

Corporate Social Responsibility and Reporting in Denmark

Impact of the legal requirement for reporting on
CSR in the Danish Financial Statements Act

Foreword

Our world is faced with challenges, such as hunger, poverty and climate change, that transcend national and geographical barriers. Therefore, it has become increasingly important for governments to engage in partnerships that enable the creation of innovative solutions to prevent and solve these global challenges. Corporate Social Responsibility (CSR) is one means to overcome some of these challenges. Governments need to promote CSR and motivate businesses to engage in it as an integrated part of their business strategy. This can be achieved by governments creating policies and frameworks in active dialogue with stakeholders. Moreover, emphasis should also be on the establishment of a favourable business climate that encourages business opportunities, as well as market transparency. To increase businesses' focus on CSR initiatives, governments should also provide them with information, tools and training within this area. I conveyed these thoughts and suggestions, when I participated in and hosted an international conference regarding governments' role in promoting CSR, at the UN's Global Compact 10 year anniversary in June 2010.

With the aim of motivating and inspiring Danish businesses to take an active position on CSR and communicate it to the surrounding world, the Danish Parliament passed a bill in 2008 that makes it mandatory for the approx. 1,100 largest businesses, listed businesses and stateowned public limited businesses to report on CSR in their annual reports on a comply or explain basis. Businesses have to inform about their CSR practices or state that they do not engage in CSR.

This is the first year where Danish businesses are obligated to report on CSR. This report presents the main conclusions from a series of studies of nonfinancial businesses' implementation of the legal requirement in their 2009 annual report. The report shows that the legal requirement has had a positive effect on businesses' work with CSR, and that the majority of the businesses examined are working with CSR. Even though the legal requirement has led to administrative burdens, the report points to the fact that businesses still regard it as positive, as it is flexible and they understand its purpose. Nevertheless, the legal requirement still poses some challenges. It is the belief of the Danish government that the legal requirement marks the starting point for increased reporting on CSR, and in the forthcoming years the government intends to encourage progress and improvement of Danish businesses' CSR work and reporting.

The Danish government wishes to continuously support and motivate Danish businesses to strengthen and develop their CSR endeavours. But Danish businesses are part of a European and international community, and the Danish government believes that in order to fully unfold the potential of CSR, we have to create the necessary framework not just at the national level, but also at the European and international level. We hope that by sharing our knowledge and experience, other countries will be inspired in their own efforts to develop CSR policies, as we ourselves have been inspired by other countries' initiatives and experiences.

The serious global challenges we are facing necessitate action from both governments and businesses to ensure responsible growth. CSR transparency and disclosure, as stated by the Danish legal requirement, is a means to encourage sustainable leadership, not by enforcing specific actions, but simply by requiring businesses to inform their stakeholders about their choices with regard to sustainability and responsibility.

Brian Mikkelsen
Minister for Economic and Business Affairs
August 2010

Executive summary

In 2008 the Danish Parliament (Folketinget) passed an amendment to the Danish Financial Statements Act. According to the new Act, approx. 1,100 large businesses in Denmark must include reports on the following three dimensions in their annual report: 1) Corporate Social Responsibility (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 expectations for the future (if any). If the business has no CSR policy, this must be explicitly disclosed. The objective of the legal requirement is to encourage businesses to take an active position on CSR and communicate this to their surroundings.

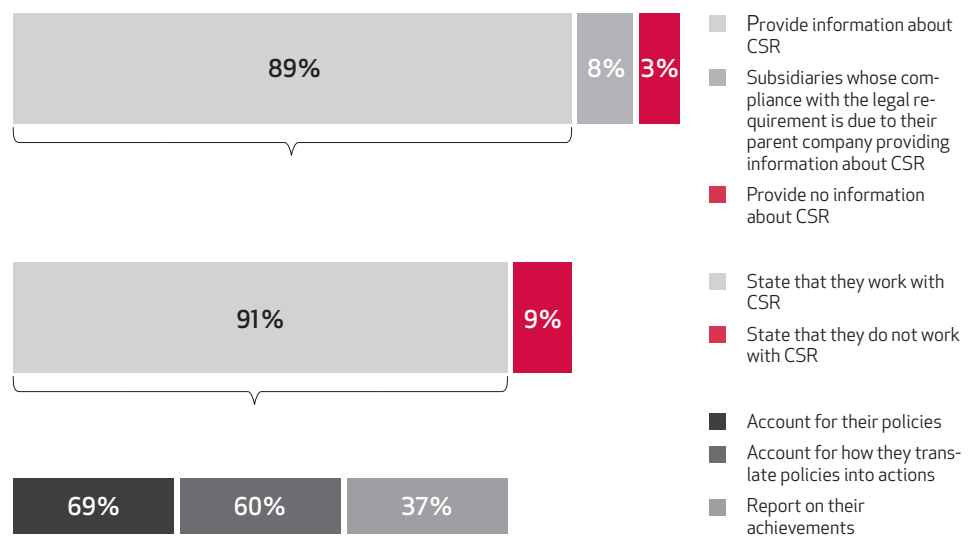
This report presents the main conclusions of a survey of businesses' implementation of the new legal requirement in their 2009 annual reports. The survey has been prepared by the Danish Commerce and Companies Agency, The Institute of State Authorized Public Accountants in Denmark and Copenhagen Business School, and consists of a range of qualitative and quantitative studies.

The report describes both businesses' reporting practices and their experience of working with the legal requirement.

Businesses' reporting practices

On the basis of quantitative studies, the report describes businesses' reporting practices with focus on compliance with the legal requirement.

97% of the businesses that are subject to the legal requirement comply with it. 8% of the 97% are subsidiaries who comply with the legal requirement by default of their parent company providing information about CSR on behalf of the entire group. Thus, the reporting businesses consist of 89% of the businesses examined. 91% of the reporting businesses state that they work with CSR, while 9% state that this is not the case. The majority of the 91% of businesses, which work with CSR, account for their policies and actions, while 37% account for achievements resulting from work with CSR. For the vast majority of businesses, the CSR reports are located in the management review itself. The figures can be illustrated thus:



43% of the businesses account for CSR in the annual report for the first time. Several businesses have, however, previously reported on CSR-related issues in contexts other than the annual report.

“Environment and climate” and “social conditions aimed at Danish workplaces” are the themes most frequently accounted for. In all probability, this correlates with the fact that “environment and climate” is the area of CSR that Danish businesses most often work with.

28% of the businesses make use of international CSR principles – and, in particular, the UN Global Compact – as sources of inspiration for their reports.

The share of businesses which account for policies, their translation into actions, what has been achieved as a result of working with CSR and expectations for future CSR work, is significantly higher among listed companies than among companies that are not listed. This tendency also applies for the use of international CSR principles and indicators, including GRI.

Businesses’ experience with the legal requirement

The survey’s qualitative studies focus on how the businesses experience the legal requirement. The studies reveal that the legal requirement has had a positive effect on several of the businesses’ work with CSR issues. Examples have been found to indicate that the legal requirement has provided businesses with an opportunity to start working with CSR, to increase focus on this area, to better systematise existing work and has given businesses a basic framework for their work with CSR.

The task of preparing the report is typically decentralised and this means that the chosen department in the organisation responsible for preparing the CSR report varies widely. The vast majority of businesses have used social and environmental data and key figures that are already calculated and in use within the organisation. Furthermore, the businesses have culled much of their inspiration for preparation of their report from external sources.

The businesses have faced a number of challenges during the process of reporting on CSR in their annual report. The most significant challenges include processing large quantities of data and ensuring data validity, selecting the right level and angle for communication, and organisational challenges associated with a lack of resources and commitment.

The general lack of reporting on what has been achieved as a result of working with CSR is typically due to the fact that the businesses either have only recently begun to work with CSR, or have not previously worked in a sufficiently structured way to provide measurement criteria for use in the report. At the same time, several businesses find it difficult to measure their achievements. Moreover, some businesses have not been aware of the fact that, if they have CSR policies, they are obliged to report on all three of the legal requirement's dimensions in the first year after commencement of the legal requirement.

Businesses that do not use international CSR principles as a source of inspiration or framework of reference for their report state that the most important impediments are that they would have to invest many resources in adapting the company's activities to international principles and that these principles are not easily workable for non-manufacturing companies or businesses which operate exclusively in Denmark.

The administrative burdens associated with CSR are 7-8 times higher than was expected before the bill was passed. The businesses' recurring costs depend on the type of reporting chosen and vary between EUR 871 and 4,383 per business. The businesses assess that the amount of time spent on reporting on policies and their implementation will remain the same or increase in connection with the next report.

The extent to which administrative burdens are considered burdensome is limited, as businesses have generally reacted positively to the new legal requirement for CSR reporting to be included in the annual report, even though the same legal requirement entails increased administrative burdens. A number of businesses express satisfaction with the wording of the legal requirement in that, to a great extent, businesses are free to decide on the form and content of their report.

The Danish Labour Market Supplementary Pension Scheme (ATP) has assessed a number of annual reports. ATP believes that many businesses have got off to a good start in terms of legally-required CSR reporting. ATP underlines that many businesses have described the processes they are undergoing in detail, including the challenges they face and future targets. At the same time, ATP points to a number of areas in which there is potential for improvement, including better descriptions of businesses' CSR policies and of how the day-to-day CSR work is organised.

About this report

In 2008 the Danish Parliament (Folketinget) introduced an amendment to the Danish Financial Statements Act,¹ which obliges all large businesses to include information about Corporate Social Responsibility (CSR) in their annual report. Businesses must account for 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 expectations for the future (if any). If the business has no CSR policy, this must be explicitly disclosed. A statement from the auditor is required, confirming that the legal requirement for reporting has been appropriately observed.² 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 in the international competitive arena.

This report presents the main conclusions of a survey investigating the implementation of the new legal requirement in annual reports for 2009 among listed companies and large businesses in accounting class C.³ The survey consists of a number of quantitative and qualitative studies and has been compiled and produced as a cooperative project between the Danish Commerce and Companies Agency, the Institute of State Authorized Public Accountants in Denmark and Copenhagen Business School.

The report is divided into three parts:

Part 1: Businesses' reporting practices

This part describes how the businesses comply with the legal requirement and their reporting practices more broadly. The description is based primarily on the following studies:

- A quantitative study of observance of the legal requirement and general reporting practices in a random selection of 10%⁴ of the annual reports subject to the legal requirement.⁵
- A quantitative study of auditors' evaluations of their clients' compliance with the legal requirements and general reporting practices.⁶

Where relevant, the information is compared with a survey of CSR activities in Danish trade and industry compiled for the Danish Commerce and Companies Agency in February 2010 among 1,000 Danish businesses.

¹ Danish Act No. 1403 of 27 December 2008.

² See detailed description of the legal requirement in Appendix 1.

³ The survey includes subsidiaries which are subject to the legal requirement and comply with this either by providing information about CSR themselves or by having a parent company that provides information on behalf of the entire group.

⁴ According to Copenhagen Business School, a random sample of 10% is adequate for the purposes of scientific studies.

⁵ The study has been carried out by the Center for Corporate Social Responsibility at Copenhagen Business School. The survey was made twice as it was initiated before the 31 May deadline for delivery of annual reports. During the month of May, the survey was carried out using annual reports that had been submitted long before the deadline. In June the same survey was carried out on annual reports that had been submitted close to the deadline. No significant differences have been found in the responses of the two populations.

⁶ The study has been carried out by the Institute of State Authorized Public Accountants in Denmark.

Part 2: Businesses' experience with the legal requirement

This part of the report describes the businesses' experience with the legal requirement. The description is based primarily on the following studies:

- A qualitative study of experiences of complying with the legal requirement among 10 businesses, each reporting on CSR in the annual report for the first time.⁷
- A qualitative study of obstacles to reporting seen in relation to the legal requirement's three dimensions and the use of international CSR principles in six businesses.⁸
- A qualitative study of the administrative consequences of the legal requirement among eight businesses.⁹

Part 3: General evaluation

On the background of conclusions reached in Parts 1 and 2, Part 3 of the report assesses generally how the legal requirement has functioned in practice in the first year after its commencement.

ATP was subsequently asked to assess selected businesses' CSR reports. ATP's evaluation is found in Appendix 2.

⁷ The study has been carried out by the Center for Corporate Social Responsibility at Copenhagen Business School.

⁸ The study has been carried out by the Center for Corporate Social Responsibility at Copenhagen Business School.

⁹ The survey has been carried out by Rambøll Management Consulting A/S for the Danish Commerce and Companies Agency.

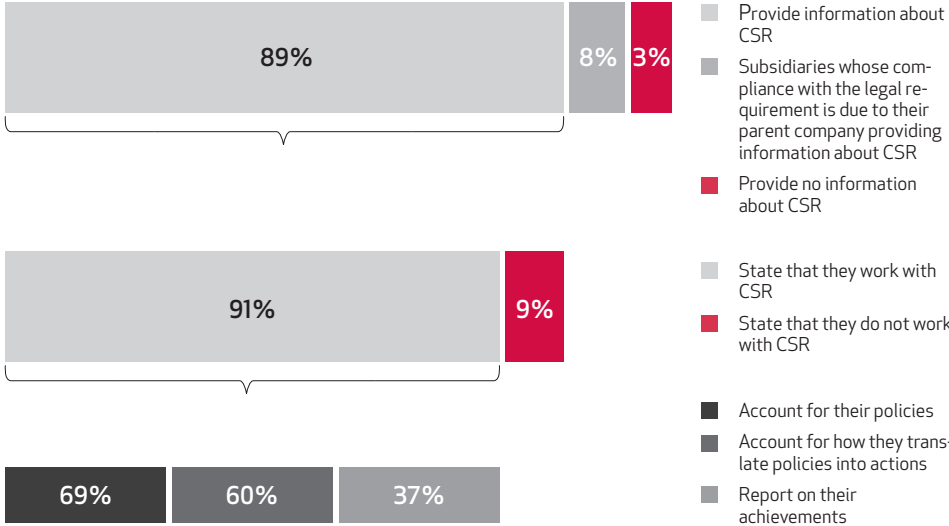
PART 1: Businesses' reporting practices

The objective of this part of the report is to describe the extent to which businesses have complied with the legal requirement and their reporting practices more broadly. The description is primarily based on a quantitative study of 10% of the annual reports subject to the legal requirement and a quantitative study among auditors whose clients are subject to the legal requirement. Where relevant, the results are compared with a study produced for the Danish Commerce and Companies Agency in February 2010 among 1,000 Danish businesses.

More or less everyone addresses CSR in the annual report

The legal requirement states that businesses must produce a CSR report to supplement the management review. As Figure 1 (below) shows, 97% of the businesses that are subject to the legal requirement comply with it, while 3% do not comply. 8% of the 97% are subsidiaries who comply with the legal requirement by default of their parent company providing information about CSR on behalf of the entire group. Thus, the reporting businesses consist of 89% of the businesses examined. 91% of the reporting businesses state that they work with CSR, while 9% state that this is not the case.

Figure 1: Overview of the businesses' CSR reporting



The majority account for their CSR policies – while 37% account for what they have achieved as a result of their work with CSR

The report must contain information about the business' CSR policies, how the business translates its CSR policies into actions, and how the business assesses its achievements as a result of its work with CSR during the financial year, and what it expects (if anything) of CSR work in the future.

As shown in Figure 1, 69% of the businesses account for their CSR policies, 60% account for how their policies are translated into actions, and 37% account for what they have achieved as a result of working with CSR. In addition, 34% account for their expectations for the future. However, these figures should not be considered an expression of the number of businesses which comply with the wording of the legal requirement. A significant number of the businesses, which do not account for what they have achieved as a result of their work with CSR, are subsidiaries whose report is to be found in the parent company's annual report.

The fact that many businesses state that they have CSR policies and account for how these are translated into actions and that fewer businesses report what they have achieved as a result of their work with CSR, correlates closely with a survey produced for the Danish Commerce and Companies Agency in February 2010 among a representative sample of 1,000 Danish businesses. This survey shows that slightly less than 1/3 of businesses working with CSR are not aware of the internal benefits and that slightly less than half are unaware of the external benefits of working with CSR.

Auditors have assessed that a majority of the businesses reporting in accordance with the wording of the legal requirement have chosen to comply with it, although providing only a minimum of information and short descriptions. This must be seen in the light of the fact that the study of the administrative consequences indicates that many of the businesses have considered the first year's report as giving only the headlines and they expect to enlarge the report in the future. Furthermore, the majority of businesses underline that they plan to establish measurements for use in their 2010 report. At the same time, it is worth mentioning that ATP assesses that many businesses have got off to a good start with legally-required CSR reporting (see Appendix 2). ATP has found significant variation in how businesses have chosen to account for their CSR work but that variation is not an important issue seen from the investor's perspective. ATP also stresses that many businesses have described the processes they are undergoing in detail, including the challenges they face and future targets. ATP views it as positive that several businesses have provided examples of how work with CSR has opened up new business opportunities and that relatively many businesses describe specific initiatives and projects. However, at the same time ATP evaluates that, for many businesses, there is room for improvement with regard to ensuring that the reader gains an insight into the business' CSR policies, how their basic values are observed in practice, where day-to-day responsibilities are allocated, and how management and the board are involved in CSR work.

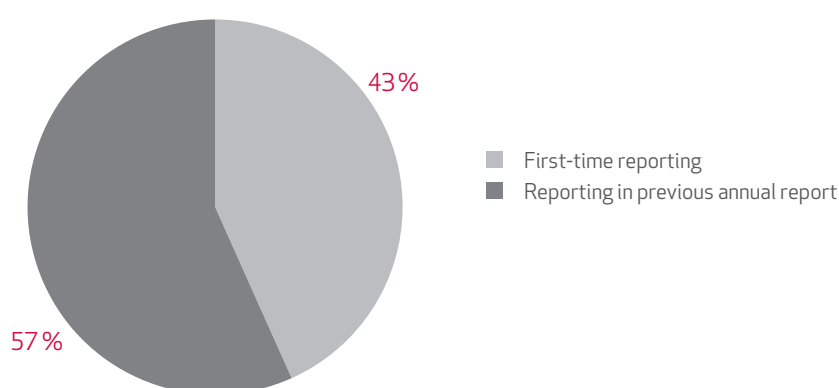
It is also worth mentioning that both the Institute of State Authorized Public Accountants in Denmark and Copenhagen Business School have identified a number of good examples of informative CSR reports. A collection of sample reports is publicly available at www.samfundsansvar.dk.¹⁰ The Danish Commerce and Companies Agency will integrate these examples into revised guidelines so that businesses with different points of departure can gain inspiration as to how they can improve and enlarge upon their reports in the future.

¹⁰ Please note that the samples are from businesses, whose points of departure are very varied. There are therefore some businesses (typically businesses which have been reporting on CSR for some years) which provide very comprehensive reports on all topics, while other examples come from businesses, who have not previously had a CSR policy, and report in detail on how they plan to prepare and report on a policy of this kind. There are also examples of businesses which have supplied information about policies, translation into actions and what they have achieved without there being any correlation to the topics described in the three dimensions.

Many have not previously reported on CSR in the annual report

As shown in Figure 2, 43% of businesses are reporting on CSR in the annual report for the first time.

Figure 2: First-time reporting



Interviews with a small segment of businesses reporting on CSR for the first time indicate that the failure to report in the annual report in previous years has not necessarily been due to a lack of commitment to CSR. More or less all the businesses interviewed have previously worked with environmental and workplace conditions, although not with the concept of CSR as such.

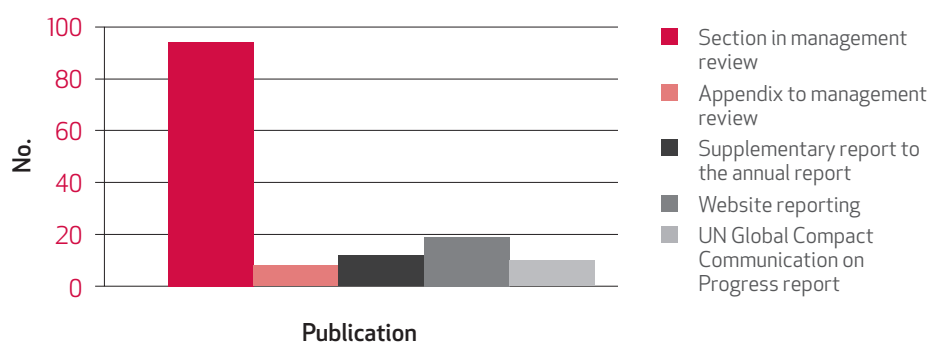
Several businesses have previously reported on CSR via other channels

Businesses may not previously have reported on their CSR work in the annual report for numerous reasons. For example, several businesses mention that they have communicated on topics related to CSR issues in contexts other than the annual report, e.g. in the media, in connection with employee branding, in contact with customers and investors, via supplier standards, etc. Some businesses mention that they have previously seen the annual report as intended for a primary target group made up of parties with an interest in the financial figures. Many of the businesses interviewed consider, even so, that legally-required reporting on CSR in the annual report is a positive step. They consider that the annual report is a key document that is of great importance for the business' strategic communication.

The majority include the CSR report in the management review

It follows from the legal requirement that the CSR report is part of the management review and can be published in the management review itself, as an appendix to it, on the website, in the form of a UN Global Compact Communication on Progress report or in a supplement to the annual report. 82% of the businesses include the CSR report in the management review. 17% refer to their website, and 10% prepare a supplementary report. The UN Global Compact Communication on Progress report and appendix to the management review are less common. Figure 3 shows the distribution in absolute figures as some businesses use several means of publication.

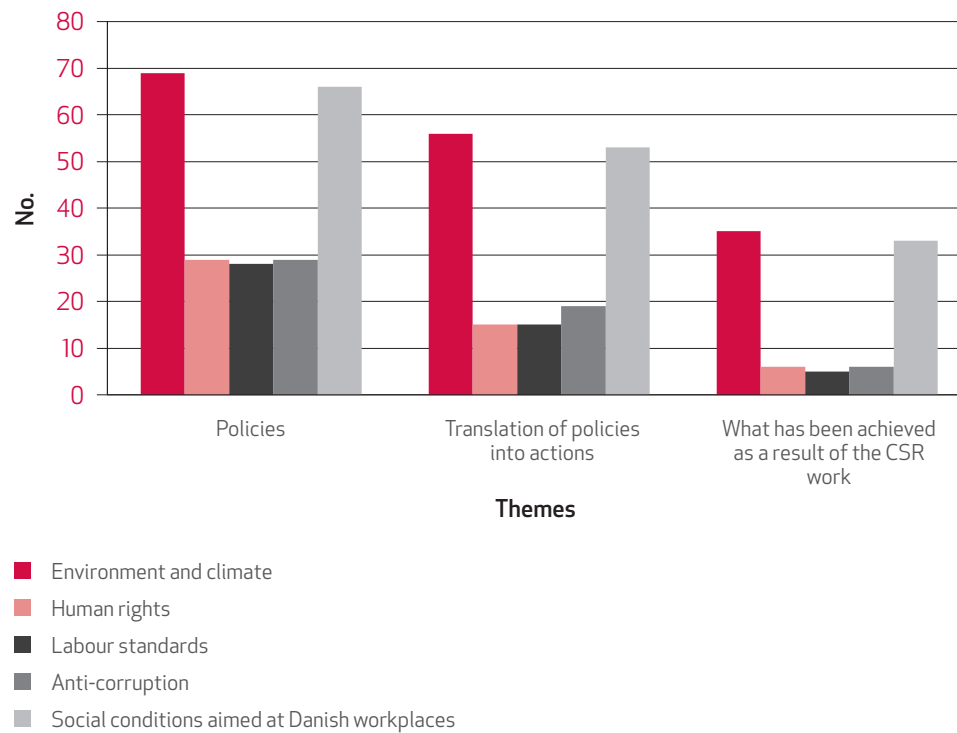
Figure 3: Location of CSR report



"Environment and climate" and "social conditions aimed at Danish workplaces" are top scorers

When designing their report, a business' status in terms of observance of the ten UN Global Compact principles will often be a useful benchmark. These principles are divided into four areas: human rights, labour standards, environment and anti-corruption. Figure 4 indicates that "environment and climate" and "social conditions aimed at Danish workplaces" are the themes the businesses most often account for – not only in terms of policies and their translation into actions, but also in terms of what has been achieved as a result of CSR work. The "human rights", "labour standards" and "anti-corruption" themes are far less frequently accounted for. The figures used in the graph are absolutes, as several businesses account for more than one theme.

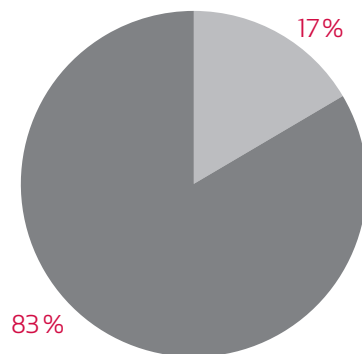
Figure 4: Distribution of themes reported: policies, translation of policies into actions and what has been achieved as a result of the CSR work



The fact that "environment and climate" is the theme most frequently accounted for is probably because this is the area of CSR that Danish businesses mostly work with. The aforementioned survey among 1,000 Danish businesses indicates that more Danish businesses work with the environmental area than with the remaining three areas of the UN Global Compact (i.e. human rights, labour standards and anti-corruption).

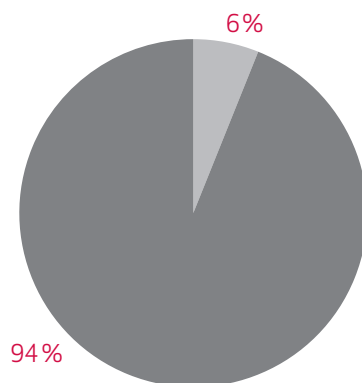
If we examine which aspects businesses account for – in addition to policies, translation into actions, achievements as a result of their work and expectations for the future – Figure 5 indicates that 17% of businesses account for non-financial risks and dilemmas connected to CSR work. Furthermore, figure 6 shows that 6% provide information as to where in the organisation this work takes place.

Figure 5: Reporting on non-financial risks and dilemmas



■ Reporting
■ Not reporting

Figure 6: Reporting on where the CSR work is placed in the organisation



■ Reporting
■ Not reporting

Indicators are not very prevalent – particularly GRI

The businesses employ mostly qualitative descriptions to account for the achievements resulting from their work with CSR. 38% of the reporting businesses make use of indicators in their CSR work. However, only 9% of these businesses use the Global Reporting Initiative (GRI).

UN Global Compact is the source of inspiration for 28% of businesses

28% of the businesses use international CSR principles as inspiration for their report. The UN Global Compact is the most popular frame of reference. In this connection, 13% have either joined or plan to join the UN Global Compact in 2009 or 2010.

Listed companies are leading the field

A comparison between the reporting practices used by listed companies and those used by businesses in accounting class C reveals that a significantly larger share of listed companies ac-

Denmark and the UN Global Compact

The Danish government recommends that Danish businesses join the UN Global Compact. 201 Danish businesses have joined the initiative (June 2010). In 2004, the UN Global Compact *Notable COP* (Communication on Progress) was introduced, to honour and recognise businesses which have successfully communicated their progress. Among Danish businesses honoured for *Notable COP* are: DONG Energy in 2008, Eksport Kredit Fonden in 2008, Danisco in 2007 and 2004, Grundfos in 2007, ISS in 2006, Novo Nordisk in 2006 and 2004, Novozymes in 2006 and 2005, Danfoss Group in 2005, Coloplast in 2004 and the Pressalit Group in 2004.

Source: www.unglobalcompact.org

count for policies, translation into actions, what has been achieved as a result of the work and expectations for the future. Moreover, the use of international CSR principles and indicators, including GRI, is significantly more widespread among listed companies.

Auditor's statement on the management review

In the 3% of annual reports, in which CSR is not mentioned at all in the management review (including those which fail to mention that the business does not have a CSR policy), the Danish Commerce and Companies Agency's assessment is that the auditor should have commented on this fact in their statement on the management review. These annual reports have been reviewed and no cases have been found in which the auditor has mentioned the missing reporting in their statement. In addition, a number of businesses have given CSR details but failed to inform on all three dimensions of the legal requirement (i.e. policies, translation into actions and what has been achieved as a result of the work). 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. The auditor's statement for the relevant annual reports have been examined. No auditor statements referring to failure to comply with the legal requirement have been found.

The auditor's statement on the management review includes the management's CSR report and 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. 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*¹¹ in the management review prepared by the management and of which the auditor is aware. The guidelines 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 . . .*"

It should be pointed out that, for the financial year starting on 1 September 2008 and later, an audit of the management review is no longer required. However, the auditor is required to make a statement instead. Similarly, from the financial year starting 1 January 2009 and later, businesses are required to produce a CSR report. This could explain why there has been a certain amount of uncertainty concerning the scope of the businesses' duty of disclosure and the auditor's duty to provide a statement.

The Danish Commerce and Companies Agency wishes therefore to clarify that, for the future, if a business either fails completely to address the new legal requirement for reporting on CSR, or if a business that has a CSR policy fails to address all three dimensions in the legal requirement, this will be considered a significant omission. In cases of significant omissions, the auditor is obliged to include these in his or her statement.

¹¹ Errors, misstatements or omissions and their significance relative to compliance in terms of providing the information that is legally required of the presenter and auditor do not seem to have been thoroughly understood. For this reason, it would seem that there is a need for clarification of what is considered significant in relation to errors, misstatements and omissions in the management review, including clarification of content required in the report and the descriptions it must contain.

PART 2: Businesses' experience with the legal requirement

This part describes the businesses' experience of complying with the legal requirement. The description is based on a qualitative study of experiences of compliance with the legal requirement among ten businesses reporting for the first time, a qualitative study of reporting on the three dimensions of the legal requirement and the use of international CSR principles among six businesses, and finally a qualitative study of the administrative consequences of the legal requirement for eight businesses. Quotations from businesses interviewed will be cited throughout this part of the report.

The legal requirement as a catalyst for work with CSR

The legal requirement has had a positive effect on several of the businesses' work with CSR issues. Examples have been found to indicate that the legal requirement has provided businesses with an opportunity to start working with CSR, to increase focus on this area, to better systematise existing work and has given businesses a basic framework for their work with CSR.

- » *The legal requirement has provided our department with leverage. We have used it to prod management. Now that we are subject to this legal requirement, we might just as well take the opportunity to start working more systematically, e.g. join the Global Compact, prepare policies, strategies and communication plans.*
- » *It has given us a peg to hang things up on, and the chance to check the business to see what we are already doing that we can hang up from this peg. It has increased our focus on CSR and made more of us talk about it.*

One business states that the legal requirement has indirectly created new business opportunities as it has created greater focus on sustainability.

- » *The more focus this area attracts and the more initiatives done to promote these kinds of things, the better it will be for our business. Yes, certainly [the legal requirement has created new business opportunities], maybe not directly, but indirectly, it has helped increase our focus on energy-saving solutions.*

Mainly positive impressions of the legal requirement's form

Many businesses are positive about the fact that reporting on CSR in the annual report is now legally required, even though the legal requirement entails increased administrative burdens. Respondent businesses state, for example, that the annual report is a key document for the individual business and therefore highly important for strategic communication. Additionally, the annual report is a good channel of communication to use when informing financial cooperative partners of work that has non-financial results. A number of businesses express satisfaction with the wording of the legal requirement in that, to a great extent, businesses are free to decide on the form and content of their report.

- » *If you work with CSR without telling anyone what you are doing, it's like sowing corn and then forgetting to harvest it.*

» *I actually think it's a pretty smart move; marketing Denmark on Corporate Social Responsibility (...) I believe in fact that it is quite sensible to anchor it in the annual report. By doing this, we are sure that it is anchored at the very top of the company.*

However, some businesses have expressed a certain amount of surprise that the report has to be "hidden away" in the annual report's management review, since people with an interest in CSR would probably look elsewhere, and, on the other hand, typical readers of the annual report would not spend much time on this particular section. Furthermore, some businesses consider it a challenge that the legally-required report has to follow the annual report, as timing of publication of the annual report does not necessarily coincide with production of the data to be included in the CSR report. These statements suggest that not all businesses are aware that the report can be published elsewhere than in the annual report and that it is possible, within the framework of the legal requirement, to publish regular information bulletins about work with CSR, for example, on websites, provided that this information is furnished with a publication date.

Wide variation in anchorage of CSR work in the organisation

The task of preparing the report is typically decentralised and this means that the chosen department in the organisation, to which businesses assign responsibility for preparing the CSR report, varies widely. The responsibility has been assigned to such different departments as finance, environment, marketing, HR and communication. However, work on the CSR report will typically involve staff from several departments in an organisation. Typically 1-3 staff members are involved in each of the departments assigned responsibility for working on the report.

Among businesses that have been specifically asked for information about the administrative consequences of the legal requirement, the response has been that work on the report has involved many different people and functions, and given rise to a significant number of meetings, at which participants have discussed the structure and content of the report and delegated assignments. As the legally-required CSR report is integrated into the annual report in the management review section, both the management team and the board of directors of the businesses have been involved in the process.

Use of existing accessible data

The vast majority of businesses have used social and environmental data and key figures that were already accessible in the organisation, for example, in the finance department, in quality assurance and environmental management systems. Only a few businesses have gathered new data in response to the legal requirement. One business has optimised the method by which it collects data in quality assurance systems in order to identify measurement points for use in communicating CSR.

» *We have used the information we already had from different IT systems in the Group and then we have asked our subsidiaries around the world to send us new data.*

» *When I read some of the others [other businesses' annual reports], I can see that this is no revolution, besides the fact that it is published. The systems and methods for thinking in terms of CSR are already present in the organisation.*

Inspiration from external sources

The businesses have culled much of their inspiration for preparation of their report from external sources. The inspiration comes in particular from other businesses and the UN Global Compact. In addition, the majority of businesses have made use of the Danish Commerce and Companies Agency's guide "The CSR Report – practical guidelines and inspiration", which has proven to be a useful tool in understanding the scope of the legislation. Most businesses have also asked their auditor's advice in order to get a feeling of the scope and framework of the legal requirement, and some have received consultancy-type assistance from their auditor when preparing the report.

» *Communicating CSR is made easier by the guides and regulations surrounding it.*

Greatest process-related challenges are data processing, choosing communication level and perspective, and employee resources and commitment

The businesses have faced a number of challenges during the process of reporting on CSR in the annual report. The most significant challenges include processing large quantities of data and ensuring data validity, and selecting the right level and angle for communication, so that it is not only credible but also creates value for the business. Furthermore, half of the businesses have experienced organisational challenges, primarily associated with allocation of the necessary manpower and getting the right kind of employees committed to the task.

Scarcity of resources a hindrance to reporting according to the wording of the legal requirement

As stated in Part 1, a relatively large share of the businesses fail to report on all three dimensions of the legal requirement, and fail in particular to describe what has been achieved as a result of their work with CSR and expectations for the future. A number of businesses have been asked to explain the causes of their incomplete reports and the typical explanation is that resources have been scarce. The lack of resources is not only a hindrance to thorough preparation of the report but also to day-to-day work with CSR. Moreover, a couple of businesses who do not feel that work with CSR in itself is a challenge have stated that they found it difficult to put their efforts onto paper.

Inexperience and lack of structure make describing what has been achieved difficult

As mentioned, businesses fail in particular to report on what has been achieved as a result of their work with CSR, although the majority does report on the first two dimensions in the legal requirement. The most frequent cause for failing to report on what has been achieved is that the businesses have not made sufficient progress to be able to report anything. Work with CSR is either something completely new to the business or the business has not previously worked with CSR in a structured way and cannot therefore calculate measurement points for use in the report. At the same time, several businesses point out that it can be difficult to report on what has been achieved as a result of work with CSR as such factors are difficult to quantify.¹² The majority of businesses state that they plan to establish measurement points for use in the 2010 CSR report.

¹² It should be noted that the legal requirement does not in fact require quantification of what has been achieved as a result of work with CSR.

» *We have not reported on results as some of our results are difficult to measure directly, for example, the results of having determined that we will no longer work with businesses who employ children.*

» *There is always the risk that reporting becomes too unambitious if you only focus on measurements and not on efforts.*

Some of the businesses have not been aware that, if they have CSR policies, they are obliged to account for all three dimensions in the legal requirement from the first year after commencement of the legal requirement.

It is also worth noting that half of the businesses asked have consulted their auditor to ensure that their report complies with the provisions of the legal requirement. However, in none of these cases was the auditor involved in actual preparation of the report.

Lack of resources and relevance represent a hindrance to the use of international principles

As mentioned in Part 1, just over a quarter of the businesses in the quantitative study have used international CSR principles – particularly the UN Global Compact – as a source of inspiration or framework of reference for their report. The smaller group of businesses interviewed typically mention a lack of resources and relevance as the most significant hindrances to the use of international principles. The businesses evaluate that adapting business activities to international principles is costly in terms of resources and that the principles are not easily workable for businesses for non-manufacturing companies or businesses operating exclusively in Denmark. The majority of the businesses asked are familiar with the UN Global Compact. When asked what they see as the greatest advantages of using international principles like the UN Global Compact, they evaluate that the principles lend structure to work with CSR and simplify implementation of specific activities. Awareness of GRI is, by contrast, very low among these businesses.

Wide variation in administrative burdens

When the bill was proposed in the Danish Parliament, the Danish Commerce and Companies Agency produced an ex-ante evaluation of expected administrative burdens. Based on the businesses' experiences with the first year reporting, the Danish Commerce and Companies Agency has produced an ex-post measurement of real one-off costs¹³ and recurring costs.¹⁴ The burdens are measured using the Standard Cost Model, which is described in the box.

¹³ The one-off costs are not included in this report.

¹⁴ The measurement has been produced by Rambøll Management Consulting A/S for the Danish Commerce and Companies Agency.

Standard Cost Model (SCM)

The Standard Cost Model is a method which, by charting time spent by Danish private businesses, measures administrative costs involved in complying with commercial regulations. In essence, SCM is based on information concerning the time businesses spend on individual administrative activities. This information is collected by means of in-depth interviews with Danish businesses.

In measuring the administrative costs involved in businesses' complying with regulations, the method distinguishes between one-off costs and recurring costs.

It should be noted that it is not easy to measure the costs involved in this legal requirement for reporting on CSR because it allows businesses many options in terms of the method and scope of the reporting – as long as it meets the basic requirements.

The scope of businesses' recurring costs depends on how they choose to report on CSR:

- Businesses, which choose to report on CSR in the management review or in an appendix to it, will typically spend about two working weeks. For the individual business, the administrative burdens will run to about EUR 4,289¹⁵ corresponding to societal costs of EUR 1.5 million.¹⁶
- Businesses, which choose to report on CSR on their website, will have to invest more or less the same administrative activities as for the CSR report in the annual report or in an appendix to it. In addition, there will be extra costs for the auditor's statement, so the administrative burden for the individual business will run to about EUR 4,383. This corresponds to costs to society of about EUR 1.5 million.¹⁷
- Businesses, which choose to report on CSR by referring to a UN Communication on Progress report (Global Compact or PRI) or a supplementary report in the form of an independent report, will spend a total of two working days on making the reference.¹⁸ In addition, there will be extra costs for the auditor's statement, so the administrative burden for the individual business will run to about EUR 952 corresponding to EUR 0.3 million in costs to society.¹⁹
- Businesses, which choose to state that they have no CSR policies, will normally spend two working days preparing this statement, corresponding to about EUR 871 per business and about EUR 67,021 in societal costs.²⁰

¹⁵ 746,038 DKK per 100 EUR (based on the formal framework for the Danish fixed-exchange-rate policy, the European Exchange Rate Mechanism, ERM II).

¹⁶ Rambøll Management Consulting A/S has evaluated that about 350 businesses select this kind of report.

¹⁷ Rambøll Management Consulting A/S has evaluated that about 350 businesses select this kind of report.

¹⁸ The time spent on preparing the Communication on Progress or the independent report is not included in the measurement because the legal requirement does not oblige businesses to work with CSR or to report on CSR in progress or similar reports.

¹⁹ Rambøll Management Consulting A/S has evaluated that about 327 businesses select this kind of report.

²⁰ Rambøll Management Consulting A/S has evaluated that about 73 businesses select this kind of report.

Many businesses estimate that the time they spend on reporting on policies and their implementation will either remain at the current level or increase with the next report, as they expect to work more intensively on CSR in the future and will therefore have more to report on.

More time spent than expected

The above evaluation of time spent is 7-8 times greater than in the ex-ante measurement. The difference is probably due to the fact that the businesses interviewed in the ex-ante measurement underestimated the work underlying the report, including becoming acquainted with the legal requirement, data collection from a variety of departments and the number of employees involved in preparing the report.

The legal requirement is not regarded as a source of irritation but rather as a positive initiative

It has been evaluated to which extent businesses see the legal requirement as a source of irritation, i.e. the administrative burdens resulting from the legal requirement which are not necessarily costly in terms of money but make compliance with the legal requirement seem unnecessarily irritating or inappropriate. Interviews with the businesses show that, even though the legal requirement entails increased administrative burdens, the attitude towards the requirement is generally positive. The businesses that already worked with CSR when the legal requirement commenced do not see it as an administrative burden, and the remaining businesses approve of the idea per se and of being obliged to report on this area in the annual report.

PART 3: General evaluation

This part summarises the positive effects of the legal requirement and potential areas for improvement indicated by the report.

Many positive tendencies...

Parts 1 and 2 of the report have indicated that there are numerous positive effects of the new legal requirement. Of these, most noteworthy is that the legal requirement has caused many businesses to start reporting on their work with CSR in the annual report. Furthermore, also on a positive note, the vast majority of the businesses subject to the legal requirement, are now working with CSR and are capable of producing a comprehensive report on their work. It is also noteworthy that the legal requirement has encouraged some businesses to start working with CSR, increased their focus on this area and has encouraged them to start working with CSR in a more systematic way. In this connection, it is particularly positive that businesses state that they are willing to maintain or increase efforts in future years in order to improve the quality of their report.

Finally, it is also noteworthy that, while the legal requirement entails increased administrative burdens, it is nevertheless seen as a positive initiative more than a source of irritation. Indeed, this is also true for the 43% of businesses that are obliged by the legal requirement to report for the first time. In fact, in this connection, the businesses underline that they appreciate the freedom of choice and flexibility provided by the legal requirement as this allow the individual business to adapt the report to their particular context.

...but also room for improvement

For the individual business, work with – and reporting on – CSR will often be a process taking several years. Seen in the light of the fact that many businesses have only recently started to work or to systematise their work with CSR following commencement of the legal requirement, and that many have not reported on CSR before the 2009 annual report, it is not surprising that the conclusions indicate that Danish businesses' reporting practices can be improved in a number of areas. In addition to the fact that not all businesses legally required to do so have addressed CSR in their annual report, a number of businesses, which do report on CSR, have failed to do so in compliance with the provisions of the legal requirement (i.e. reported their policies, translation into actions, what has been achieved and expectations for the future). It is particularly important to note that many businesses seem to find it difficult to meet the legal requirement to describe what has been achieved as a result of their work with CSR and expectations for the future. However, it is not surprising that businesses find it difficult to describe their CSR achievements, partly because the effects of working with CSR may take time to materialise and partly because many businesses lack the necessary experience of describing the specific effects of work with CSR. Finally, it is important to note that application of international guidelines for CSR reporting is only sporadic.

The objective of the legal requirement has been to inspire businesses to take an active approach to CSR and to communicate this to their surroundings. In the light of the many positive tendencies in the initial year after the commencement of the legal requirement, it would seem that this objective is well on the way to being achieved.

Act on Corporate Social Responsibility 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 be 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 evaluation of 20 businesses' Corporate Social Responsibility reporting

This evaluation has been prepared by Senior ESG Adviser Ole Buhl, ATP.

In connection with the agency's evaluation of businesses' legally-required CSR reports, the Danish Commerce and Companies Agency has asked ATP to evaluate 20 selected businesses' CSR reports and to propose areas of the reports where there is generally potential for improvement and to provide examples of good elements in the reports, seen from the investor's perspective.

Investors – just one kind of interested party

By way of introduction, it is important to establish that, when they prepare the legally-required CSR report, businesses find themselves in a situation in which they are required to juggle different needs and particularly the various needs of different interested parties. The following only addresses the conditions that professional investors with an interest in a business' CSR initiatives will be looking for in connection with the legally-required CSR report.

While this is true, it is important to state that any investor in a company will be interested to find that, in preparing the report, the businesses have also focused on accommodating other needs and other interested parties. While a statement relating to, for example, a business' philanthropic activities will often be outside the professional investor's field of interest, such details may be highly relevant to other interested parties – and thus also relevant for inclusion in the legally-required report.

ATP's focus in connection with businesses' social responsibilities

When they evaluate businesses' work with CSR, investors' focus differs. The following takes the ATP approach as its point of departure:

ATP believes that social responsibility in connection with investments can *protect* and *increase* ATP's investments.

Investing in a business which has a business-oriented approach to CSR represents an *opportunity* to increase the value of ATP's investments.

By contrast, if a business fails to focus on CSR – particularly if it ignores basic principles and norms on which international conventions, etc. are based – this represents a *risk*, i.e. a potential threat to the value of ATP's investments.

ATP's specific investment-related expectations to the businesses' legally-required CSR reports reflect these considerations.

Wide variation in businesses' reports

The variation in the ways in which the different businesses have chosen to report on their work with CSR is significant. The potential causes include:

- The different methods which the legal requirement permits businesses to use – for example, reporting in connection with the management review, independent report in the form of a separate CSR report or a UN Global Compact Communication on Progress report
- Varied focus of the work with CSR at different businesses. Partly due to the fact that some businesses have worked with CSR for some time while other businesses have only recently begun the process. Partly also due to the fact that the most relevant aspects of CSR are a natural reflection of the individual business' activities

From the investor's perspective, variation in the businesses' legally-required reports is not an issue in itself.

In purely practical terms, however, it would be desirable if some businesses clearly defined the exact location of the legally-required report.

Legal requirement 1: CSR policies, including any standards, guidelines and principles for CSR used by the business

Where reporting on the business' CSR policies, etc. is concerned, ATP finds it useful that the businesses use the legally-required report to present a general overview of the business' CSR policies, etc.

Several of the businesses present an overview of this kind with a reference to where more detailed information and content of individual policies, etc. can be found.

This particular combination, in which the legally-required report is used to create an overview and refers to more detailed information about policies, etc. is, according to ATP, optimal.

However, it is worth mentioning that several of the businesses investigated have obvious potential for improvement and should seek to ensure that the reader is given sufficient insight into the business' CSR policies.

It would not be possible to deduce all the businesses' different kinds of social responsibilities from their policies, standards and guidelines. While policies and guidelines can be efficient tools in handling risks and avoiding pitfalls, where other business-driven social responsibilities (e.g. product development) are concerned, a more dynamic process will often be required than the business' merely following fixed policies.

As mentioned above, where CSR is concerned, ATP is interested both in *opportunities* and *risks* at the businesses. For this reason, ATP considers it positive that several businesses have chosen to give examples of how they have exploited the commercial opportunities inherent in integrating CSR into their business activities.

Legal requirement 2: How the business translates its CSR policies into actions, including any systems or procedures used

The way in which the businesses describe how their policies are translated into actions varies greatly.

A central element in how we evaluate businesses' translation of their CSR policies into actions pertains to the extent to which ATP can see that the policies and underlying procedures and systems are anchored in the organisation.

In a significant number of the reports examined, it would be advantageous if future reports were to describe in detail not only how and to what degree the business' management team and board of directors are involved in CSR initiatives, but also who is responsible for day-to-day work with CSR.

Businesses, which have used certification schemes and the like, most often refer to these in their report.

Certain businesses refer to the fact that their CSR policies are integrated into their basic values. From the investor's perspective, this is insufficient to describe how these values are put into practice.

Legal requirement 3: The business' evaluation of what it has achieved as a result of the work with CSR during the financial year and any future expectations

Quite many of the businesses account for specific CSR initiatives and projects that the business has worked with during the financial year. This is an excellent contribution to our evaluation of the business' activities during the financial year.

In this connection, it is pertinent to mention that, from the investor's perspective, it may be an advantage if the business mentions the more controversial issues it has addressed during the last year, so that the investor is in a position to evaluate, on the one hand, how the business itself has assessed the controversial issue and, on the other hand – and by extension – whether the business has amended policies or procedures as a reaction to the issue.

Moreover, several of the legally-required reports describe what the businesses themselves evaluate they have achieved as a result of their work with CSR during the financial year.

Of these, several businesses provide (where quantitative results are possible) calculations concerning e.g. how water consumption, CO2 emissions, etc. have developed.

From the investor's perspective, both quantitative and more descriptive evaluations of the achievements of CSR efforts are useful.

A large number of businesses (not only businesses who have only recently started to work with CSR, but also those who have many years' experience of this work) succeeded in giving a good description of the process, the challenges they face and their aims for future years.

Conclusion

ATP's overall evaluation is that the majority of the 20 businesses examined have got off to a good start with the legally-required CSR report.

At the same time, based on ATP's reading of the reports, ATP evaluates that introduction of the legally-required CSR report may have contributed to many businesses' seeking to integrate CSR into their business activities.

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Corporate Social Responsibility and Reporting in Denmark

- Impact of the legal requirement for reporting on CSR in the Danish Financial Statements Act

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