Corporate Social Responsibility and Reporting in Denmark:

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

Foreword

The impact of company activities on the climate and the extent to which companies respect human rights or pollute the environment are questions that rightly preoccupy the Danes.

The Government therefore insists that Danish companies must report on their corporate social responsibility (CSR). It creates the necessary transparency.

We believe that information on CSR is as important as the financial information in the accounts. Openness about the corporate social responsibility of companies is essential if we are to create responsible growth for the benefit of society.

This is the reason why the Government's action plan for corporate social responsibility "Responsible growth" from March 2012 focuses on increasing transparency.

Most Danish companies are well on the way. This report shows that the vast majority of large corporations now have a CSR policy and include it in their annual report. This is good news. Few companies choose to state that they do not work with CSR. The Danish reporting requirement has proved its worth in terms of inspiring companies to develop a CSR policy.

Now, three years after CSR reporting was made compulsory, there are positive signs of progress in most areas: more companies report on policies, implementation and results, and several take inspiration from international CSR principles. In addition, unlisted companies perform almost as well as listed companies.

This is an excellent result and well in line with the Government's ambition that Denmark should be an international leader in promoting respect for human rights and limiting detrimental climate change. The challenges that the world community faces in relation to both human rights and climate change cannot be solved by national states alone. It is vital that large companies in particular also become actively engaged in these areas. This is an issue that has received increasing international attention in recent years, and which will therefore be of great significance to companies' reputation in the future.

In June 2012, the Danish Parliament (Folketinget) adopted legislation extending the CSR reporting requirement, making it compulsory for companies in future to explicitly report on their policies to respect human rights and reduce their negative impact on the climate.

The legal requirement for extended reporting will take effect in 2013, and I therefore look forward to seeing more companies include human rights and climate policies in their reporting in the future. It is necessary to adopt a broad approach to CSR.

The Government therefore also supports the new UN guidelines on human rights and the conclusions from the Rio +20 summit meeting. They highlight that widespread company reporting on CSR is an important part of a more sustainable development.

The Government also looks forward to the EU Commission's proposal for common requirements to CSR reporting, which are expected to be presented in the coming months. This will make it easier to compare European companies.

EU requirements to CSR reporting may therefore turn out to be an advantage for Denmark and Danish companies, as Danish companies have a head start, having had to adapt to similar requirements since 2009.

It is the Government's ambition that both human and natural resources in Denmark should be used in a way that is sustainable as well as competitive. This applies nationally, regionally and globally. Social responsibility therefore involves ensuring that growth and responsibility go hand-in-hand, creating shared value for both companies and society. Danish companies are good at accepting their share of the responsibility, as this creates opportunities for new business models and meets the demands of customers, employees and investors for sustainable behaviour. Modern companies see CSR as an opportunity rather than a burden.

Annette Vilhelmsen
Minister for Business and Growth

Executive Summary

CSR reporting of large companies - almost everyone is on board.

This report is based on a survey by CBS (Copenhagen Business School) of the quality of the CSR reporting of large and listed companies for the 2011[1] financial year. This is the third financial year since the requirement for CSR reporting was incorporated in the Danish Financial Statements Act in 2008. The requirements entail that companies must either disclose their CSR policies, how they implement them, and what they have achieved or state explicitly that they do not have CSR policies.

The survey was based on a rolling group of participants, meaning that the same group of companies was surveyed the previous years. The group has now been subject to the reporting requirement for three years so the group includes very few companies reporting for the first time. As expected, there has also been few changes in the choice of topics and content in the reports.

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

Accordingly, it came as no surprise that the CBS survey after the first financial year (2009) in which the legal requirement applied showed that many companies did not fulfil a number of the fundamental requirements. In the second financial year after the introduction of the legal requirement, significant improvement had already taken place.

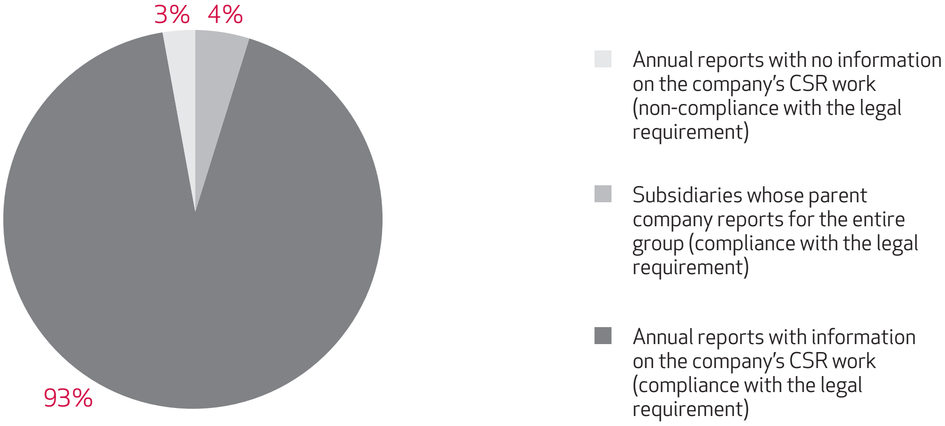
After the third year, the CBS analyses show that, firstly, companies generally appear to have been encouraged to report on CSR. In the course of the first three years of the legal requirement's existence, nearly 50% of the companies reported on CSR for the first time. Secondly, there have been significant improvements in reporting practices in a number of areas. There is nevertheless still room for improvement as regards reporting consistency and reporting on the results of the CSR work.

When it comes to the general level of compliance with the legal requirement to CSR reporting, the first thing worth mentioning is that 146 companies or 97% comply with the legal requirement (compared with 94% in the 2010 financial year) – by reporting independently or via the parent company. 139 (93%) report independently on their CSR work. The small group of companies that ignores the legal requirement has become even smaller. The group of laggards has thus been reduced from 6% in the 2010 financial year to 3% (four companies) in 2011.

---

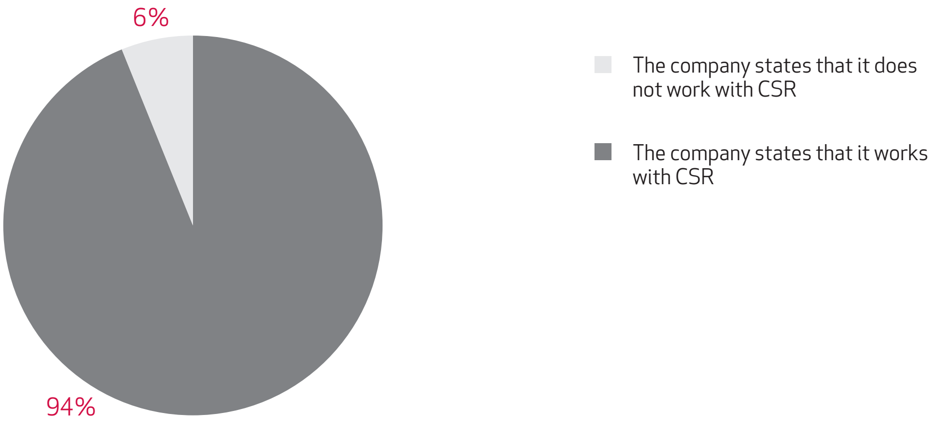
[1] Peter Neergaard and Louise Rosenmeier, *"Communication of CSR work: A quantitative study of companies' compliance with Section 99a of the Danish Financial Statements Act and their general reporting practice for the 2011 financial year"* (Copenhagen Business School, 12 November 2012).

Figure 1: Compliance with the requirement for CSR reporting (2011)



Of the 139 companies (93%) that report independently on their CSR work, 131 (94%) state that they work with CSR while only eight companies (6%) have chosen to state that they do not work with CSR. Fewer companies thus chose this solution compared with last year when the number was 15 (13%).

Figure 2: Information about whether or not the company works with CSR (2011)



(N=139)

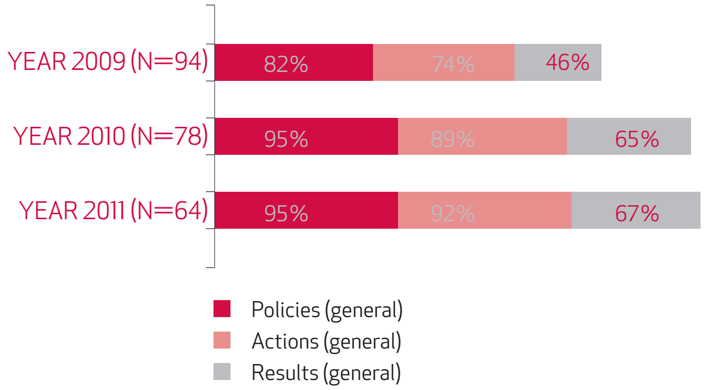
Better reports in a number of respects

Several companies report on policies, implementation and results, and there is greater consistency between the data for the different areas. The companies also report on more topics, and many companies increasingly apply international standards as the basis for their CSR work and reports. The legal requirement has also contributed to large unlisted companies approaching the listed companies' level of quality of CSR reporting.

More companies report on policies, execution and results
The companies have become better at living up to the requirement to report on the translation of any CSR policies into action and the evaluation of the results achieved (the three dimensions of the report).

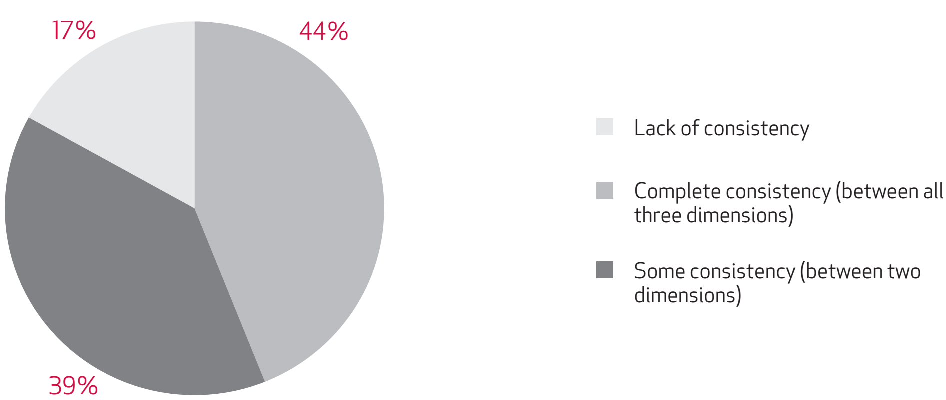
The greatest improvement happened between the first (2009) and second (2010) financial years, which is not surprising, as almost 50% reported for the first time in 2009.

Fig. 3: The three dimensions of reporting – development in the survey group.[2]



Degree of consistency in the companies' information
It is not sufficient to disclose policy in one area, activities in another, and results in a third. If a company reports on its environmental policy, for example, the information on activities and results must cover the same area. The survey shows that the companies achieved a higher level of consistency in their reporting during the first couple of years. The survey shows more cases of complete consistency in the information in 2011 – 44% of the cases against 38% in 2010.

Figure 4: Consistency in the three dimensions of reporting (2011)



[2] The figures N=78 (2010) and N=94 (2009) do not include subsidiaries. N=64 (2011) consists of the 78 companies from 2010 minus six companies that closed and eight companies that reported independently in 2010 but in 2011 chose to refer to their parent company's report. See Table 6, CBS report (12 November 2012).

The consistency in the reports can be further improved.
Apart from the few companies that still avoid providing any information on CSR, the main challenge for the companies appears to be to cover all three dimensions of the reporting requirement, i.e. to describe policies, actions as well as results – and ensure consistency in the reporting. Most of the companies now include both policies and actions in their CSR reports, but some of the companies still have problems describing the results of their work.

The survey does not clarify why the results are the most difficult component to cover in the report. The reason may be that some companies are reluctant to assess the results as they find it difficult to measure and document them sufficiently. However, legislation only requires the companies to provide a subjective assessment, and it ought to be easy to meet also this part of the legal requirement, especially once policies and actions have been described.

It must also be considered a significant shortcoming if there is no consistency of any kind in the CSR information disclosed by the companies. This applied to 15% of the companies covered by the 2010 survey. In 2011, 17% of the company reports showed a similar lack of consistency. This is not a significant change, and the general level of consistency is now considered to have stabilised after reaching a certain level after the first couple of financial years following the introduction of the reporting requirement.

In principle, it should also be considered a significant shortcoming if the report does not disclose any information on achieved results, as this information is key to assessing a company's actual achievements. It is the requirement to assess the achieved results of the CSR work that remains problematic for a good deal of the companies. In the 2011 financial year, 67% of the companies reported on their results against 65% in the 2010 financial year, and the overall level is higher than for the 2009 financial year.

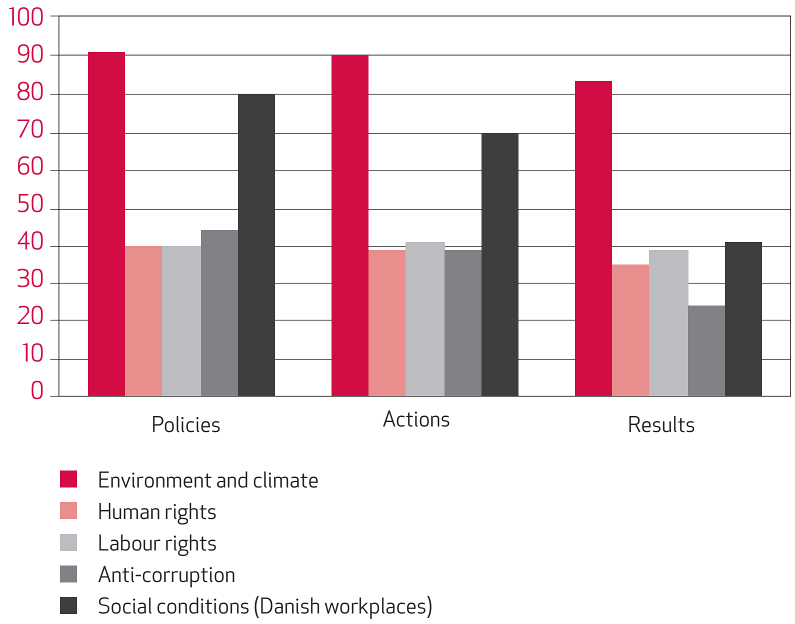
There are no major changes regarding the choice of key reporting topics.
The environment and climate (91%) and social conditions at Danish workplaces (81%) are still by far the most common topics among the policies reported on in 2011. The picture is the same for the translation of policies into actions and results in these areas. These two areas are therefore covered to the same extent as in the 2010 financial year.

A significant increase in the number of companies reporting actions relating to human rights (38% compared to 16% in 2009) and labour rights (35% compared to 16% in 2009) was noted for the 2010 financial year. In the 2011 financial year, these reporting topics were as common as in 2010. Due to recent developments in international CSR principles (in particular the development of the UN Guiding Principles on Business and Human Rights), an increased focus on human rights, in particular, can be expected in the future. Following the latest amendment of Section 99a of the Danish Financial Statements Act, companies thus have to report on the topics of human rights and climate with effect from the 2013 financial year.

Table 1: Key reporting topics – development 2009-2011[3]

CSR policies	Year 2011 (N=96)	Year 2010 (N=104)	Year 2009 (N=115)
Environment and climate	91%	89%	87%
Human rights	41%	42%	37%
Employee rights	41%	38%	35%
Anti-corruption	46%	41%	37%
Social conditions (Danish workplaces)	81%	84%	84%

Figure 5: The three dimensions of the reporting by topic (2011)[4]



Several companies apply international principles

That more companies in 2010 began to work with and report on more parameters may be related to the fact that more companies had acceded to the UN Global Compact (20% compared to 13% in 2009). For the 2011 financial year, the same 21 companies in the survey group continue to comply with the UN Global Compact.

Global Compact is based on the UN and ILO conventions and declarations in the areas of human rights, labour rights, the environment and anti-corruption and thus provides the international guidelines for CSR. It gives companies a clear and complete framework as the basis for their CSR initiatives. In 2011, a total of 18 companies in the survey group have reported on CSR by referring to their annual UN Global Compact Communication on Progress (COP). The number was 17 in 2010 and 10 in 2009.

3 The figures are from the appendices to the CBS reports for the years in question. The 2009 figures are not corrected for subsidiaries (N=115) and 2010 (N=104). The 2011 figures (N=96) do not include subsidiaries but include 21 new, randomly selected companies.

4 Policies (N=96), actions (N=70), results (N=51)

The Global Reporting Initiative (GRI) is a recognised international standard for reporting on CSR and sustainability The cornerstone of GRI is a framework tool that outlines principles and indicators that companies and organisations can use to measure and report on their environmental and social performance.

The number of companies in the survey group that use the GRI indicators in their CSR reporting remains limited but has increased in the first three years since the reporting requirement came into effect.

Table 2: The use of indicators – including GRI

	No	Yes
Year 2009	No	Yes
Use of CSR indicators (N=115)	62%	38%
Proportion using GRI (N=44)	91%	9%
Year 2010	No	Yes
Use of CSR indicators (N=104)	64%	36%
Proportion using GRI (N=37)	84%	16%
Year 2011	No	Yes
Use of CSR indicators (N=96)	62%	38%
Proportion using GRI (N=36)	75%	25%

Large unlisted companies are approaching the listed companies' level

A comparison of the listed companies with the large unlisted companies (class C) shows that the listed companies displayed significantly better performance on some of the key parameters for quality reporting in both the 2009 and 2010 financial years. However, the unlisted companies reduced the gap in 2010. In 2011, the differences between the two groups of companies have been further reduced.

Table 3: Use of international principles and reporting on expectations and results (list*ed vs. unlisted companies).*

	Listed			Unlisted		
	2011	2010	2009	2011	2010	2009
Use international CSR principles in their report	76%	56%	59%	39%	30%	20%
Report on expectations to future work	76%	69%	71%	46%	40%	25%
Report on results achieved	88%	81%	65%	53%	43%	29%

N=96 *(2011), N=104 (2010), N=115 (2009).*

*Al*though not a parameter in its own right, the use of international (recognised) CSR principles in the CSR reporting is recommended. There has been a positive development in this regard during the years 2009 – 2011 for both listed and unlisted companies. It is interesting that there has been an improvement for listed companies in the 2011 financial year compared with the previous two financial years. In 2011, 76% used international CSR principles compared with 56% in 2010 and 59% in 2009, respectively. The unlisted companies show steady progress from year to year in all three financial years, i.e. from 20% in 2009 to 30% in 2010 and 39% in 2011.

The role of the auditor
It appears that most of the companies continue to have difficulties assessing the results of their CSR work although most now describe both policies and actions. Of the companies reporting on CSR, 67% include their results while 95% describe their policies and 92% their actions.

The auditors are obliged to comment on errors and omissions in the report. In 2010, the Commerce and Companies Agency (now the Danish Business Authority) emphasised an auditor's duty to comment on errors and omissions in a company's CSR report as part of the auditor's opinion on the management review. However, in the 2011 financial year, the survey again did not find any cases where the errors or omissions identified had been commented on by the auditors.

With regard to this year's survey, the auditors should thus have commented on the four cases (3% of the annual reports) in which the companies concerned did not report at all on CSR in the management review (including failing to state that the company does not have a CSR policy).

In addition, the auditors of the companies that have disclosed certain CSR information, but not reported on all three dimensions of the legal requirement (i.e. policies, actions and results), should have commented on this. Companies with CSR policies are required to report on all three dimensions, and the auditor is required to comment if this is not the case. Despite drawing attention to the obligation of the auditor to mention such matters in the auditor's opinion, not a single example was found in the 2011 financial year where the auditor comments on instances where there are errors or omissions in the company's management review. In other words, there are a number of examples of auditors' opinions that do not fulfil the legal requirements[5]. This shows that the Danish Business Authority needs to remain focused on ensuring that companies and auditors comply with their respective legal obligations, also after the 2011 financial year.

Initiatives for improvement of the reporting
The Danish Business Authority will therefore take initiatives to support the companies in their reporting work, for example by providing incentives for the companies to improve their reports. The Danish Business Authority has allocated funds to develop a benchmark analysis of the CSR reporting of Danish companies during the 2013 – 2016 period. Such an analysis can help spread the knowledge of good reporting practices and provide opportunities for highlighting good examples.

In addition to the above-mentioned initiatives to spread the knowledge of 'best practice' within CSR reporting via a benchmark analysis and similar, the Danish Business Authority will work with the association of Danish auditors (FSR – danske revisorer) to provide further information and guidance on CSR reporting.

In principle, it is not expected that all companies will provide 100% correct reporting. This applies to the reporting on both non-financial and financial information. Both components therefore continue to form part of the Danish Business Authority's general random checks. In the long term, the digitalisation of financial statements will make it easier to assess the quality of the reports, monitor the development in reporting practices and provide targeted guidance.

---

[5] We have to point out that for financial years starting on or after 1 September 2008, an audit of the management review is no longer required. However, the auditor is required to make a statement instead. Companies are likewise required to provide a CSR report for financial years beginning on or after 1 January 2009. The precise scope of the companies' reporting obligation and the auditor's duty to provide an opinion may thus have been subject to some uncertainty.

About this report

In 2008, the Danish Parliament adopted an amendment to the Danish Financial Statements Act. This amendment obliges all large companies to disclose CSR information in their annual reports. Companies must report on the following three dimensions: 1) CSR policies; 2) how these policies are translated into actions; and 3) what the company has achieved as a result of working with CSR as well as any future expectations to the work. If a company does not have any CSR policies, this must be expressly disclosed. The company's 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 companies to take an active approach to CSR and to communicate this strategy 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 legal requirement in the 2011 annual reports of listed companies and large companies in reporting class C. The survey comprises a quantitative analysis and was planned and carried out by the Copenhagen Business School on behalf of the Commerce and Companies Agency (now the Danish Business Authority).[6]

The report is the third of its type, as similar reports were published in 2010 and 2011. The survey in question focuses on changes and improvements in reporting practice in the survey group. The survey thus looks at the development in the reports of the same companies as those included in the first year's survey.

Composition of the survey group

The survey group thus consists of the same 142 companies that were randomly selected among the (estimated) 1,100[7] companies required to report during the 2009 financial year. For the last financial year, the survey group was increased by 21 new, randomly selected companies from the original population. However, in the meantime, 13 companies have either closed or are no longer subject to Section 99a, and the total survey group for the 2011 financial year therefore consists of 150 companies (142 + 21 - 13).

Outline

This year's report includes the quantitative data regarding the companies' reporting practices with a comparison of the results for the first three years, to the extent possible. It has also been decided to increase the survey group by 21 new companies. A summary of the legal requirement for CSR reporting can be found in Appendix 1 along with an overall assessment from ATP (the Danish Labour Market Supplementary Pension Fund) in Appendix 2 of the importance of CSR reporting in the light of current experience with the legal requirement.

6 Peter Neergaard and Louise Rosenmeier, *"Communication of CSR work: A quantitative study of companies' compliance with Section 99a of the Danish Financial Statements Act and their general reporting practice for the 2011 financial year"* (Copenhagen Business School, 12 November 2012).

7 The figures are estimates and no complete assessment is available. The actual figure may be up to 1400 as estimated in last year's report (the second year since the introduction of the reporting requirement).

The survey of the companies' reporting practice

This part describes the companies' compliance with the legal requirement and their reporting practice in broader terms. The description is based primarily on a quantitative survey of the reports of the 150 companies. However, not all the financial statements of the 150 companies have been subject to a detailed analysis of the policies, actions and results of the CSR work (the three dimensions of the reporting requirement) as well as the preferred reporting topics, standards and the consistency between the choice of topics and the way they are reported.

Firstly, a small group of eleven companies still does not provide any information on CSR at all (including seven subsidiaries where the parent company reports on the entire group in accordance with the legal requirement). Of the remaining 139 companies reporting on CSR, eight companies simply state that they do not work with CSR. Accordingly, 131 companies work with CSR and have to report on this work, cf. Section 99a. This includes 35 subsidiaries that simply refer to the parent company's report, which they are entitled to do according to the Act. As the reports of the 35 parent companies have not been analysed, these companies are not included in the parts of the analysis that deal with the content of the reports. The same applied to last year's analysis where this group consisted of 26 subsidiaries. This leaves 96 companies whose CSR reports have been analysed for the 2011 financial year.

To the extent possible, this third report provides a comparison of the development in reporting practice for all three years. In some instances, the comparison has been corrected for the 21 new, randomly selected companies with the effect that only the companies in the original survey group are included in the comparison.

For the current year, no qualitative analysis has been undertaken of the companies' experience with the legal requirement. In the 2009 and 2010 financial years, interviews were carried out with nine and eight companies respectively.

The individual studies on which this report is based are available at
www.csr*gov.dk*

PART 1

The companies' reporting practice: quantitative study

The objective of this part of the report is to describe the extent to which the companies comply with the legal requirement and their reporting practice in more general terms. The intention is to compare the results of the last three years to the extent possible in order to assess whether progress has been made in the companies' reporting practice.

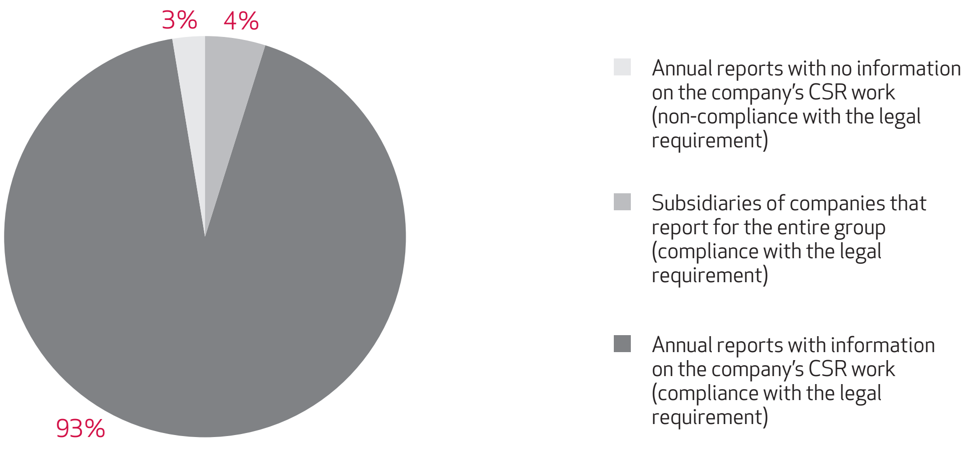
The description is based on a quantitative study of the CSR reporting of the companies in the survey group for the 2011 financial year. In 2011, the survey group consisted of the original 142 companies less 13 companies that have either closed or are no longer covered by the reporting requirement set out in Section 99a plus 21 new, randomly selected companies, i.e. a total of 150 companies.

Most companies include CSR in their annual reports

The legal requirement states that companies must supplement the management review with a CSR report or alternatively a statement that they do not have a CSR policy. As shown in Figure 1 below, 97% (146) of the companies generally comply with the legal requirement either by reporting individually or via the reports of their parent companies.

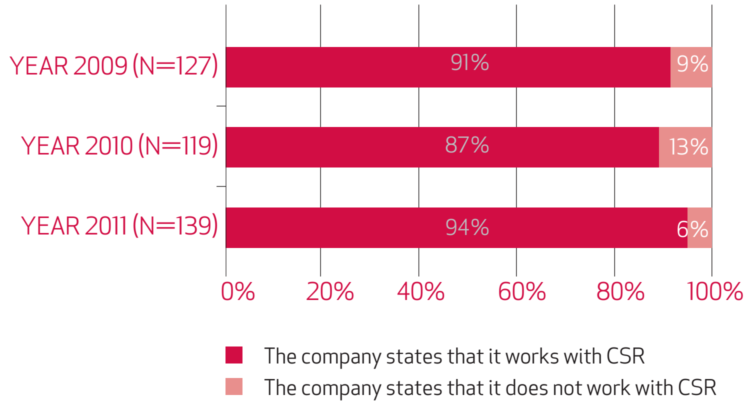
A small group of 11 companies (7%) does not provide any information on CSR. Of these, 10 are subsidiaries that have the right, according to the Act, to refrain from reporting on CSR if the parent company reports on behalf of the entire group. This applies to seven companies (4%) which thus also comply with the legal requirement. This leaves four companies (3%) that are obliged to report on CSR but nevertheless do not provide any information at all. These companies therefore fail to comply with the legal requirement. This is an improvement compared with the 2010 financial year when eight companies (6%) failed to live up to the legal requirement.

Figure 1: Compliance with the requirement for CSR reporting.



At total of 139 (equivalent to 93%) of the companies surveyed therefore report on CSR. Of these, eight companies (6%) simply state that they do not work with CSR, while 131 companies (94%) advise that they work with CSR (Figure 6).

Figure 6: Information about whether or not the company works with CSR



N=139 (2011), N=119 (2010), N=127 (2009).

A comparison with the results of the previous years shows that, on the whole, the small group that states that the companies do not work with CSR has shrunk, although there was a small increase to 15 companies (13%) in 2010. In principle, it must be assumed that if a company chooses to state that it has no CSR policy, it is because it does not have one. However, it may also be that some companies remain uncertain about whether they can live up to the legal requirement to describe not only the policy itself and its implementation (actions) but also what the company has achieved as a result of its work (results).

The actual definition of when a company has a CSR policy within the meaning of the Act, may also give rise to uncertainty in some companies and cause them to conclude that they have no CSR policy. However, no information is available in this regard.

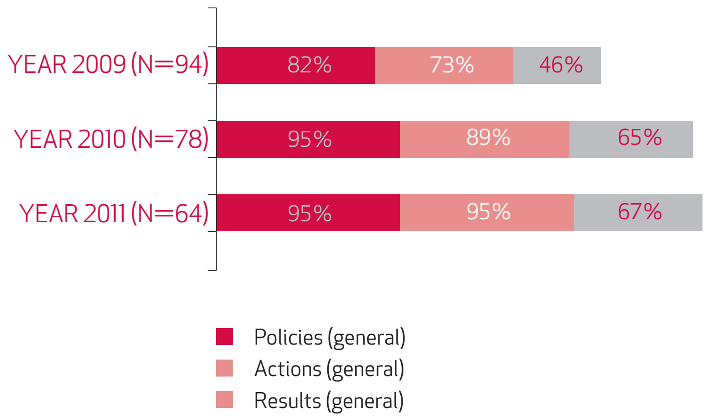
More companies report on policies, actions and results (all three dimensions)

The report must include information on the company's CSR policies, how the company translates its CSR policies into actions, and the company's assessment of the results of its CSR work during the financial year as well as any future expectations to this work. However, it is not compulsory to describe the company's expectations.

Based on the three financial years since the introduction of the reporting requirement, it appears that a number of the companies have had difficulty covering all three dimensions of the report. There was nevertheless a significant improvement in all three dimensions between 2009 and 2010. This improvement was maintained between 2010 and 2011. The survey shows that the vast majority of the companies in the survey group now report on both the CSR policies and the way they have been implemented. In the 2011 financial year, 95% of the companies in the survey group described their policies, and 92% described how they implement them.

As in previous years, the main challenge for the companies has been to explain what they think they have achieved with their CSR work. Also in this regard, the main improvement took place between the 2009 and 2010 financial years where the proportion of companies in the survey group that included their results in their CSR report increased from 46% to 65%. For the 2011 financial year, the proportion of companies that include their results in the report has remained largely unchanged, i.e. 67%, cf. Figure 3.

Figure 3: The three dimensions of reporting - development in the survey proup[8]



As this is the third financial year in which the companies in the survey group are subject to the reporting requirement, there are hardly any companies left that report for the first time. Only three of the companies (2%) report for the first time. Most of the companies thus already have experience with reporting from previous years.

The share of companies reporting for the first time was thus much greater in the 2009 financial year (43%), which may have been a contributing factor to the improvement in the reporting on results in 2010. A number of these companies may therefore not have had any results to report on until 2010. However, this does not explain why some of the companies still do not report on their results.

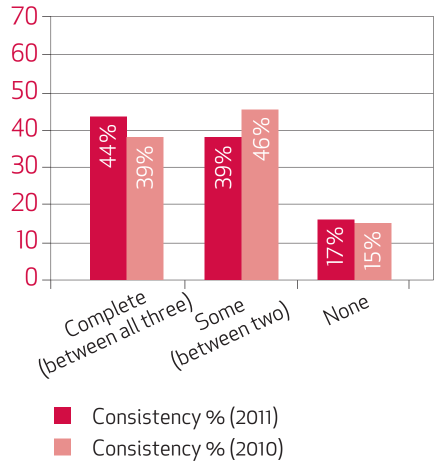
An alternative explanation could be that some of the companies simply find it too difficult to assess the results of their CSR work, perhaps because they find them difficult to measure. They may think that results have to be quantifiable, certain and verifiable. This is not a requirement; however, and the companies only need to provide their own subjective assessments, including any explanations of why the results may not be measurable or quantifiable. It can therefore be assumed that all the companies complying with the two other dimensions in the report (policies and actions) would be able to also fully comply with the reporting requirement's third dimension (results) at limited costs.

8 The figures N=78 (2010) and N=94 (2009) have been corrected for subsidiaries. The 2011 figures have also been corrected for subsidiaries and for the 21 new, randomly selected companies with the effect that N=64 consists of the 78 companies from 2010 minus six companies that closed and eight companies that reported independently in 2010 but in 2011 chose to refer to their parent company's report. See Table 6, CBS report (12 November 2012).

Consistency between topics and the three dimensions of the reporting requirement
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 company reports on its environmental policy, for example, the information on activities and results must cover the same area. As a result of the problems with compliance with this part of the legal requirement in the 2009 accounts, the survey for the 2010 financial year was supplemented with questions about consistency.

The survey for the 2011 financial year shows that relatively few companies (17% or 12 companies) have no consistency at all in their reporting. This analysis is based on the companies that, as a minimum, have described actions for different topics.

Figure 7: Consistency between topics and the three dimensions of the reporting requirement



2011: N=70, 2010: N=78[9]

However, there has been no major development from 2010 to 2011. The level of consistency in the last two financial years therefore appears to be relatively stable.

Key issues relation to CSR reporting
The requirement to CSR reporting set out in the Danish Financial Statements Act does not specify that the companies should report on specific topics. In principle, each individual company should decide on its own which topics they consider most relevant for the report.

The UN Global Compact is an internationally recognised frame of reference based on the ten key principles for CSR and CSR reporting. These principles are divided into four areas: human rights, labour rights, the environment and anti-corruption. When designing the report, the status of the company in terms of observance of the ten UN CSR principles will therefore often be a useful benchmark.

Figure 8 shows that the environment and climate (91%) and social conditions at Danish workplaces (81%) are still by far the most common topics in the reporting on policies for the

[9] For 2011, N=70 includes only the companies that report on how they translate their CSR policies into actions. See Neergaard and Rosenmeier (2012), question 20 in the appendix. For 2010, N=78 corresponds to 104 companies with policies, excluding 26 subsidiaries. The figures are therefore not fully comparable. No data is available for 2009.

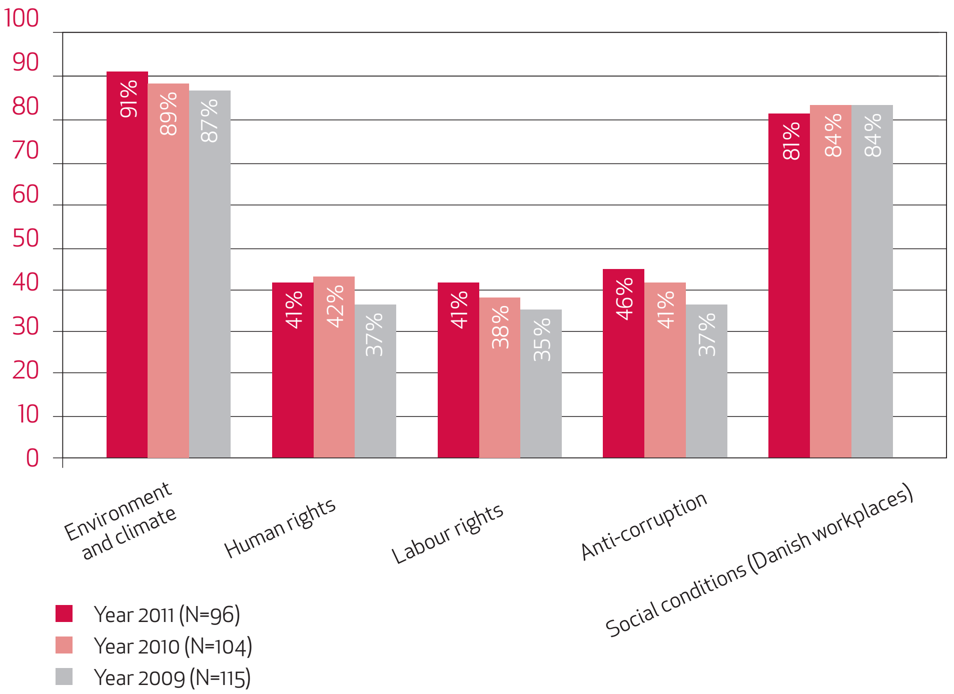
2011 financial year. A number of companies report on human rights (41%) and labour rights (41%), but there has been no significant development since the 2010 financial year.

In February 2010 the Commerce and Companies Agency (now the Danish Business Authority) conducted a survey of the CSR performance of 1,000 Danish companies[10]. The survey showed that environment and climate is one of the topics Danish companies work most with. The companies find it more difficult to work with the three other areas covered by the UN Global Compact (i.e. human rights, labour rights and anti-corruption).

The introduction of the UN Guiding Principles for Business and Human Rights may motivate more companies to include their work to respect human rights in their CSR report. With effect from the 2013 financial year, companies thus have to report on the topics of human rights and climate, two of the main CSR areas in the UN Global Compact.

If a company has a policy on human rights and climate, these topics should already be covered in the CSR report according to existing rules. In reality, the tightening of the rules in Section 99a thus means that the companies must state in their management review if they do not have a policy on human rights and climate. This tightening of the rules is expected to motivate the companies to further consider the importance of the two areas, formulate a policy and report on it, unless they have already done so.

Figure 8: Distribution of key reporting topics (policies) 2010 – 2011



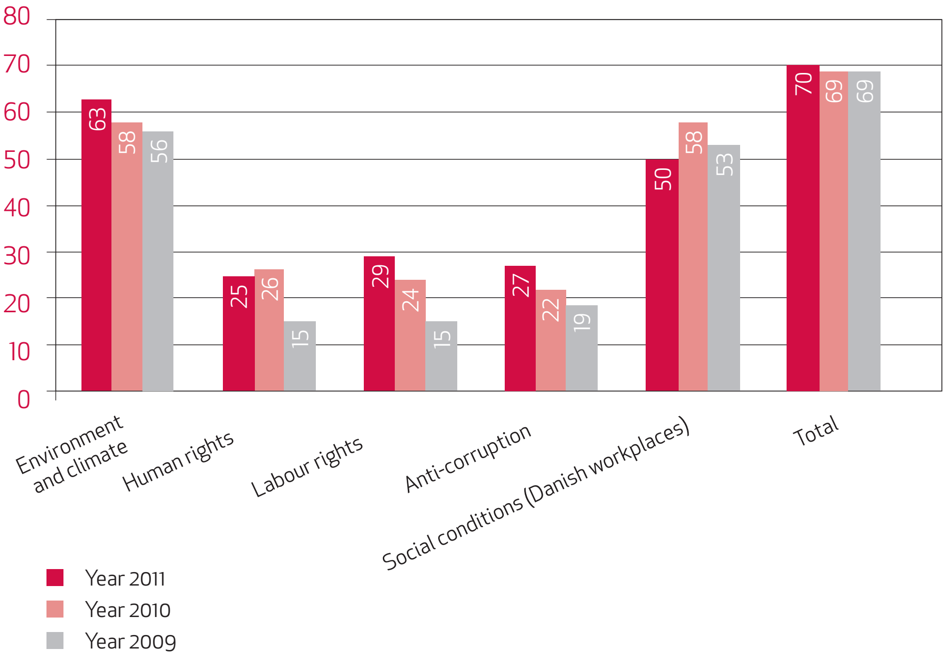
[10] The Danish Council on Corporate Social Responsibility, "Rapport om Dansk erhvervslivs indsats inden for samfundsansvar" (Report on the CSR work of the Danish business sector). (February 2010).

There does not appear to be any particular development with regard to the survey group's choice of the above-mentioned key reporting topics, but this is not surprising given that the survey group consists of a rolling group of participants. On the other hand, there is an obvious development in the description of the companies' work in several of the mentioned key areas.

The companies' description of their work in key areas

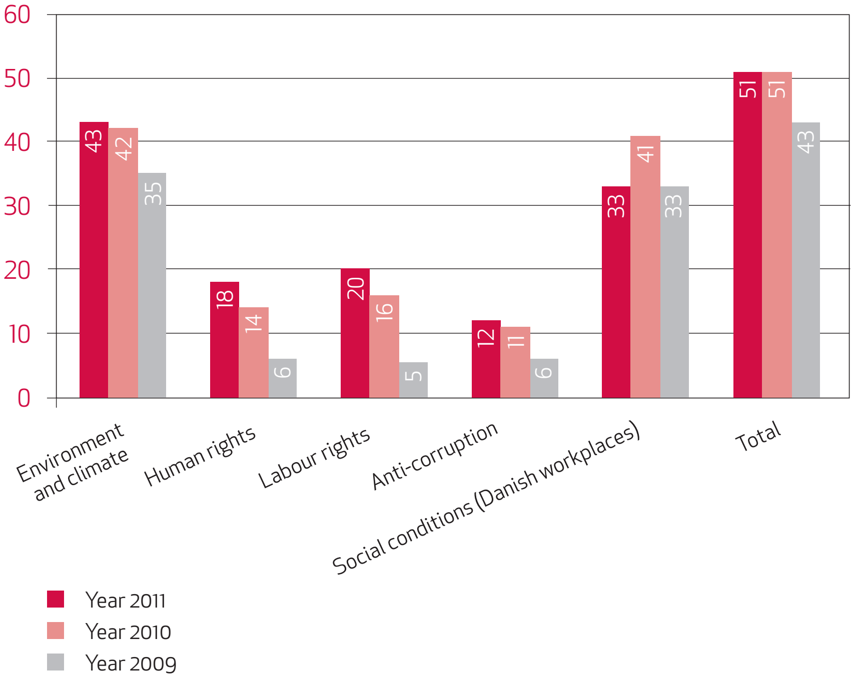
In general, the companies in the survey group have become better at reporting on their actions in the mentioned areas (see Figure 9). There is thus a noticeable improvement in the way they explain the action taken, in particular with regard to labour rights with 29 companies reporting on their actions in 2011 compared with 15 companies in the 2009 financial year. There is also a significant improvement with regard to anti-corruption where the number of companies reporting on their actions increased from only 19 in 2009 to 27 in 2011. In terms of human rights, the number has increased from 15 companies in 2009 to 25 companies in 2011. The development is less significant within the areas of social conditions (Danish workplaces) and environment and climate, both of which are more common reporting topics in general. The number of companies in the survey group reporting on actions relating to social conditions was even lower in 2011 (50) than in 2010 (58) and 2009 (53).

Figure 9: Reporting on actions by topic (2009 – 2011)
(Number)[11]



[11] Absolute figures have also been used in Figure 9, as the calculation of the reports on actions for the different topics is based on the smaller group of companies that reported on their actions. N=70 (2011), N=69 (2010) and N=69 (2009).

Figure 10: Reporting on results by topic (2009 – 2011)
(Number)[12]

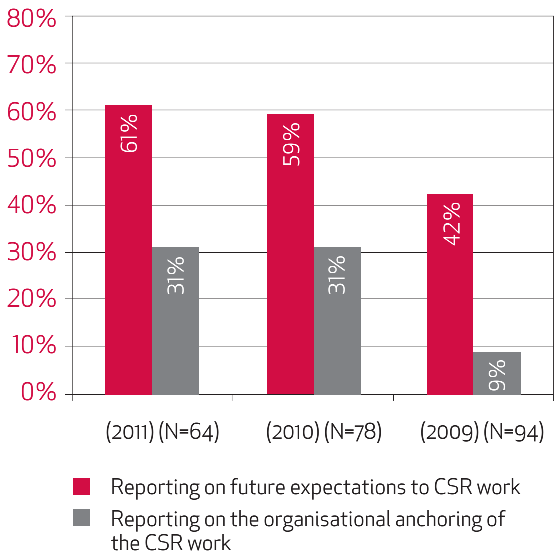


Of the three dimensions of the reporting requirement, the one that has caused the companies most difficulties in all three financial years is the reporting on the results of the work (Figure 10). However, good progress can be seen with regard to most topics except social conditions, which in 2011 dropped back to the 2009 level after some progress in 2010.

Apart from this area, there has been progress in the reporting on results for all other topics. In 2011, 12 companies reported on their work with anti-corruption compared with six companies in 2009. In 2011, 20 companies reported on their results within labour rights compared with only five in 2009, and similar progress is noted with regard to human rights with 18 companies reporting on their results in 2011 compared with only six companies in 2009. There is also good progress within environment and climate, although somewhat less significant.
Even though it is not a legal requirement, several companies also disclose their expectations to future work on CSR and the organisational status of this work. There has been almost no development in these two parameters in the last two financial years (Figure 11). The information on organisational status can be 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 (2010).

[12] Absolute figures have also been used in Figure 10, as the calculation of the reports on actions for the different topics is based on the smaller group of companies that reported on their results. N=51 (2011), N=51 (2010) and N=43 (2009).

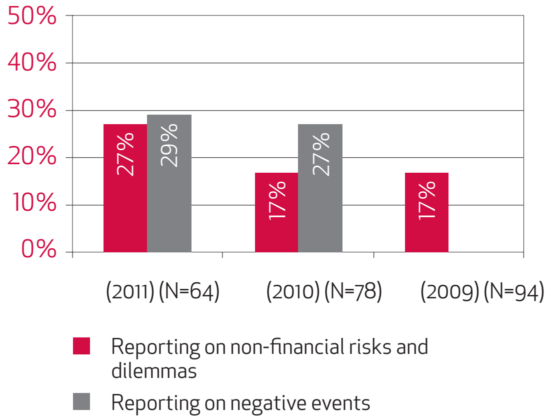
Figure 11: Reporting on organisational achoring of CSR work and expectations to future work



(Without subsidiaries)

Another important disclosure that is not a legal requirement is information concerning risks and dilemmas and negative events and problems in relation to the company's CSR work (Figure 12). Most companies will encounter challenges and difficulties in their CSR activities. A company that openly discloses information on these factors will increase the credibility of its CSR reporting significantly. In the 2011 financial year, 27% provided this information, which is an increase compared with previous years where the figure was 17% in both 2009 and 2010. As regards the reporting on negative events, the 2011 level is more or less the same as in 2010, i.e. 29% in 2011 and 27% in 2010.

Figure 12: Reporting on non-financial risks and dilemmas as well as negative events



(Note: No data is available on negative events for 2009).

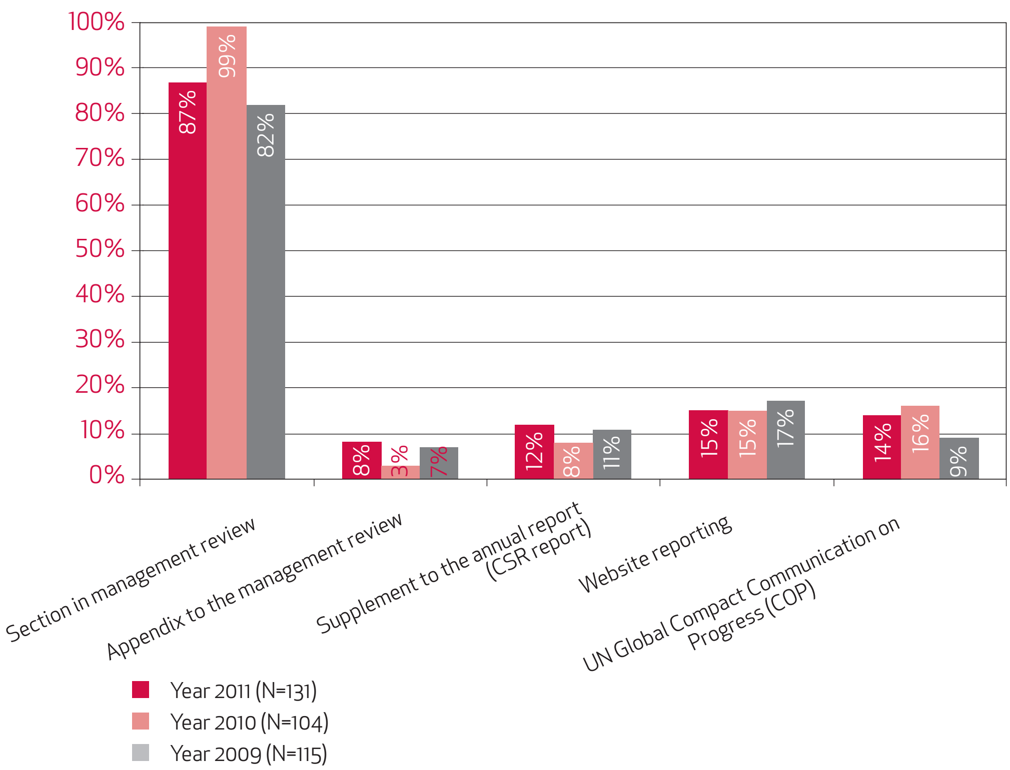
Where do the companies place their report on CSR?

The legal requirement states that the CSR report must be published as part of the management review, or reference must be made to the report in the management review. The actual CSR report may be attached as a supplement to the management review, published on the company's website, or provided as a UN Global Compact progress report, the so-called "Communication on Progress" (COP). Members who have acceded to the UN's principles for responsible investment called "Principles for Responsible Investment" (PRI) may refer to their annual PRI report. However, almost no companies in the survey group do that at this stage.

Figure 13 shows some of the channels the companies can use to communicate their report on CSR. The survey comprises all the 131 companies that have stated in the 2011 financial year that they work with CSR. As shown, the vast majority chooses to place the report in their management review. In 2011, this applied to 87% of the companies compared with an impressive 99% in 2010 and 82% in 2009.

In both 2011 and 2010, 15% report on the company's website against 17% in 2011, which must be regarded as largely unchanged. Slightly more (8%) than in 2010 (3%) place their report in an appendix to the management review, while 12% use a supplement to the annual report (CSR report). In 2010, this only applied to 8% of the companies, but the level has largely remained unchanged compared to 2009 when 11% chose this option.

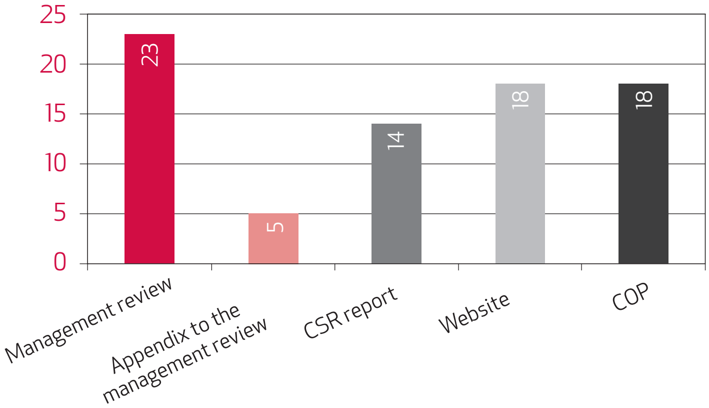
Figure 13: Location of the CSR report



The number of companies referring to their annual progress report (COP) to the UN Global Compact remains relatively low. It applied to 14% of the companies in 2011, 16% in 2011 and 9% in 2009. Several companies publish their CSR reports in more than one way.

A group of companies report on CSR via more than one channel.
The reason for the slight drop in the use of the management review for CSR reporting may be that some of the companies have begun using other channels and several different channels for their reporting. We emphasise that it is important under all circumstances that the information on CSR can be found in one place regardless of the channels used and regardless of whether the companies choose to publish their information in more than one way. The increased use of several channels is nevertheless an indication that some companies attach great importance to their reporting on their CSR work. The changes in the choice of reporting channels in the survey group are, however, of limited scope.

Figure 14: Companies with more than one channel (number = 28 in total, 2011)



It should be noted that the small group of 28 companies using more than one channel for their CSR reporting includes the 18 companies reporting via COP. Of a total of 15 companies with an actual CSR report, 14 therefore also belong to this group (Figure 14). According to CBS, this group can be described as 'frontrunners' as their reporting is typically relatively comprehensive. A number of large Danish companies known for their CSR reporting belong to this group, but it also includes companies not known to the general public[13].

Indicators are still not very prevalent – very few use GRI
As was the case for 2010 and 2009, the companies still mostly provide a qualitative description of what they have achieved with their CSR work. In 2011, 38% of the companies used CSR indicators compared with 36% in 2010 and 38% in 2009. Only a few companies use or report in accordance with GRI indicators, but a slight increase has nevertheless taken place as only 25% (of those using indicators) used GRI in 2011 compared with 6% in 2010 and 9% in 2009. (See table 4).

13 Neergaard and Rosenmeier (CBS, 2012) page 10.

Table 4: The use of indicators – including GRI

	No	Yes
Year 2009	No	Yes
Use of CSR indicators (N=115)	62%	38%
Proportion using GRI (N=44)	91%	9%
Year 2010	No	Yes
Use of CSR indicators (N=104)	64%	36%
Proportion using GRI (N=37)	84%	16%
Year 2011	No	Yes
Use of CSR indicators (N=96)	62%	38%
Proportion using GRI (N=36)	75%	25%

Use of international CSR principles

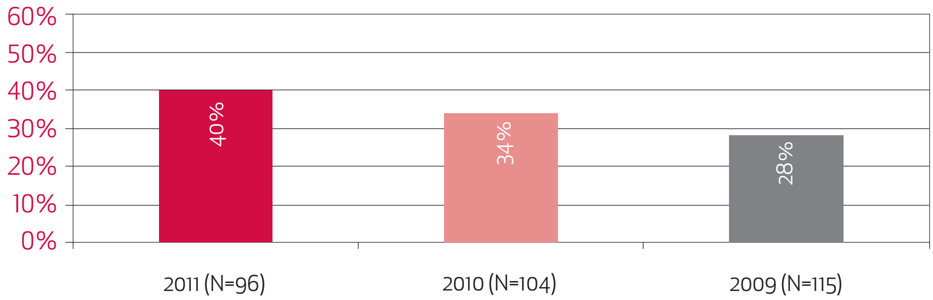
It is still more common in 2011 to apply other international CSR principles such as the UN Global Compact or the OECD's Guidelines for Multinational Enterprises as inspiration for the companies' reporting.

The use of such principles as inspiration for the CSR report has increased relatively significantly since 2009. In 2011, 40% of the companies thus used international principles compared with 34% in 2010 and 28% in the 2009 financial year (Figure 15).

The use of international principles increased compared with 2010 although there was no increase in the number of companies reporting to the UN Global Compact, and the support for the latter appears to stagnate. It is difficult to assess whether more companies are likely to accede to the UN Global Compact, but the development in and growing focus on international CSR principles in general will probably make the use of such principles more common in the future.

There is thus an increased focus on the UN's "Guiding Principles on Business and Human Rights" and the OECD's "Guidelines for Multinational Enterprises". The first-mentioned principles have now been integrated and formed the basis for the Mediation and Complaints-handling Institution for Responsible Business Conduct, which was established in 2012 (with commencement date on 1 November 2012).

Figure 15: Use international CSR principles



(e.g. Global Compact, OECD, PRI and similar)

Large unlisted companies are catching up with the listed companies

A comparison between the listed companies and other large companies subject to the reporting obligation shows that, in keeping with last year, the listed companies are performing significantly better. The survey also shows, however, that the unlisted companies are catching up with the listed companies (Table 3).

Of the listed companies, 76% used international CSR principles for their reporting in 2011 compared with 56% in 2010 and 59% in 2009, respectively. The equivalent figure for the large unlisted companies has increased from 20% in 2009 to 39% in 2011.

As regards the reporting on the expectations to future CSR work, the unlisted companies show a significant improvement, as 46% of these companies reported on their expectations in 2011 compared with only 25% in 2009. The improvement among listed companies was less significant but remains at a somewhat higher level with 76% reporting on their expectations in 2011 compared with 71% in 2009.

When it comes to the critical issue of reporting on the results of the work, the unlisted companies also show significant improvement. Of the unlisted companies, 53% include their results in their 2011 CSR report compared with only 29% in 2009. On this point, the listed companies have also improved significantly but the main improvement took place between the first and second year after the introduction of the reporting requirement, and the proportion reporting on results has only increased from 81% in 2010 to 88% in 2011.

Table 3: Use of international principles and reporting on expectations and results (Listed vs. unlisted companies).

	Listed companies			Unlisted companies		
	2011	2010	2009	2011	2010	2009
Use international CSR principles in their report	76%	56%	59%	39%	30%	20%
Report on expectations to future work	76%	69%	71%	46%	40%	25%
Report on results achieved	88%	81%	65%	53%	43%	29%

N=96 (2011), N=104 (2010), N=115 (2009).

Auditor's opinion on the management review

At the end of the 2009 financial year, the then Commerce and Companies Agency (now the Danish Business Authority) drew attention to an auditor's duty to comment on errors and omissions in a company's CSR report as part of the auditor's opinion on the management review.

The auditor's statement on the management review includes the management's CSR report and is an integral part of the auditor's overall opinion on the management's review, no matter how the company publishes the report. The Executive Order on approved auditors' opinions (Danish Executive Order on Opinions Given by State-Authorised and Registered Public Accountants) states that the auditor's opinion must include a description of any significant errors, misstatements and omissions in the management review prepared by the management 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 disclosed in the management review…

Errors may include that information in the management review that is subject to the legal requirement is not provided in the correct way. The auditor is expected to find any errors, misstatements and omissions on the basis of an inspection of the management review. It is assumed that the auditor is aware of the regulations governing the management review, such as the requirements laid down in the Danish Financial Statements Act."

With regard to this year's survey, the auditors should thus have commented on the four cases (3% of the annual reports) in which the companies concerned did not report at all on CSR in the management review (including failing to state that the company does not have a CSR policy).

In addition, the auditors of the companies that have disclosed certain CSR data, but not reported on all three dimensions of the legal requirement (i.e. policies, actions and results), should have commented on this. Companies with CSR policies are required to report on all three dimensions, and the auditor is required to comment if this has not been done. Despite drawing attention to the obligation of the auditor to mention such matters in the auditor's opinion, not a single example was found in the 2011 financial year either, where the auditor comments on instances with errors or omissions in the company's management review. In other words, there are a number of examples of auditors' opinions that do not fulfil the legal requirements[14].

[14] We have to point out that for financial years starting on or after 1 September 2008, an audit of the management review is no longer required. However, the auditor is required to make a statement instead. Companies are likewise required to provide a CSR report for financial years beginning on or after 1 January 2009. The precise scope of the companies' reporting obligation and the auditor's duty to provide an opinion may thus have been subject to some uncertainty

APPENDIX 1 Act on CSR reporting

The Danish Parliament adopted the proposed "Bill amending the Danish Financial Statements Act (Accounting for CSR in large businesses)" on 16 December 2008. The Act came into force on 1 January 2009 and applies to financial years starting on or after 1 January 2009. The amendment of the Act means that large 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 will help to improve the international competitiveness of Danish commerce and industry.

The Act applies to large businesses in reporting class C and public limited companies and state-owned public limited companies in reporting class D. Large businesses in reporting class C are companies which exceed at least two of the following three size limits:

- A balance sheet total 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 behalf of the whole group.

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

What has to be reported?
Companies with CSR policies must include the following information in their report:

- The company's CSR policies, including any CSR standards, guidelines or principles applied by the company.
- How the company translates its CSR policies into actions, including any systems or procedures used.
- The company's assessment of what it has achieved as a result of CSR initiatives during the financial year, and any future expectations to these initiatives.

If the company has no CSR policy, this must be expressly disclosed.

How is the information to be published?
The CSR report is part of the management review section of the annual report but can 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 with a clear reference to the appendix in the management review.
- The report is published on the company's website with a clear reference in the management review.
- The report is published as a UN Global Compact Communication on Progress report (COP) or a PRI report on progress with a clear reference in the management review.
- The report is published as a supplement to the annual report with a clear reference in the management review.

As far as the last-mentioned bullet point is concerned, companies that prepare an independent report on their CSR work may attach this as a supplement to the annual report or publish it on the company's website. This requires, however, that the report meets the above-mentioned requirements. If the company chooses the option of referring to a COP to the UN Global Compact or a PRI report on progress, it is exempt to a certain extent from complying with the provisions in Section 99a on publication, as the form, content and publication in that case must comply with the rules that apply to these other reports. Both a COP to the UN Global Compact and a PRI report may be in English, whereas reports that comply with the Danish Financial Statements Act must be in Danish. Although it is possible to include the information on CSR in other documents than the annual report, the documents in question must be available to users of the annual report at the same time as the annual report.

Auditor's statement on the report
The auditor's opinion on the CSR report is an integral part of the auditor's overall opinion 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 company's 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 company websites, etc. The auditor must thus check the following:

- That the management review contains information stating that the business has elected to publicise the report on the company's 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 company's annual report, and that it states the relevant financial year.

If the company elects to refer to a UN Global Compact or PRI progress report, the auditor is obliged furthermore to check that the company complies with the conditions for utilising this exception, including the following:

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

APPENDIX 2 ATP's assessment of CSR reports

(Prepared by Head of ESG Ole Buhl, ATP)

The Danish Business Authority has asked ATP to answer three general questions about how investors view the companies' statutory CSR reports.

When preparing the report, the companies are in a situation where they are required to balance several considerations and stakeholders. The following exclusively focuses on what ATP would require as an investor in connection with the legally required CSR reports.

ATP's answers to the questions should be viewed in the context that ATP assessed 20 selected companies in both 2010 and 2011 to evaluate the development in the quality of the companies' statutory CSR reports.

What is the benefit of the companies' CSR reports (in connection with investments in a given company)?

ATP believes that a focus on CSR in connection with investments can protect and increase returns on ATP's investments. Investing in a company with a business-oriented approach to CSR represents an opportunity to increase the value of ATP's investments. Any company that fails to focus on CSR – especially the basic principles and norms apparent from international conventions, etc. – represents a risk that threatens ATP's investments.

A company's CSR report is one of the sources used by ATP to assess the company's work with CSR.

ATP concludes that it is impossible in reality to develop a detailed report model that fits all companies regardless of industry, size and approach to CSR work.

On that basis, ATP is of the view that factors such as flexibility and simplicity are essential when designing a standard reporting model for the companies' CSR reports.

As far as these factors are concerned, the Danish model for companies' legally required CSR reports must be described as quite successful.

What information is of particular importance to the users of annual accounts when assessing whether an investment in a company would be socially responsible?

Based on the idea of business-driven CSR, ATP is of the view that companies should report on the matters they consider particularly relevant to them.

In view of the different challenges and prioritisations of the companies, 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 companies' CSR initiatives.

Which area do the users of the annual accounts regard as having the most development potential for the companies?

It is no surprise, and also borne out by ATP's previous assessments of the CSR reports of 20 companies, that there is considerable variation in how the companies covered by the Act choose to prepare the report.

For a large number of the companies, studying and learning from the reports of other companies present an obvious development potential.

In general, ATP finds that adding more information and increasing the scope of the report does not represent the main development potential with regard to the companies' CSR reports.

For ATP, a special advantage of the general Danish reporting model is precisely that it gives the user of the account a summary and overview of the company's work. From ATP's point of view, it would be an advantage if the companies produced a more detailed and in-depth report on special aspects of the companies' CSR work separately from the CSR report.

Finally, it is important to emphasise that according to ATP the main general development potential in the introduction of CSR reports is and should continue to be the incentive it provides for internal dialogue in the companies on how CSR can best be integrated in company operation and development.

Corporate Social Responsibility and Reporting in Denmark:
Impact of the third year subject to the legal requirements for reporting on CSR in the Danish Financial Statements Act

Published by the Danish Business Authority, March 2013.

The PDF version is available at **www.csrgov.dk**

The report was prepared by the Danish Business Authority on the basis of a survey conducted by the Copenhagen Business School:

Peter Neergaard and Louise Rosenmeier, "Communication of CSR work: A quantitative study of companies' compliance with Section 99a of the Danish Financial Statements Act and their general reporting practice for the 2011 financial year". (Copenhagen Business School, 12 November 2012).

ERHVERVSSTYRELSEN

Copenhagen Business School
HANDELSHØJSKOLEN

For further information please contact:

The Danish Business Authority
Dahlerups Pakhus
Langelinie Allé
DK-2100 Copenhagen Ø
Tel: +45 35 29 10 00

NORDISK MILJØMÆRKNING
TRYKSAG
541 176