

European traditions in accounting

The Netherlands – accounting in the polder

Kees Camfferman



A general consensus tradition?

All countries have stories that play a role in defining national identity, and the Netherlands is no exception. One story goes something like this: a large part of the country is below sea level, and has from the Middle Ages onwards been reclaimed from sea, swamp and lake in a long, gradual process. Bit by bit, small areas were parcelled off by means of dykes, and drained. Such areas, known as ‘polders’, could not be left to themselves. The whole system of dykes, pumps, sluices, canals and other infrastructure required to keep the water out needed, and still needs, constant maintenance. Already at a very early stage, these tasks exceeded the resources of individual landowners and a tradition of cooperation emerged. Everybody who, or every body which, owned land in a polder, whether farmer, villager, municipal corporation, monastery, or nobleman, had to work together and share in the expenses of the upkeep of the polders. And everybody who paid his share, had a say.

The result was the early emergence of characteristic institutional structures, and a deeply ingrained general culture of politics and governance in which

pragmatism, a willingness to set aside differences in order to get things done, an eye for the common good, consultation and consensus are important values. This Dutch ‘polder model’ acquired something of an international reputation in 1997, when it was explained by Prime Minister Wim Kok in a speech at the G7 summit in Denver, and held up by US President Bill Clinton to the rest of the world as a model of socio-economic policy making.

So much for the story. Of course, social scientists and historians have done their best to unpick it, pointing out, for instance, that the phrase ‘polder model’ and the related verb ‘polderen’ (i.e. to sit down with all parties concerned in a problem and work out a consensus solution) really acquired currency only during the 1990s. More seriously, they would point out that important elements of the ‘polder model’, such as institutional cooperation of employers and labour unions, emerged in the period of reconstruction after the Second World War rather than in pre-modern times. And one does not need to know much about the Netherlands or its history to notice a good deal of conflict, self-interest, partisanship and ideology. These days, ‘polderen’ is also used pejoratively, to indicate all the drawbacks of a consensus approach, including indecisiveness, inefficiency, or mediocrity. And yet, many Dutch will agree there is something to the polder story. They find it helpful to understand something of the country they live in, and see it as part of the country they would like to live in.

Origins of accounting standard setting

So what about accounting? Is there something about Dutch accounting in which the polder approach can be recognized? In my view, the answer is yes, in particular with respect to setting standards for financial reporting,

where there is a noticeable tradition of relying on an institutionalized consensus approach. But again, one does not need to go all the way back to the Middle Ages to find its roots. It is probably fair to say that before the Second World War there was not a strongly developed view that financial accounting in the Netherlands should be fundamentally different from accounting elsewhere. The prevailing view was that accounting was a private affair, the modalities of which had always been arranged by and among the parties directly concerned. This was probably the prevailing view in Europe as a whole in the nineteenth century, and, to varying degrees, well into the twentieth century.

There was some awareness in the Netherlands that in other countries the state, by means of legislation, was beginning to play a regulating role in the area, but there was no great pressure to follow down this path (this touches, in fact, upon another national identity story: the idea that the Netherlands became a great power in the seventeenth century as a mercantile republic, when it gave free rein to enterprising spirits). Legal requirements with respect to financial reporting remained extremely limited until 1970. A requirement to publish annual financial statements for what might be called ‘public interest entities’, mainly listed companies, was introduced in the 1920s, but without significant rules concerning the contents of these financial statements.

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The period following the Second World War was a period of fundamental debate about the nature of enterprise and its role in society. To some extent, this reflected the fact that the labour party established itself for the first time as a key governing party. But even among those who did not vote for labour, the experience of the economic crisis of the 1930s and the subsequent war persuaded many that a modified social order, with a greater emphasis on collectivism, was called for. The result was the emergence of the idea of the 'socialization' of the enterprise: the idea that the larger enterprises, while remaining privately owned, should acknowledge their responsibility as major social institutions. The lengths to which this should be taken became a matter of political debate, for instance on the question of whether employees should have the right to appoint representatives in the managing or supervisory boards of companies.

Not surprisingly, the organizations of employers took position on the more conservative side of this debate, but they did recognize that they could not just defend the status quo. One card they played was modernization of financial reporting. In 1955 and 1962, the joint employers federations issued booklets with important recommendations on financial reporting. With these publications, the employers explicitly indicated that they were willing to acknowledge a greater obligation than heretofore with respect to public information provision and accountability to interested parties, including employees. More implicitly, it was clear that that was also where they wished to draw the line, and not go further in the direction of co-determination rights of employees.

Even though these publications were, in the overall scheme of things, perhaps a little reactionary, they were undeniably progressive when viewed

simply in terms of financial reporting. It was widely acknowledged that the employers' organizations were really assuming leadership in this area by recommending a degree of disclosure and transparency (for instance by their criticism of secret reserves) that went well beyond common practice. Against this background, it is understandable that the government, when introducing revised legal financial reporting requirements in 1970, limited itself to specifying some general principles of recognition and measurement, as well as minimum disclosures, and expressed the expectation that the relevant parties, in particular the employers' organizations and the accounting profession, would provide more elaborate guidance. The accountancy profession and the employers' organizations took up the challenge. Shortly afterwards, the labour unions were invited to join as well, in a body that was known since 1971 as the 'tripartite consultative group'. It was agreed that this group would, on a consensus basis, issue statements that were modestly called 'reflections', or 'considered views', but that were rather like the accounting standards that began to appear in the English-speaking world around the same time.

The direct participation of the labour unions in accounting standard setting, on a footing of equality with the employers, was probably a unique feature of the Dutch approach to accounting regulation. And while it might seem natural from a Dutch perspective, since institutionalized employer-employee cooperation had made its appearance in many areas since the Second World War, it did turn out that the rest of the world probably had taken a more realistic view on this point, at least with respect to accounting standards. During the 1970s, the participation of the unions in the work of the tripartite group rested more on the initiative of a few capable individuals than on a deep interest in technical accounting issues among the leadership or membership of the unions. As the unions found it hard to sustain their cooperation at a

technical level, they were willing to see their delegation transformed into a more general delegation of 'users' of financial statements, while remaining involved with the tripartite group at a more general level.

Around 1980, there were some other changes to the tripartite group as well. It was legally incorporated, it assumed a new name as 'Council on Annual Reporting' (Raad voor de Jaarverslaggeving or RJ), and its 'considered views' were rewritten as 'guidelines'. In other words, it assumed more of the trappings of a standard setter, but in a fundamental sense its procedures were unchanged. Its guidelines still required consensus among the three delegations of employers, users, and auditors. This is how the RJ has continued to function until today, presenting itself internationally as the 'Dutch Accounting Standards Board'. It is a private-sector body, without formal authority. Despite repeated discussions, the government has never gone so far as to make the guidelines mandatory. The assumption is that the consensus approach implies that the guidelines are a proper reflection of what is considered acceptable in the relevant sections of society, and that, for that reason, they can normally be assumed to be an authoritative interpretation of the legal requirements. However, the possibility is always left open that a reporting entity can see good reasons in its particular circumstances to depart from the guidelines, and will have a reasonable chance to justify its choice if challenged in court.

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In line with what has been said above, it is only since the 1990s that the RJ has been described in the Netherlands as a typical 'polder model' institution, but well before that time, using different words, it was already recognized that it reflected a somewhat different approach to accounting standard setting than current in some other countries. Having attracted the 'polder' label, it is not surprising that the RJ has also attracted some of the criticism that goes with it. It has been pointed out that it has sometimes been slow to act, that its guidelines contain too many options, or avoid hard choices. In short, the undeniable fact that they are based on compromise makes it easy to portray them as compromised. Such criticism gained force as knowledge of more rigorous standards, in particular US GAAP, became more widespread.

The international dimension

The question of how the Dutch approach could function in a world of increasing internationalization was first posed in 1973, when the main Dutch accountancy body NIVRA was invited to join the International Accounting Standards Committee (IASC) as a founding member. While there was no question that the NIVRA was delighted with the invitation and very keen to join, it was remarked at the time that it was a little awkward that the IASC was set up as an organization of accountancy bodies only. From the point of view of the NIVRA, it was not proper for accountancy bodies to set standards for financial reporting unilaterally. The NIVRA was realistic enough not to press this view on its fellow founding members, but in subsequent years it showed itself very supportive of initiatives which gradually opened the IASC Board to non-auditor delegations. In addition, the NIVRA made sure to include an accountant in business in its initial IASC

delegation, even though it allowed this policy to lapse before returning to it consistently in the 1980s.

In the end, the consensus tradition was also the main reason why the IASC's standards were never imposed mandatorily in the Netherlands. The NIVRA did air a proposal around 1980 to require its members to report on compliance with International Accounting Standards in their audit reports, but this proposal was withdrawn in the face of opposition. The official policy remained that International Accounting Standards acquired status in the Netherlands only to the extent that they were incorporated in the consensus-based guidelines of the RJ. Towards the end of the 1990s, this had evolved to a policy of incorporating all International Accounting Standards in national standards, unless specific national circumstances made this undesirable.

The future of consensus-based standard setting in the Netherlands acquired some urgency in view of the mandatory application of International Financial Reporting Standards (IFRS) in the European Union as of 2005. In general, it seems fair to say that the European Union's policy, when it was announced, was received favourably, and probably for two main reasons. One was a recognition that, while a consensus-based approach might still work at a national level, it was no longer producing appropriate standards for Dutch companies active on international capital markets.

During the 1990s, exposure to and knowledge of US standards and practices increased because of a significant number of cross-listings, and it became more and more understood that the Netherlands up to a point simply would have to accept financial reporting norms developed elsewhere. Consequently, as indicated above, a policy had already been adopted that as a rule all International Accounting Standards would be incorporated in national guidance. The second reason was that

by the end of the 1990s, the Netherlands on the whole was quite comfortable with the IASC and its standards as they were then. One could always find points to criticize, but generally speaking the IASC was seen as a body that set its standards with a proper degree of consultation, and that amalgamated the views of its various constituents in applicable standards of more than a decent quality.

From 2001 onwards, when the IASC was succeeded by an independent International Accounting Standards Board (IASB), a degree of disenchantment has occasionally been palpable. There has been disapproval of the IASB when it is perceived to assert its independence by issuing standards in the face of known and strongly held opposing views. The RJ has reviewed its policy of adopting all IFRSs, and now charts a more independent course when setting its standards for non-listed companies and a range of not-for-profit organizations. It is acknowledged that the RJ's style of decision making cannot and probably should not be replicated at the international level. In the Netherlands, the RJ functions within a broader network of 'polder' organizations, committing the parties to give-and-take. This keeps a lid on potential problems of the consensus system, such as blatant obstructionism for self-interested reasons.

Such a context is lacking at the international level, so that it becomes more vital to protect the independence of standard setting. Even so, so the various moves made by the IASB during the last decade to elaborate its due process and allow more consultation have not just been welcomed in the Netherlands, but have been seen as vital to the survival of the IASB. Hans Hoogervorst, the current Dutch chairman of the IASB, is not regarded in the country as a typical representative of the 'polder' approach.

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Nonetheless, comments on his part on the need for 'exhaustive consultation' by the IASB and for 'a governance structure that is more inclusive and in which all jurisdictions using IFRS feel adequately represented' probably set heads nodding among the dykes.

standards can be found in Kees Camfferman and Stephen A. Zeff, *Financial Reporting and Global Capital Markets: A History of the International Accounting Standards Committee, 1973-2000* (Oxford: Oxford University Press, 2007).

Kees Camfferman is a Professor of Financial Accounting at VU University Amsterdam, The Netherlands.

Further reading:

A general discussion of the validity of the 'polder model' notion can be found in L. Delsen, *Exit Polder Model? Socio-economic Changes in the Netherlands* (Westport CT: Praeger, 2002). Much of the historical ground covered in this essay is dealt with in greater detail in Stephen A. Zeff, Frans van der Wel and Kees Camfferman, *Company Financial Reporting: A Historical and Comparative Study of the Dutch Regulatory Process* (Amsterdam: North-Holland, 1992).

A more recent review of modern Dutch financial accounting history is given in Kees Camfferman, 'The Netherlands', Gary J. Previts, Peter Walton and Peter Wolnizer (editors), *A Global History of Accounting, Financial Reporting and Public Policy*, Studies in the Development of Accounting Thought, volume 14A (Bingley: Emerald, 2010).

The English-language brochure *The Tripartite Accounting Standards Committee* published by the NIVRA in 1980 (PILOT series, No. 10) still gives an interesting insight into the views of consensus-based accounting standard setting of three leading participants from the auditor, preparer, and user delegation. More on the NIVRA's attitude towards the IASC and its