

Corporate Social Responsibility and Reporting in Denmark

Impact of the second year subject to the legal requirements
for reporting on CSR in the Danish Financial Statements Act

Foreword

The Danish government considers it vital that Danish business and industry takes CSR initiatives to improve social conditions, human rights and labour standards, as well as the environment and climate. This is necessary to create a better Denmark and to ensure that Denmark can contribute to globalisation with a human face and the sustainable management of our shared resources.

CSR is also beneficial to businesses' bottom lines. A new study from Harvard Business School shows that CSR reporting strengthens investors' confidence in a business. CSR has become a condition of the market, where Danish businesses have the competitive advantage of long-term experience from complying with high standards in international terms in such areas as HR and environmental management. We can and must use this offensively.

I am therefore pleased that 87% of large Danish businesses comply with the legal requirement from 2009 concerning openness in their CSR work, and that the quality of the information is higher than last year. There is still room for improvement, and unfortunately there will always be businesses that fail to do as they should. I am therefore also pleased that the Finance Act for 2012 makes it possible for me to establish a mediation and complaints body for good corporate governance.

I am convinced that greater openness regarding CSR is the best course for both society and for business and industry. 87% of large Danish businesses have got it right! This model must be shared with other countries. The government will also work for this at EU level, not least during Denmark's EU Presidency in the first half of 2012.

Ole Sohn
Minister for Business and Growth

November 2011

Executive summary

CBS has just completed this year's survey of the quality of large and stock-exchange listed businesses' CSR reporting according to the CSR requirements in the Danish Financial Statements Act, which were adopted in 2008, and which the businesses reported under for the first time in 2010. The requirements entail that businesses must either disclose their CSR policies, how they implement them, and what they have achieved; or state specifically that they do not have CSR policies.

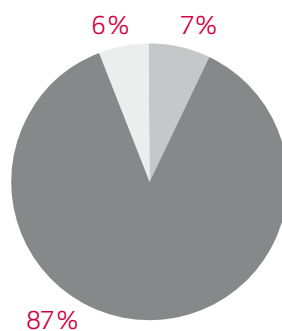
In overall terms, the survey shows that the quality of the businesses' information on CSR in the financial statement is steadily increasing. However, there are still some businesses that do not fully meet the legal requirements.

As a natural consequence of the fact that this is the second year of legal reporting, the number of businesses reporting for the first time has decreased from 43% to 7%. As most businesses are thus reporting for the second consecutive year the reporting practice has improved significantly. This means, overall, that the Act has encouraged 50% of large Danish businesses to be more open about their CSR initiatives.

Of the reporting businesses, 87% state that they work on CSR and 13% that they do not. There is thus a small increase in the number of businesses (from 9% in the financial year 2009) that state that they do not work with CSR. In statistical terms the change is not significant, however.

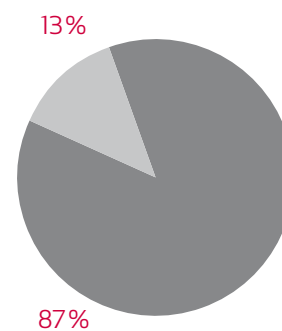
There are still a small number of businesses (6%) that do not fulfil the legal requirement at all, since they fail to state whether they have CSR policies or not.

Chart 1: Compliance with the requirement to report on CSR in the annual report



- Annual reports with no information on the business' CSR work (non-compliance with the legal requirement)
- Subsidiaries where the parent business reports for the entire Group (compliance with the legal requirement)
- Annual reports with information on the business' CSR work (compliance with the legal requirement)

Chart 2: Details of whether the business works with CSR or not



- The business states that it does not work with CSR
- The business states that it works with CSR

More report on policies, implementation and results

There has been a significant improvement in the businesses' ability to translate policies into actions and to describe the achieved results. In the 2010 financial statements, more businesses report on policies at 71% (69%)¹; on actions at 66% (60%); and on achieved results at 49% (37%).

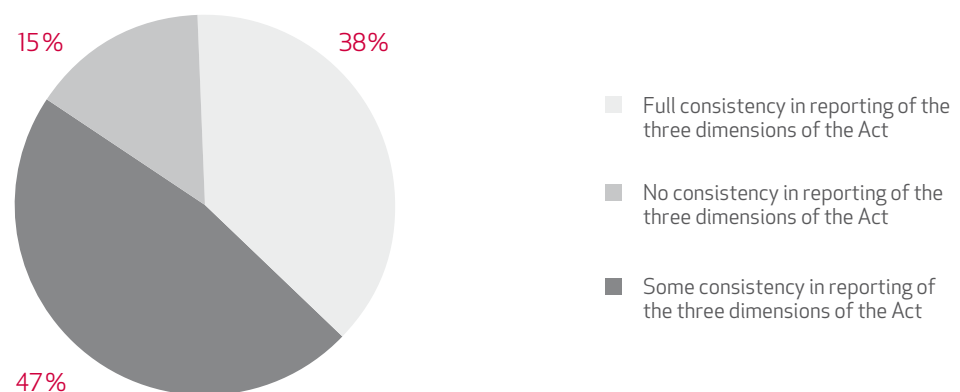
| Table 1 | 2010 Without subsidiaries | 2010 | 2009 |
|----------|------------------------------|------|------|
| Policies | 95% | 71% | 69% |
| Actions | 89% | 66% | 60% |
| Results | 65% | 49% | 37% |

After elimination for subsidiaries that do not report separately, but refer to CSR information in the parent business' consolidated financial statements, which the Act permits, the survey shows that 95% report on policies, 89% report on actions, and 65% describe results achieved.

Relatively high degree of consistency in the businesses' information

It is not sufficient to disclose policy in one area, activities in another, and results in a third. If a business reports on its environmental policy, for example, the information on activities and results must cover the same area. The survey reveals a relatively high degree of consistency in the businesses' information. For 15% of the businesses studied, however, there was no information consistency.

Chart 3: Consistency of the report between the three dimensions of the Act



¹The figures in parenthesis refer to the figures for the financial year 2009.

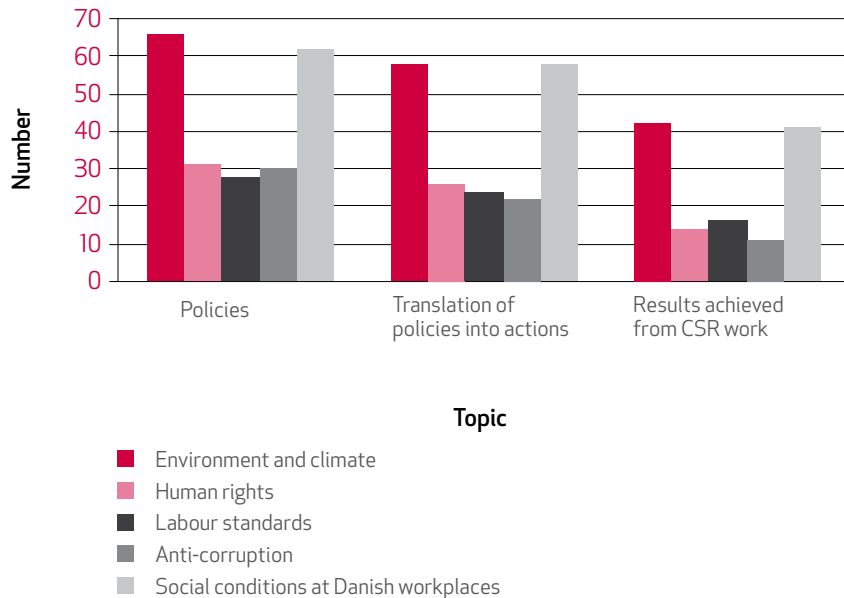
The businesses report on more topics

The environment and climate (89%) and social conditions at Danish workplaces (84%) are still by far the most common topics of the policies reported. The picture is the same for translating policies into actions and results in these areas.

On the other hand, there is a significant increase in the number of businesses reporting actions within human rights (38% compared to 16% in the financial year 2009) and within labour standards (35% compared to 16% in the financial year 2009).

Even though this is not a legal requirement, several businesses also disclose their expectations of future work on CSR (59% compared to 42%) and the organisational status of this work (31% compared to 9%). The information on organisational status is important as it gives an impression of how firmly the CSR work is anchored in the organisation, which investors in particular consider important, cf. the following evaluation by ATP.

Chart 4: Breakdown of topics on reporting policies, translating policies into actions and results achieved from CSR work



Several businesses apply international standards

The fact that more businesses are beginning to work with and report on more parameters may be related to how more businesses have signed up to the UN Global Compact (20% compared to 13% in the financial year 2009). The UN Global Compact is based on the UN and ILO conventions and declarations in the areas of human rights, labour standards, the environment and anti-corruption and thus provides international guidelines for CSR. It gives businesses a clear and complete framework as the basis for their CSR initiatives. There is an increase from 9% to 16% in the number of businesses that fulfil the legal requirement by referring to their annual UN Global Compact Communication on Progress report.

There has also been an increase in the number of businesses that report on the basis of the Global Reporting Initiative (GRI) (16% compared to 9% in the financial year 2009). GRI is a recognised international CSR and sustainability reporting standard. The cornerstone of GRI is a framework tool that outlines principles and indicators that businesses and organisations can use to measure and report on their environmental and social performance. Both the UN Global Compact and GRI are thus important tools in businesses' CSR work.

Large unlisted businesses are approaching the listed businesses' level

Comparison of the stock-exchange listed businesses with the large unlisted businesses indicates that, as last year, the listed businesses show significantly better performance. The survey also shows, however, that the unlisted businesses are catching up with the listed businesses' level. The legal requirement thus seems to have contributed to a significant quality improvement in large unlisted businesses' openness with regard to CSR.

| Table 2: | Listed | Unlisted |
|---|-----------|-----------|
| Apply international CSR principles to their reporting | 56% (59%) | 30% (20%) |
| Report in accordance with GRI | 30% (12%) | 11% (2%) |
| Report on future expectations of CSR work | 69% (71%) | 40% (25%) |

In 2010, 56% of the listed businesses (compared to 59% in the financial year 2009) apply international CSR principles as the basis for their CSR work and reporting. The equivalent figure for the large unlisted businesses has increased from 20% to 30% in relation to the previous year's reports. Of the listed businesses, 30% (compared to 12% in the financial year 2009) report in accordance with GRI, while the equivalent share of the unlisted businesses has increased from 2% to 11%. It should also be noted that these elements are not part of the legal requirement, but reflect how the businesses wish to provide further information on a voluntary basis.

69% (compared to 71% last year) of the listed businesses describe their future expectations of the work, while the equivalent share of the other businesses is 40% (compared to 25% last year).

Investors' view of reporting

As was the case last year, the Danish Commerce and Companies Agency has also this year requested ATP to assess 20 selected businesses in order to evaluate the development in the quality of the businesses' legal CSR reports (see Appendix 2).

ATP's overall evaluation is that the businesses' legal CSR reporting has improved from last year. The impression is that several businesses have reflected carefully on how the legal CSR report can be integrated into the businesses' other CSR communication. For a few businesses, however, there is still significant room for improvement.

Still in significant breach of the Act

Businesses that fail to disclose any CSR information must be considered to be in significant breach of the requirements of the Act. This is the case for 6% of the businesses covered by the survey.

It must also be considered a significant breach if there is no consistency of any type in the CSR information disclosed by the businesses. This is the case for 15% of the businesses covered by the survey.

Finally, it must in principle be considered a significant breach if no information on achieved results is disclosed, as this information is key to assessing a business' actual achievements. It should be noted, however, that half of the businesses may not have begun to work strategically with CSR until last year, in line with the new legal requirement (43% were first-time reporters in the financial year 2009, and 7% in the financial year 2010). It can therefore take some time for concrete results to be achieved. In such cases the business must, however, give reasons for failing to disclose results.

Last year, the Danish Commerce and Companies Agency emphasised an auditor's duty to comment on errors and omissions in a business' CSR report as part of the auditor's statement on the management's review. However, the survey did not reveal any examples of auditors commenting on errors and omissions found in businesses' CSR reports.

In future, the Danish Commerce and Companies Agency will therefore sharpen its focus on ensuring that businesses and auditors comply with their respective legal obligations. This will be in focus when the Danish Commerce and Companies Agency controls the financial statements of listed businesses, and as part of the public supervision of auditors.

Businesses' experience with the legal requirement

The qualitative part of the survey focuses on businesses' experience in this second year of CSR reporting on the basis of the legal requirement. The interviewed businesses were also interviewed last year as first-time reporters.

Compared to the reports from the financial year 2009, there have been positive changes in actual reporting and the reporting process.

Most of the businesses state that they spent less time on reporting than last year, as the procedures are now established. Most of the businesses also managed to complete the report without the assistance of consultants and auditors. Half of the businesses are inspired by other businesses. A few of the businesses thus respond that they did not find reporting to be challenging, as it has become a natural part of their work. Most of the businesses are also pleased with the new guide from the Danish Commerce and Companies Agency, which more than half of those asked use as the basis for their reporting.

Finally, it would seem that reporting has had a positive impact on the businesses' CSR initiatives. The number of businesses stating that CSR is an integral part of their business strategy has thus doubled. Some of them have concrete plans to strengthen the work on CSR/reporting. Other businesses have no plans for this, however, but expect to maintain their CSR reporting at the present level.

About this report

In 2008 the Danish Parliament (Folketing) adopted an amendment to the Danish Financial Statements Act. This amendment obliges all large businesses to disclose CSR information in their annual reports. Businesses must report on the following three dimensions: 1) CSR policies; 2) how these policies are translated into actions; and 3) what the business has achieved as a result of working with CSR, and any future expectations of the work. If the business does not have any CSR policies, this must be expressly disclosed. The business' auditor must perform a consistency check to establish whether the reporting requirement has been complied with. The objective of the legal requirement is to inspire businesses to take an active approach to CSR and to communicate their efforts to all stakeholders. This will help to improve the international competitiveness of Danish commerce and industry.

This report presents the key conclusions from a survey of the implementation of the new legal requirement in the annual reports for 2010 of stock-exchange listed businesses and large businesses in reporting class C. The survey comprises a quantitative and a qualitative study and was planned and executed by the Copenhagen Business School on behalf of the Danish Commerce and Companies Agency.

The report is the second of its type, as a similar report was published in 2010. It included the key conclusions of a survey of the implementation of the legal requirement in the annual reports from the financial year 2009, i.e. after the first year with the legal requirement in force. The survey of the second year's legal CSR reporting has the specific purpose of considering changes and improvements in reporting practice. The development in the individual businesses' annual reports has therefore been considered, which means that this survey covers the same group of businesses as was included in the first year's survey. The reporting is subject to ongoing comparison with the results of the previous year's survey, so that it is easy to chart any improvement or deterioration.

Just as last year, the report is divided into the following three sections:

Part 1: The businesses' reporting practices

This part describes the businesses' compliance with the legal requirement and their reporting practice in broader terms. The description is based primarily on a quantitative survey of 136 businesses' reports (10% of all businesses subject to the requirement). The same 136 businesses were also included in the 2010 survey, when they were selected randomly from among the approximately 1,400 businesses that are subject to Section 99a. (Last year 142 businesses participated, but due to discontinuations/acquisitions or declining revenue this year it has only been relevant to include 136 out of these 142). The purpose of the quantitative survey of the annual reports was to gain a representative picture of the businesses' compliance with the legal requirement, and the scope and depth of the businesses' CSR reporting, as well as the development in practice from the 2009 to the 2010 financial years.

Part 2: Businesses' experience with the legal requirement

This part describes a small group of businesses' experience with the legal requirement. The description is based on a qualitative study of experience with compliance with the legal requirement among nine businesses that in their 2010 annual reports included CSR reports for the second time. The same nine businesses were interviewed last year, which was the first year that they filed CSR reports. (Last year ten businesses were interviewed, but one of them did not wish to participate in the survey this year.) The same businesses were interviewed in order to investigate their experience from reporting last year, the changes they have made in their reporting for the 2010 financial year, and their plans for the development of their reporting practice.

Part 3: General evaluation

Based on the conclusions in Parts 1 and 2, this part focuses on a number of overall assessments of how the legal requirement has functioned in practice in the second year after the entry into force of the amendment to the Act.

Again this year, ATP was asked to assess a number of randomly selected businesses' CSR reports. ATP's assessment is based on the same businesses' reporting reviewed by ATP last year and is presented in Appendix 2.

The individual studies on which this report is based are available at www.samfundsansvar.dk

PART 1

The businesses' reporting practices

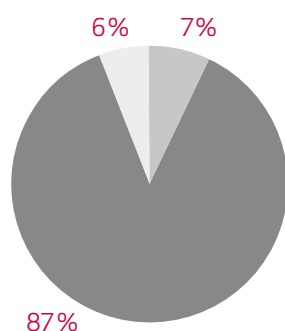
The objective of this part of the report is to describe the extent to which the businesses comply with the legal requirement and their reporting practice in more general terms. The description is based primarily on a quantitative study of 10% of the annual reports that are subject to the legal requirement. The purpose of this part of the survey is, in particular, to perform a comparison with last year's results in order to assess whether progress has been made in the businesses' reporting practice.

Most businesses address CSR in their annual reports

The legal requirement states that businesses must supplement the management's review with a CSR report. As Chart 1 shows, 94% of the businesses that are subject to the legal requirement disclose whether they work with CSR or not, while 6% do not comply with the Act as they fail to disclose anything at all about their CSR. Of the 94%, 7% are subsidiaries that fulfil the legal requirement via a parent business that discloses CSR information for the entire Group.

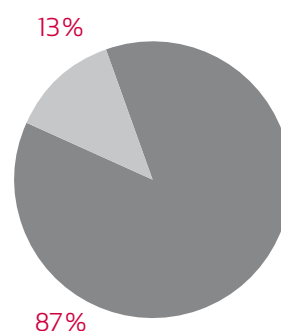
The reporting businesses thus constitute 87% of the businesses covered by the survey. 87% of the reporting businesses state that they work with CSR, while 13% state that this is not the case.

Chart 1: Compliance with the requirement to report on CSR in the annual report



- Annual reports with information on the business' CSR work (compliance with the legal requirement)
- Subsidiaries where the parent business reports for the entire Group (compliance with the legal requirement)
- Annual reports with no information on the business' CSR work (non-compliance with the legal requirement)

Chart 2: Details of whether the business works with CSR or not



- The business states that it works with CSR
- The business states that it does not work with CSR

Comparison with last year's results shows a slight deterioration for both questions. Last year, the share of businesses that did not disclose anything on CSR was 3%, and the share that stated that they did not work with CSR was 9%. In statistical terms the increases are not significant, however.

More businesses report on CSR policies, how the policies are translated into actions and the results achieved from CSR work

The report must include information on the business' CSR policies, how the business translates its CSR policies into actions and the business' assessment of the results of its CSR work during the financial year, as well as any future expectations of CSR work.

Last year's survey showed that there were problems in getting the businesses to report across all three dimensions. 69% of the businesses thus described their CSR policies, 60% described how their policies were translated into actions, and only 37% described what had been achieved from their CSR work.

Based on the 2010 figures significant progress has been made for all three dimensions. In the 2010 financial statements more businesses thus report on policies, on actions and especially on achieved results, cf. Table 1.

| Table 1 | 2010 Without subsidiaries | 2010 | 2009 |
|----------|------------------------------|------|------|
| Policies | 95% | 71% | 69% |
| Actions | 89% | 66% | 60% |
| Results | 65% | 49% | 37% |

As a natural consequence of the fact that this is the second year of legal reporting, the number of businesses reporting for the first time has decreased from 43% to 7%. As most businesses are thus reporting for the second consecutive year, the reporting practice has improved significantly.

In particular, far more businesses report results. This is probably related to the fact that a large proportion of the reporting businesses, i.e. 43%, reported for the first time last year, and perhaps only then began to have a more strategic focus on CSR. They have therefore perhaps not been able to see concrete results of their efforts yet. In such cases the business must, however, give reasons for failing to disclose results.

However, these figures should not be taken as an expression of the number of businesses that comply with the wording of the Act. A significant proportion of the businesses that do not describe their policies, actions and results are subsidiaries whose reports are included in their respective parent businesses' annual reports.

After elimination of subsidiaries that do not report separately, but refer to CSR information in the parent business' consolidated financial statements, which the Act permits, the survey shows that 95% report on policies, 89% report on actions, and 65% describe results achieved, cf. Table 1.

It must also be stated that ATP assesses that the businesses' legal CSR reporting has improved from 2010 (see Appendix 2).

ATP finds that a significantly higher number of businesses present an overview of their business' CSR policies. It is therefore even easier to identify the businesses with clear potential for improvement in this area. In addition, ATP finds that more businesses than last year adequately describe how they translate policies into actions, although some of the businesses still have potential for improvement. Finally, ATP finds examples of exemplary reports that explicitly describe the results achieved during the year, as well as reports in which even a basic description of activities is lacking.

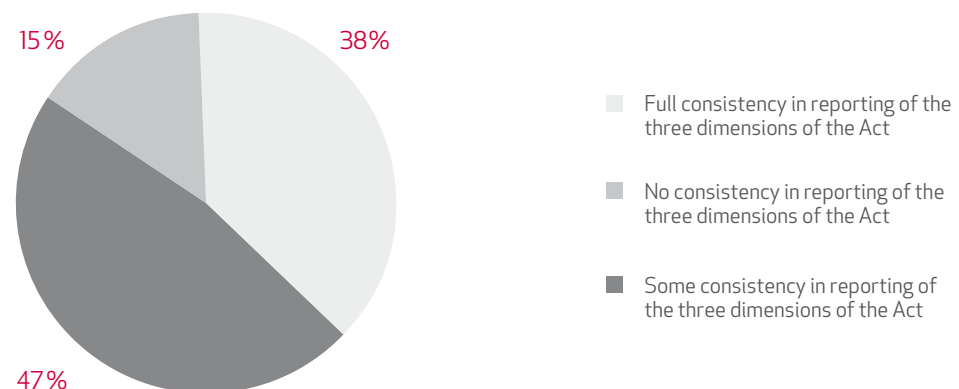
There thus seems to be clear agreement between the quantitative survey and ATP's qualitative assessment: most of the businesses show a strong CSR reporting improvement, but a minority still shows significant deficiencies.

Relatively high degree of consistency in the businesses' information

Pursuant to the Act, it is not sufficient to disclose a policy in one area, activities in another, and results in a third. If a business reports on its environmental policy, for example, the information on activities and results must cover the same area. As a consequence of last year's problems with compliance with this part of the legal requirement, this year's survey was supplemented with a question regarding consistency.

Last year's emphasis on this aspect by the Danish Commerce and Companies Agency appears to have had a positive effect. The survey thus shows a relatively high degree of consistency in the information disclosed by the businesses. A total lack of information consistency was only found for 15% of the businesses studied, cf. Chart 3.

Chart 3: Consistency of the report between the three dimensions of the Act



More businesses report on human rights and labour standards

On preparing the report, a useful benchmark for many businesses will be how they comply with the UN's ten CSR principles. These principles are divided into four areas: human rights, labour standards, the environment and anti-corruption.

Chart 4 shows that the *environment and climate* (89%) and *social conditions at Danish workplaces* (84%) are still by far most common topics when CSR policies are reported. This also applies to translating policies into actions and achievements as a result of CSR work.

On the other hand, more and more businesses are reporting on human rights and labour standards. In February 2010 the Danish Commerce and Companies Agency conducted a survey of 1,000 Danish businesses' CSR performance. The survey showed that the *environment and climate* are among the topics that Danish businesses engage with the most. At the same time, the businesses find it more difficult to work with the three other areas covered by the UN Global Compact (i.e. human rights, labour standards and anti-corruption).

It is therefore very positive that this year's survey shows that a larger share of businesses includes human rights and labour standards in their CSR reports. There has been a significant increase in the number of businesses reporting on human rights (38%, compared to 16% in the financial year 2009) and labour standards (35%, compared to 16% in the financial year 2009).

The figures in the chart are absolute figures, as several businesses report on more than one topic.

Chart 4: Breakdown of topics on reporting policies, translating policies into actions and results achieved from CSR work

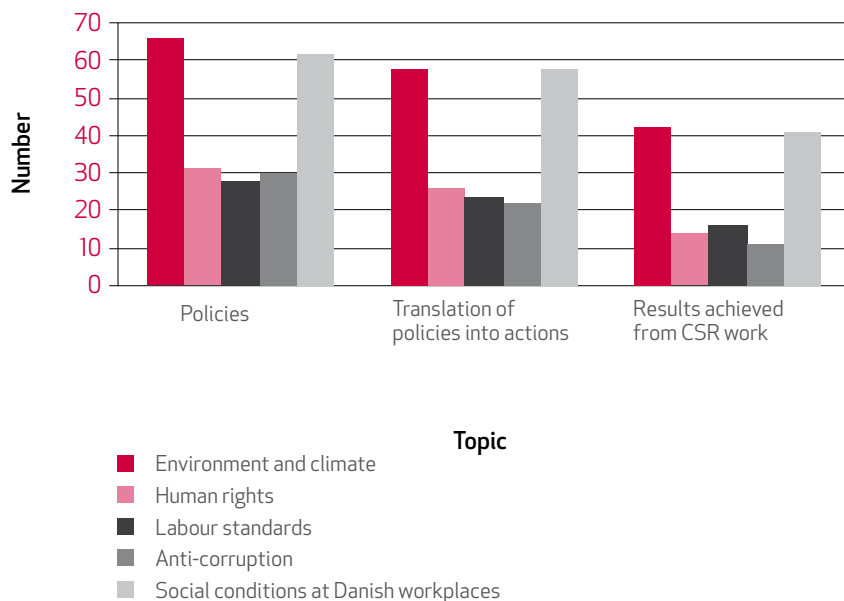
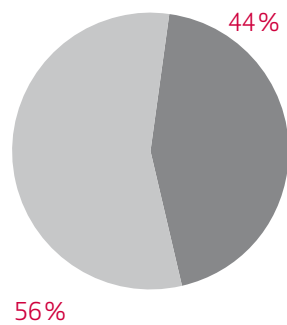
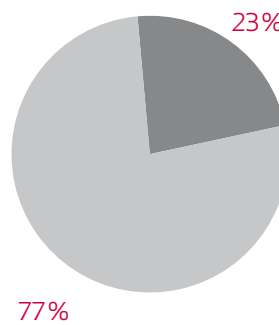


Chart 5: Reporting on expectations of future CSR work



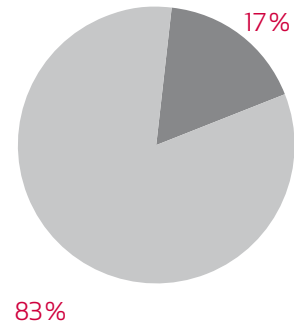
■ Does not report
■ Reports

Chart 6: Reporting on where in the business' organisation structure CSR work is placed



■ Does not report
■ Reports

Chart 7: Reporting on non-financial risks and dilemmas



■ Does not report
■ Reports

Even though this is not a legal requirement, several businesses also disclose their expectations of future CSR work (44% compared to 34%) (Chart 5) and the organisational status of the work (23% compared to 6%) (Chart 6). The information on organisational status is important as it gives an impression of how firmly the CSR work is anchored in the organisation, which investors in particular consider important, cf. the following assessment by ATP.

Another important disclosure that is not a legal requirement is information concerning risks and dilemmas in relation to the business' CSR work. Most businesses will encounter challenges and difficulties in their CSR activities. A business that openly discloses information on these factors will increase the credibility of its CSR reporting significantly. 17% of the businesses disclose such information, which is the same as last year (Chart 7).

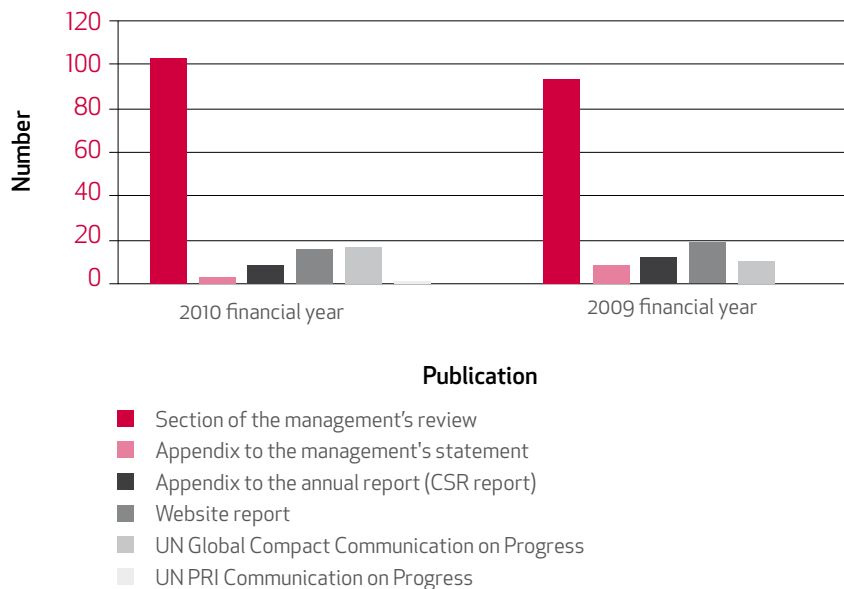
More businesses fulfil the legal requirement via their accession to the UN Global Compact

The legal requirement states that the CSR report must be published as part of the management's review, or reference must be made to the report in the management's review. The actual CSR report may be attached as a supplementary review to the management's review, published on the business' website, or provided as a UN Global Compact Communication on Progress report.

With one exception, all of the 104 businesses (99%) that reported that they work with CSR fulfil the legal requirement by including the report, or a reference to it, in the management's review.

Of these, 15% make reference in the management's review to the report on the business' website. 3% of the businesses refer to an appendix in the annual report, while 16% of the businesses refer to their annual UN Global Compact Communication on Progress report. This is a significant increase from the previous year's figure of 9%. Several businesses publish their CSR report in several ways. Just one business referred in its annual report to *Principles of Responsible Investment* (PRI).

Chart 8: Placement of CSR report



Indicators are still not very prevalent – but several use GRI

As was the case last year, the businesses still mostly provide a qualitative description of what their CSR work has achieved. 36% (compared to 38% in the financial year 2009) of the businesses apply quantitative indicators to their reporting. There has been an increase in the number of businesses that report on the basis of the Global Reporting Initiative (GRI) (16% compared to 9% in the financial year 2009).

20% of the businesses have signed up to the UN Global Compact

It is now very common to apply international CSR principles, such as the UN Global Compact, GRI or the OECD guidelines for multinational companies, as inspiration for the businesses' reporting. 34% (compared to 28% in the financial year 2009) apply such guidelines as a source of inspiration. 20% of the businesses have signed up to the UN Global Compact. This is a significant increase from the previous year, when 13% of the businesses had signed up, or had plans to do so. It is likely that in future more and more businesses will fulfil the reporting requirement by submitting a progress report to the UN. The legal reporting requirement may thus have been a key reason for more businesses signing up to the UN Global Compact, which ATP considers positive.

Large unlisted businesses are approaching the listed businesses' level

Comparison of the stock-exchange listed businesses with the other large businesses that are subject to the reporting requirement shows that, in keeping with last year, the listed businesses are performing significantly better. The survey also shows, however, that the unlisted businesses are catching up with the listed businesses' level.

In 2010, 56% (59%) of the listed businesses apply international CSR principles in their reporting. The equivalent figure for the other large businesses has increased from 20% to 30% in relation to the previous year's reports. Of the listed businesses, 30% (compared to 12% last year) report in accordance with GRI, while the equivalent share of the other businesses has increased from 2% to 11%.

Table 2:

| | Listed | Unlisted |
|---|-----------|-----------|
| Apply international CSR principles to their reporting | 56% (59%) | 30% (20%) |
| Report in accordance with GRI | 30% (12%) | 11% (2%) |
| Report on future expectations of CSR work | 69% (71%) | 40% (25%) |

Even though it is not part of the legal requirement, 69% of the listed businesses (compared to 71% last year) describe their future expectations of CSR work, while the equivalent share of the other businesses is 40% (compared to 25% last year). This means that, again, there is a significant increase for the other large businesses.

Auditor's statement on the management's review

Last year the Danish Commerce and Companies Agency emphasised an auditor's duty to comment on errors and omissions in a business' CSR report as part of the auditor's statement on the management's review.

The auditor's statement on the management's review includes the management's CSR report and is an integral part of the auditor's overall statement on the management's review, no matter how the business publishes the report. The executive order on approved auditors' statements (Danish Executive Order on Statements Made by State-Authorised and Registered Public Accountants) states that the auditor's statement must include a description of any significant errors, misstatements and omissions in the management's review prepared by the management and of which the auditor becomes aware. The guidelines to the Executive Order also state the following: *"Errors, misstatements and omissions may also include a missing item or items of information that is/are required by law to be given in the management review... Errors may include that legally-required information in the management review is not given in the correct way. The auditor is expected to find errors, misstatements and omissions on the basis of his or her reading of the management review. It is presupposed that the auditor is aware of the regulations underlying the management review, e.g. requirements of the management review in the Danish Financial Statements Act ..."*

With regard to this year's survey, in 6% of the annual reports the businesses concerned do not report at all on CSR in the management's review (including failing to state that the business does not have a CSR policy), and the auditor should have commented on this.

In addition, the auditors of the businesses that have disclosed certain CSR information, but not reported on all three dimensions of the legal requirement (i.e. policies, translation into actions and results achieved from the work), should have commented on this. Businesses with CSR policies are required to report on all three dimensions and the auditor is required to comment if this is not the case. Even though the Danish Commerce and Companies Agency last year emphasised the auditor's duty to comment on such circumstances in the auditor's statement the survey has found no examples of an auditor adding a qualification to the management's review in cases where the business' CSR report has errors and omissions. In other words, there are a number of examples of auditors' statements that do not fulfil the legal requirements².

The Danish Commerce and Companies Agency will therefore sharpen its focus on ensuring that businesses and auditors comply with their respective legal obligations. This will be in focus when the Danish Commerce and Companies Agency controls the financial statements of listed businesses, and as part of the public supervision of auditors.

²It must be noted that as from the financial year beginning on 1 September 2008 or later management's reviews are no longer required to be audited, but the auditor must instead provide a statement. In the same way, as from the financial year beginning on 1 January 2009 or later, businesses are required to provide a CSR report. The precise scope of the businesses' reporting obligation and the auditor's duty to provide a statement may thus have been subject to some uncertainty.

PART 2 **Businesses' experience with the legal requirement**

This part describes the businesses' experience with compliance with the legal requirement. This description is based on a qualitative study of experience with compliance with the legal requirement involving nine businesses that in the 2010 financial year were reporting on CSR in their management's reviews for the second time. This is a repetition of an equivalent survey of the financial year 2009 that took place in 2010.

Last year's survey topics were based on how it was the first time that the businesses interviewed were required to report under Section 99a. The topics were the businesses' experience with compliance, barriers to reporting, application of international CSR principles, and the administrative consequences of the legal requirement.

This year, the survey focused on changes and improvements in reporting practice. In more concrete terms, the interviews conducted illustrate the businesses' experience with reporting last year, the changes they made in their reporting for the financial year 2010, and their plans for the development of their reporting practice.

The same businesses as last year are interviewed. The number of businesses interviewed this year is nine, however, compared to ten last year, as one business did not wish to participate in the survey again. It must be emphasised that this group of businesses is too small to be considered to be statistically representative of the businesses subject to the reporting obligation.

Improvement in the quality of the reports

A majority of the businesses interviewed believe that there have been positive changes regarding the actual reports and the reporting process compared to the financial year 2009.

Several businesses emphasise that this year they have focused on improving the information collection system for the report, and that they have fine-tuned their reporting. One business has focused more on "360°" CSR reporting compared to the report for 2009. This entails that the business has decided to increase its openness concerning the CSR challenges and the policies for which the business has not quite succeeded in anchoring the policies and translating them into actions, i.e. supplier relations and anti-corruption.

Three businesses respond that they have not made any changes, while one responds that the only reporting change from 2009 is the updated figures, which the business sees as a deterioration from last year.

Twice as many businesses integrate CSR in their strategy

This year, eight of the businesses interviewed state that CSR is an integral element of their business strategy. This is a doubling from last year, when this was true of only four businesses.

CSR as a business case

Four businesses actively consider the business case for CSR, i.e. whether CSR is worthwhile. Two of these businesses rate CSR to be an important part of sales work, while the other two believe that it is unknown whether CSR is worthwhile in business terms, because the markets are not yet considered to be mature enough.

CSR is not part of executives' performance-based pay

Any increased motivation to integrate CSR in the interviewed businesses' business strategies is not related to performance-based pay offered to executives or others within the organisation in return for achieving the business' CSR targets. Only one of the businesses thus offers performance-based pay for fulfilment of CSR targets.

Even though eight of the businesses, as stated above, have integrated CSR in their business strategies, five of the businesses have not determined when a result target is related to CSR. This is illustrated by the following citation concerning when result measurement is related to the general business strategy or the CSR strategy:

» *No, not for CSR, but the management are measured on the basis of staff conditions and ethical factors.*

External inspiration

As in the previous year, the businesses have to a great extent sought external inspiration for their reports. Four businesses sought inspiration in reports from other Danish and international businesses, and businesses known for their CSR reporting.

The majority of the businesses interviewed had made use of the Danish Commerce and Companies Agency's updated guide "The CSR Report – practical guidelines and inspiration" as the basis for their reporting. The guide was a tool to understanding the scope of the Act. The majority rate the guide as useful.

» *It is good.*

» *It is very precise (the new guide to Section 99a). I like the communication from the Danish Commerce and Companies Agency. I find it very precise and pragmatic, and not too restrictive. I still think that one of the best things about how we've chosen to do this in Denmark is that it isn't too restrictive. I think that really helps things along.*

However, one business thinks the guide is too extensive.

Fewer businesses than last year needed external assistance in preparing their CSR report. Seven businesses thus used neither auditors nor consultants. Last year a majority of businesses asked their auditors for advice in order to get a grasp of the scope and framework of the legal requirement. This year, only one business did so.

Response to last year's reporting

All of the businesses state that they did not receive a direct response to their CSR reporting in their 2009 annual reports. However, three businesses state that they received an indirect response via general enquiries and reactions to their CSR work. Yet these reactions did not specifically concern CSR reporting in annual reports. It should be noted, however, that the fact that the businesses only received a limited response does not necessarily imply a lack of interest in the businesses' CSR information.

Less time spent on reporting

Compared to last year, the businesses spent less time on preparing the reports. Several businesses state that the first year of reporting is always more demanding than the following years. It is among other things stated that:

» *It is more a matter of routine this year.*

» *It has mostly been a question of copy and paste.*

Two businesses respond that they have spent a little more time on reporting, as they have focused on improving internal information collection procedures. Another two businesses believe the time consumption to be unchanged.

Future plans

In relation to future CSR work four businesses will develop and improve their efforts and have very concrete plans for how this will take place. Five businesses expect to maintain CSR reporting at the same level in the next financial year.

PART 3 **General evaluation**

The legal requirement for all large businesses to report on CSR in their annual financial statements is a new requirement in Denmark, and is also an innovation in international terms. By comparison, businesses have been subject to the obligation to file financial reports for so many years that this has become an established routine. We thus have limited experience with legal CSR reporting, and these reports are different in nature to financial reports. Fulfilling the new requirement can therefore naturally be a special challenge for the businesses involved.

It therefore came as no surprise that CBS' survey last year, the first year that the businesses reported under the new requirement, showed that many businesses did not fulfil a number of the fundamental requirements. Based on the experience from this survey, the Danish Commerce and Companies Agency has subsequently prepared a revised guideline and a new website to assist businesses.

CBS' survey of the second year of CSR reporting shows that in a number of areas there have been significant improvements in reporting practice.

Better reports in a number of respects

In the course of the first two years of the legal requirement's existence, 50% of the businesses reported on CSR for the first time. Several businesses report on policies, implementation and results, and there is greater consistency between the information for the different areas. The businesses also report on more topics, and many businesses apply international standards as the basis for their work with and reporting on CSR. The legal requirement has also contributed to large unlisted businesses beginning to approach the listed businesses' level of quality of CSR reporting.

Positive development has thus been seen in a large number of areas, and in that respect the amended Act must be considered to be a success. It has proved to be a catalyst for the businesses' openness on CSR and perhaps also for incorporating CSR in their business strategies. The interview-based element of the CBS survey shows that, in this group of businesses, eight out of nine now work strategically with CSR, compared to four out of ten in 2009. It must be emphasised, however, that this group of businesses is too limited to be considered to be statistically representative of the businesses subject to the reporting obligation.

...but there are still reporting deficiencies

Contrary to the Act, 6% of the businesses fail to disclose in their management's review whether they work with CSR. Of the businesses reporting on CSR, there are still a number that do not disclose their actual policy, how it is implemented, and what they have achieved, or where there is a lack of information consistency. Especially with regard to the lack of information on achieved results this must be considered to be a significant deficiency since it makes it difficult for users of the financial statements to assess the business' efforts.

The auditors have a duty to remark on errors and omissions in a report, but according to the survey, none of the financial statements found to have a CSR report subject to errors and omissions carried an auditor's remark to this effect. This must also be considered a significant breach.

In connection with its inspection of financial statements, and as part of the public supervision of auditors, the Danish Commerce and Companies Agency will be aware of such significant errors and omissions in CSR reports and will take the appropriate action if necessary.

Appendix 1

Act on CSR reporting

The Danish Parliament (Folketinget) adopted the proposed "Bill to amend the Danish Financial Statements Act (Accounting for CSR in large businesses)" on 16 December 2008. The legal requirement commenced on 1 January 2009 and has effect from the financial year starting 1 January 2009 or later. The amendment means that larger businesses must report on their work with CSR in the annual report. The objective of the legal requirement is to inspire businesses to take an active approach to CSR and to communicate this to their surroundings. This is intended to contribute to improving the impact of Danish trade and industry in the international competitive arena.

The legal requirement applies to larger businesses in accounting class C and listed companies and state-owned companies in accounting class D. Large businesses in accounting class C are businesses which exceed at least two of three size limits:

- Total assets/liabilities of EUR 19.2 million
- Net revenue of EUR 38.3 million
- An average of 250 full-time employees

According to the legal requirement, subsidiaries are not obliged to report on CSR if the parent company reports on CSR on the group's behalf.

The same reporting requirement has also been introduced for institutional investors, mutual funds and other public limited finance businesses (financial institutions and insurance businesses, etc.) that are not subject to the Danish Financial Statements Act. For these businesses, the legal requirement has been introduced in executive orders issued by the Danish Financial Supervisory Authority (Finanstilsynet).

What has to be reported?

Businesses with CSR policies must include the following information in their report:

1. CSR policies, including any standards, guidelines and principles for CSR used by the business
2. How the business translates its CSR policies into actions, including any systems or procedures used
3. The business' evaluation of what it has achieved as a result of CSR initiatives during the financial year and any future expectations

If the business has no CSR policy, this must be explicitly disclosed.

How is the information to be published?

The CSR report must be included in the management review section of the annual report but can also be published in the following ways:

- The report is published as part of the management review
- The report is published as an appendix to the management review, and clear reference must be made in the management review
- The report is published on the business' website and clear reference made in the management review
- The report is published as a UN Global Compact or PRI Communication on Progress report and clear reference made in the management review
- The report is published as a supplementary report to the annual report and clear reference made in the management review

Where the last mentioned bullet point is concerned, businesses that prepare an independent report on their CSR work may attach this as a supplement to the annual report or publish it on the business' website. This presupposes, however, that the report complies with all the above-mentioned requirements.

Auditor's statement on the report

The auditor's statement on the CSR report is an integral part of the auditor's overall statement on the management review. This is true regardless of the form of publication the business chooses to use.

If the business has chosen to publicise the legally-required CSR report on the its website, the auditor is subject to special obligations, pursuant to Sections 16 and 17 of Executive Order no. 761 of 20/07/2009 on publication of business management reports and CSR reports on businesses' websites, etc. The auditor is obliged to check the following:

- That the management review contains information stating that the business has chosen to publicise the report on the its website, including a reference to the URL address at which the report is published
- That the CSR report is published under the name "Legally-required CSR report, pursuant to Section 99a of the Danish Financial Statements Act", that the report contains information to the effect that it is an integral part of the management review section of the business' annual report, and states the relevant financial year

If the business chooses to refer to a UN Global Compact or PRI Communication on Progress report, the auditor is obliged to check that the business complies with the conditions for utilising this exception, including the following:

- That a publicly-available Communication on Progress report has been prepared for the relevant financial year
- That the management review includes correct reference to where the relevant report is publicly available

Appendix 2

ATP's assessment of 20 businesses' CSR reports

The following assessment has been prepared by the Head of Responsible Investments Ole Buhl, ATP.

The Danish Commerce and Companies Agency has requested ATP to assess 20 selected businesses in order to evaluate the development in the quality of the businesses' legal CSR reports.

In 2010 ATP conducted a similar assessment of these 20 businesses.

Investors – one among several stakeholders

By way of introduction, it is important to state that when they prepare their legal CSR reports businesses are in a situation where they are required to balance several considerations and stakeholders.

The following considerations solely address the topics on which professional investors with an interest in a business' CSR initiatives will require more information in connection with a legal CSR report.

There can be considerable variation in investors' focus on their assessment of businesses' CSR initiatives. The following is based on ATP's approach:

ATP believes that focus on CSR in connection with investments can protect and increase returns on ATP's investments. Investing in a business with a business-oriented approach to CSR represents an opportunity to increase the value of ATP's investments. In contrast, any business that fails to focus on CSR – especially the basic principles and norms apparent from international conventions, etc. – presents a risk that could jeopardise the value of ATP's investments. ATP's investor-specific expectations of businesses' legal CSR reports reflect these considerations.

Great variation in the businesses' reports

There is still considerable variation in how the different businesses prepare their CSR reports.

As stated last year, from an investor viewpoint this variation is not in itself problematic.

There is a clear tendency for more businesses to allow the annual Global Compact Communication on Progress to serve as the legal CSR report.

In contrast to last year, by far the majority of the businesses are very explicit on where their legal CSR report is anchored in their organisations.

LEGAL REQUIREMENT 1:

The business' CSR policies, including any CSR standards, guidelines or principles applied by the business.

Compared to last year's survey a considerably larger number of businesses have used the legal report to present an overview of the business' CSR policies.

The general trend is that the businesses have now found a good way to comply with the Act's requirement in a clear and well-considered way.

It is therefore even easier to identify the businesses with clear potential for improvement in this area than in the comparison made last year.

LEGAL REQUIREMENT 2:

How the business translates its CSR policies into actions, including any systems or procedures used.

As highlighted in last year's comparison, ATP considers the description of the organisational anchoring of both the policies and the underlying principles and procedures to be a key aspect of the assessment of the businesses' CSR initiatives.

More businesses than last year give an adequate account of these organisational aspects, although some of the businesses still have potential for improvement.

A derived effect of the fact that several businesses – in line with legislation - refer to their Global Compact Communication on Progress as their legal CSR report is that there is less focus in the legal report on the business' organisational anchoring of CSR.

LEGAL REQUIREMENT 3:

The business' assessment of what it has achieved as a result of CSR initiatives during the financial year, and any future expectations of these initiatives.

In this respect there is still considerable variation in the quality of the legal CSR reports.

There are examples of exemplary reports that explicitly describe the results achieved during the year, as well as reports in which even a basic description of activities is lacking.

Considering the businesses overall, the trend is a moderate improvement with regard to this legal requirement.

Conclusion

In overall terms, ATP assesses that the businesses' legal CSR reporting has improved from last year. The impression is that more businesses have reflected carefully on how the legal CSR report can be integrated into the businesses' other CSR communication. For a few businesses, however, there is still significant room for improvement.

The legal reporting requirement may furthermore have been a key reason for more businesses' accession to the Global Compact, which ATP considers positive.

Corporate Social Responsibility and Reporting in Denmark

Impact of the second year subject to the legal requirements for reporting on CSR in the Danish Financial Statements Act

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For further information please contact:

Danish Commerce and Companies Agency

+45 33 30 77 00

CSRgov@eogs.dk

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