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# Public policy on CSR reporting: Danish experiences and other observations

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## Agenda

1. Experiments with the regulation of non-financial reporting in Denmark
2. The Danish CSR disclosure requirement: the impact of the requirement and the demand for CSR disclosure



# 1. Experiments with the regulation of non-financial reporting in Denmark

- Companies (polluting) required to publish stand-alone 'green accounts' since 1996
  - Environmental authorities verify/comment on each 'green account'
  - Experiences<sup>a</sup>: 1) May be useful for internal purposes (environmental management), 2) No or limited demand for green accounts
- Mandatory environmental disclosure in the Annual report (since 2001)
- Audit (high level of assurance) of non-financial information in the management commentary<sup>b</sup> (2001-2009),
  - In 2001, government expected other countries to follow Denmark and require audit – however, few did so...
  - Thus, withdrawn in 2009 because of administrative burden
- CSR disclosure requirement (from 2009)
  - "Human rights" included in the requirement from 2012
  - "Diversity in the board" included from 2013

a. Miljøstyrelsen (2007) "Effekter af grønne regnskaber", [www.mst.dk](http://www.mst.dk)

b. Management commentary is defined as the annual report content other than financial statements and notes.



## 2. The Danish CSR disclosure requirement

	Danish requirement on CSR disclosure	European Commission: non-financial disclosure proposal
Coverage	<ul style="list-style-type: none"><li>• 1100 largest companies (e.g. &gt;250 employees)</li><li>• Institutional investors</li></ul>	<ul style="list-style-type: none"><li>• 18000 largest companies (e.g. &gt;500 employees)</li></ul>
Required to report on	<ul style="list-style-type: none"><li>• CSR policies</li><li>• CSR activities</li><li>• CSR results</li></ul>	<ul style="list-style-type: none"><li>• Policies related to (in particular) environmental, social and employee matters</li><li>• Results of policies</li><li>• Risk related to non-financial matters and how these risk are managed</li></ul>
Placement	Management commentary	Annual report
If no policies to report on...	Companies required to <u>state</u> that they have not developed CSR policies	Companies required to <u>explain</u> why they have not developed policies



## 2. The impact of the CSR disclosure requirement

The CSR reporting requirement seems to have:

- Encouraged more companies to state that they have developed CSR policies<sup>b</sup>
- Increased the quantity of CSR information in annual reports<sup>b,c</sup>
- Within companies the requirement has provided platform for sustainability/CSR reporting activities to develop
  - → to be allocated 2-4 pages in the annual report provides CSR with authority and perceived alignment with financial reporting<sup>a,d</sup>

a. Johansen and Plenborg (2013) "The annual report cycle: Danish and UK case studies", paper-in-progress.

b. Danish Business Authority (2013) "CSR and reporting in Denmark: Impact of the third year subject to the legal requirements for reporting on CSR in the Danish Financial Statements Act", [www.csrgov.dk](http://www.csrgov.dk)

c. DanWatch (2011) "The impact of the Danish law on CSR reporting, A study by DanWatch",

d. Kaspersen and Johansen (2013) "Reforming the social and environmental reporting environment: Creating auditability by alignment with the preparatoin of financial information", working paper.



## 2. The impact of the CSR disclosure requirement

However, there appears to be some way to go...

- Critics suggest that it is more about quantity than quality<sup>c</sup>
  - Only 1/3 include specific indicators in order to report results<sup>b</sup>
  - Limited coverage of sector-specific CSR issues – i.e. focus is on ‘general and topical CSR issues’<sup>c</sup>
- Within companies: Investor relations usually responsible for the management commentary, but IR not involved in CSR disclosure – which is mainly considered as an ‘add on’ to the annual report and as an ‘compliance exercise’<sup>a</sup>
- Financial reporting debates in Denmark and elsewhere (e.g. FRC, EFRAG) tend to view CSR information as ‘clutter’ and CSR reporting requirements as potential sources of clutter<sup>d</sup>
  - i.e. as relatively unimportant information and as information that often remain unchanged from year to year

a. Johansen and Plenborg (2013) "The annual report cycle: Danish and UK case studies", paper-in-progress.

b. Danish Business Authority (2013) "CSR and reporting in Denmark: Impact of the third year subject to the legal requirements for reporting on CSR in the Danish Financial Statements Act", [www.csrgov.dk](http://www.csrgov.dk)

c. DanWatch (2011) The impact of the Danish law on CSR reporting, A study by DanWatch",

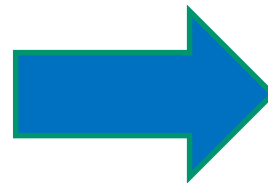
d. Johansen and Plenborg (2013) 'Prioritising disclosures in the annual report', paper in publication process..



# 2. The demand for CSR disclosure<sup>a</sup>

<b>Study aim:</b>	to evaluate disclosure items in the management commentary and in the notes
<b>Method:</b>	using a survey to obtain <ul style="list-style-type: none"> <li>- User demand for</li> <li>- User satisfaction with</li> <li>- Preparer perception of costs</li> </ul>

Users (N=288 Avr. Experience= 17 years)	Response rates
Sell side analysts	85% of all analysts
Institutional investors	78% of all inst. Investors
Banks	All the major banks included
Private investors	Based on panel maintained by Danish Shareholder Association



Items in management commentary (based on disclosure requirements)
Business model, activities etc.
Strategy
Key performance indicators
Past-year activities and results
Forward-looking information
CSR
Corporate governance
Risk
Shareholder information (ownership structure etc.)

a. Detailed results appear in Johansen and Plenborg (2013) 'Prioritising disclosures in the annual report', paper in publication process..



## 2. The demand for CSR disclosure

### Each user asked to consider a fixed budget of 100 point

”You may spend 100 point on disclosure items – the more you spend, the more likely it is that you will receive the information. If you don’t assign points to an item, you will not receive the information.”

Rank	Disclosure item in the management commentary	Mean
1	Forward-looking information	17.24
2	Past-year activities and results	16.56
3	Key performance indicators	14.49
4	Strategy	14.45
5	Risk	12.29
6	Business model, activities etc.	10.46
7	Shareholder information (ownership structure etc.	8.01
8	Corporate governance	5.52
9	CSR	3.61





## 2. Some observations on policy objectives...

Compared to other disclosures in the annual report: little user demand for CSR disclosure

- If satisfying user demand for information is the policy objective – encourage integration with highly demanded ‘generic disclosures’, e.g. forward-looking information, strategy, KPIs, risk. Perhaps a separate CSR disclosure requirement is not the best way to achieve this?<sup>a</sup>

The history of financial reporting shows that ‘satisfying user demand for information’ was not the original objective of external reporting – it was the stewardship of management.<sup>b</sup>

- Perhaps consider CSR disclosure more as a way to encourage stewardship of management – is it possible to hold management accountable?
- Consider more precisely the links to other policy initiatives and also consider whether there are more effective policy instruments than disclosure? (e.g. regarding environmental protection, employee rights/relations).

a. See also Bebbington, Kirk and Larrinaga (2013) “The production of normativity”, *Accounting, Organizations and Society*, for other ways than requirements in law that may encourage reporting behaviour. .

b. See e.g. Young (2006) “Making up users”, *Accounting, Organizations and Society*; Zeff (2013) “The objectives of Financial Reporting: A historical survey and analysis”, *Accounting and Business Research*; Miller and Power (2013) “Accounting, Organizing, and Economizing”, *The Academy of Management Annals*...