 companies in the SBF250 that produced a very simplified report focused essentially on the social questions and saying little or nothing on the environmental issues.

**b - Companies' reporting of their sustainability approach over and above their NRE obligations**

Companies vary appreciably on the following points:

- formalisation of a sustainability approach
- provision of information on the risks
- definition of objectives - if possible quantitative - over time
- making reference to stakeholders with importance given to rating agencies.

**2 - Difficulties encountered by companies in setting up a system of social and environmental reporting**

The reporting exercise is even more difficult for companies when the indicators may have very different objectives and serve as much as an internal management tool as an external means of comparison.

It is very difficult to establish indicators for every area of sustainability for the following reasons:

- certain social and societal topics are difficult to quantify
- certain indicators may be meaningful for one sector of activity or one geographical area, and be irrelevant for another
- certain indicators cannot be consolidated globally particularly when the definitions are based on different regulations.

Opinions are now divided between those who prefer comprehensive indicators in every sector and those who prefer corporate reporting to cover only relevant and significant issues.

Companies are more inclined to establish a reporting system if it can also be used internally as a strategic and management tool.

The reporting issue also brings in the question of how far a company's responsibility extends, for example whether its foreign subsidiaries, as well as its suppliers and sub-contractors should be involved.

Companies are faced with extremely tight time requirements for their mandatory annual reports, as well as the costs involved in setting up a system for collecting and passing on information, as well as the publication and certification of reports.

### **3 - The expectations of stakeholders**

Stakeholders take the view that:

- companies are not really dealing with the relevant and significant issues
- and that certain topics (such as human rights, corruption, etc.) have not been covered.

They would also like to be more involved in the process of preparing and validating reports.

Stakeholders are calling for the information published by companies to be more reliable.

This raises the difficult question of having reporting approaches certified by third parties (auditors, but also news actors) about which views are still very divided.

## **II - PROPOSALS BY THE RAPPORTEURS**

### **1 - The legal requirement for social and environmental reporting must be maintained for the following reasons:**

Corporate reporting on sustainability is spreading internationally.

Article 116 of the NRE law has been accepted by companies and their stakeholders.

Not all the 700 companies to which the law applies (those outside the SBF120) are applying it.

The audience for the reports foreseen in the legislation - the investors - is not satisfied with the first batch of reports.

### **2 - It is essential for companies to build up experience in reporting and to allow the movement to grow**

The temptation to rewrite the decree must be resisted, because its shortcomings have not prevented major companies from reporting, frequently in a novel way.

Any set of benchmarks for sustainability is meaningful only in an international context: the European Commission is expected to make proposals during 2004.

In order to amplify the reporting movement, the government should provide assistance for companies encountering difficulties in understanding and applying the decree.

A **government statement**, taking as its starting point the principles set out in the guidelines and the impact study, both drawn up in parallel with the decree, should stress the following:

- the law is aimed at investors (provision of information on risks, issues and opportunities)
- the extent of or limits applying to corporate reporting should be adapted according to the issues that are relevant
- it is for the company to define the reporting indicators - on the different topics set out in the decree - that best correspond to the relevant and significant issues
- it would be preferable for companies to place their reporting initiative in an international framework, hence the importance of referring to the few benchmarks produced by the international organisations (the United Nations, ILO, OECD and the European Commission) for dealing with sustainability.

Those companies that set up a voluntary scheme for sustainability reporting, while still meeting the mandatory NRE requirements, should be encouraged to apply the following objectives:

- establishment of a **dialogue with stakeholders**, the methodology of which should be defined by the company
- confirmation of an **approach marked by progress** and continuous improvement
- the **creation of value**, by systematically linking social, environmental and economic performance.

**3 - In view of the progress made by France, there is a strong case for encouraging public debate about the publication of NRE reports on sustainability by:**

- **facilitating the utilisation of data** on reporting through the introduction of a system for collecting reports
- **organising meetings between investors and the companies issuing reports**, while stressing the fact that the Paris financial sector is committed to sustainability
- **involving the trade unions** as well as the other stakeholders to a greater extent, enabling them to play a full part in the corporate sustainability approach
- **ensuring enhanced readership of the reports** by stakeholders, notably consumers, by emphasising the life-cycle of products

- **extending mandatory reporting** to the main economic agents (state companies, public bodies attracting funds from the public, and so on)
- **highlighting the best reporting approaches** applied by companies.

## **CONCLUSION**

The NRE law has acted as a catalyst by obliging quoted companies to integrate social and environmental concerns into their management.

It has started a movement that must be allowed to grow over time, hence the need to allow companies:

- the time to become familiar with these regulations
- and to test them against the international benchmarks that are now under preparation.