



UNIVERSITY
OF OSLO

Report no. 5/05
**Corporate Social
Responsibility in Norway:**
*An Assessment of Sustainability
Reporting by Major Firms in 2003*

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Report



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ProSus 2005

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FOREWORD

ProSus is a strategic university programme established by the Norwegian Research Council at the Centre for Development and the Environment (SUM), University of Oslo, Norway.

The goal of ProSus is to provide knowledge and information in support of a better realization of national targets for sustainable development. The work in the current financing period is concentrated on three main tasks:

Conducting systematic evaluations of Norway's implementation of international commitments on sustainable development. Evaluations are based on three types of standards: external criteria – targets and values from international agreements and programmes; internal criteria – national goals and action plans; and comparative criteria – performance by other countries in relevant policy areas. The relationship between the demands of sustainability and existing democratic procedures is a key interpretive theme.

A documentation and evaluation of policy implementation that provides a basis for strategic research on barriers and possibilities. ProSus employs an integrated research model (SusLink) that focuses on the relationship within and between different arenas of governance. Research is focused on the supranational, national, and local levels of governance, as well as households and business and industry.

An information strategy based upon open and interactive means of communication to quickly and effectively disseminate research conclusions to central actors within the field of sustainable development. The goal is to highlight alternative strategies of governance and instruments for more sustainable societies locally, nationally and globally.

In addition to books and articles in scientific journals, ProSus also publishes reports and working papers in order to disseminate the research results in an effective manner to key actors and decision-makers within the field of sustainable development.

The present report is a translated version of ProSus Report 6/2004. The translation has been done by Brigid McCauley in cooperation with Janka Jelstad.

For a full overview of projects and publications, please visit our website www.prosus.uio.no.

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SUMMARY

An important part of “corporate social responsibility” (CSR) is to provide information about an enterprise’s environmental, social and ethical challenges. The current report evaluates sustainability reporting, also known as non-financial reporting, by the 100 largest companies (according to total turnover) in Norway. The report expands on previous ProSus studies which established that there was much room for improvement in sustainability reporting produced by Norwegian companies (Ruud and Mosvold Larsen 2002, 2003; Gjølberg and Meling 2004). This year’s report examines the financial year 2003 and assesses both legally mandated reporting and voluntary sustainability reporting.

The first part of the report comprises a survey of reports prepared by the company’s Board of Directors on the external environment, working environment and gender equality, as required under the Norwegian Accounting Act. The assessment reveals that all the companies in the sample reported on non-financial issues in the Board reports, though the quality of reporting varies. Only 16 per cent of the companies can be said to have met the legal requirements for environmental reporting in a satisfactory manner. Performance on the other dimensions was considerably better: with 66 per cent meeting legal requirements for the firm’s working environment, and 48 per cent reporting satisfactorily on gender equality.

The general impression from this year’s assessment is that the poor quality of environmental reporting is due primarily to the fact that the legal requirements for this area are vaguely formulated and require very comprehensive reporting, while those for the other two areas are less comprehensive and more specific. A comparison of the results with previous ProSus surveys of environmental reporting for the financial years 2000 and 2001 indicates a slight improvement in terms of the number of companies reporting satisfactorily on environment in the directors’ report.

The second part of the report examines voluntary reporting in separate reports *additional to* the report from the Board of Directors. 49 of the 100 selected companies either published separate reports or integrated separate sections/pages into their annual report which directly address non-financial issues. We have here chosen the concept of a “triple bottom line” (TBL) as a reference for the assessment. This approach aims to cover the environmental, social and economic aspects of the firm’s activity. The economic dimension does not include traditional financial reporting, but rather a company’s socio-economic impact as well as its business ethics. The conclusion of the assessment of voluntary reporting is that companies report best on environmental issues and on social responsibility for their own employees. The quality of reporting is much poorer for external social responsibility and the economic dimension.

The variable of “General CSR” is designed to capture the general impression the company gives of its performance on CSR. This embraces reporting on challenges, measures, goals and achievements. With respect to “General CSR – environment”, 64 per cent of the 49 companies report satisfactorily or very satisfactorily. On internal social responsibility for their own employees, 53 per cent are at a satisfactory level, whereas only 24 per cent report satisfactorily on external social responsibility, compared to 22 per cent on the economic dimension.

Reporting on “the variables codes of conduct” and “supply chain management” is also generally quite poor, while reporting on “management systems” is slightly better. For example, 22 per cent have reported satisfactorily or better on corporate governance, while only 14 per cent have reported well on ethical codes of conduct. Only *one* of the 49 companies selected, reported satisfactorily on the business ethics it demanded of its suppliers.

Compared with the ProSus survey for 2002, the overview for 2003 shows – for general environmental reporting – an improvement of 10 per cent. Otherwise, the differences in the results are too negligible to allow any clear-cut conclusions as to either improvements or declines in the level of satisfactory reporting. The findings do not indicate, therefore, any marked change in reporting practice during the past two years, either in terms of legally mandated reporting or voluntary sustainability reporting. There is still, in other words, considerable room for improvement by most of the 100 largest companies in Norway.

In concluding this year’s assessment, we highlight five factors that could contribute to encouraging and improving sustainability reporting in Norwegian companies: (1) introduction of legal requirements and the development of common standards for reporting; (2) a stronger focus on quality rather than quantity in reporting; (3) a greater awareness in firms of the importance of social challenges and the overall purpose of reporting; (4) a more active utilisation of the report as a managerial tool; (5) greater emphasis on openness and credibility. The report also discusses the concept of the triple bottom line (TBL) and the Global Reporting Initiative (GRI) as alternative standards for the assessment of sustainability reporting.

Finally, it should be once again stressed that the assessment made is for corporate *reporting* on perceived impacts and initiatives, not for what firms actually achieve in the areas of CSR. We cannot, therefore, draw conclusions as to whether companies actually do behave in a responsible manner in practice. Nevertheless, there is little doubt that, for the majority of firms, there is a positive connection between reporting and actual conduct. In this respect, sustainability reporting can be viewed as only a step – but an important step – in the promotion of environmental, social and economic responsibility in Norwegian business and industry. The ProSus assessment for reporting on the coming year – 2004 – will further develop the criteria applied, with the goal of indicating even more clearly how a critical public dialogue on CSR reporting can serve to strengthen corporate initiatives for achieving CSR in practice.

1 SUSTAINABILITY REPORTING – AN IMPORTANT ELEMENT OF CSR

1.1 Introduction

The current debate on corporate social responsibility (CSR) is grounded in the idea that business and industry have a responsibility beyond that of creating economic value. Companies are increasingly expected to respond to challenges relating to many different areas and themes of a non-financial nature. Among other things this includes companies' impacts on the external environment, relations with employees concerning health, working environment and safety, corruption and business ethics, interaction with local communities and voluntary organisations, human rights, socio-economic wealth creation, etc.

An important part of CSR is to provide information about the enterprise's environmental, social and ethical challenges. This report evaluates sustainability reporting, also known as non-financial reporting, by the 100 largest companies in Norway. The report examines the financial year 2003 and assesses both legally mandated and voluntary sustainability reporting.

This year's report expands on previous ProSus surveys. ProSus carried out the first mappings of legally mandated environmental reporting by Norwegian companies for the financial years 2000 and 2001 (Ruud and Mosvold Larsen 2002 and 2003). This was followed up by an analysis of voluntary non-financial reporting by Norway's 100 largest companies for the financial year 2002 (Gjølberg and Meling 2004). These surveys revealed that there was much room for improvement by very many Norwegian companies. One of our questions was whether we could see any changes in the legally mandated and/or the voluntary sustainability reporting in the course of the past few years.

Both in Norway and abroad increasing attention is being paid to CSR in general, and to sustainability reporting in particular. More and more companies are referring to the organisation Global Reporting Initiative and adopting its *Guidelines* for sustainability reporting.¹ Concepts such as the triple bottom line (TBL), which focuses on three dimensions: an environmental dimension, a social dimension and an economic dimension, and the dynamics that these dimensions create, is also receiving wider acceptance by business and industry. Are these tendencies reflected in the reporting practices of the 100 largest companies in Norway?

1.2 The significance of reporting for companies and stakeholders

What significance does sustainability reporting have for a company and for relevant stakeholders?

First of all, Norwegian companies have a *legally mandated duty* to report in the directors' report on certain non-financial issues. Most people associate CSR and sustainability reporting with voluntary initiatives generated by business and industry itself.

¹ Sustainability Reporting Guidelines. Available at: <http://www.globalreporting.org/guidelines/2002.asp>. Accessed on: 20 October 2004.

However, the Accounting Act legally requires that all companies who are legally bound to keep accounting records must include in the directors' report a report on the company's impact on the external environment, as well as on the status of and measures relating to the working environment and gender equality.²

Secondly, reporting is a means for companies to *communicate outwards*. With a steadily increasing demand to be seen to be socially responsible, reporting can be a good means of satisfying stakeholders such as customers, employees, owners, investors, voluntary organisations, NGOs, the media, business partners, the academic establishment, the authorities, etc. Reporting thereby contributes to openness and transparency, something which in turn inspires confidence and good relations with the outside world. Reporting can also be used for branding, by projecting the company as environmentally and socially responsible. In other words, there are several elements that make reporting financially relevant for companies; there is a business case for non-financial reporting.

Thirdly, non-financial reporting is one way for companies to *communicate internally*. Reporting allows management to declare its priorities, to motivate and create employee awareness of the company's goals and obligations. A report will often be seen as a binding document for the company as a whole. Companies who demonstrate CSR are also considered to be more attractive to employees, and such reports could therefore contribute to boosting employee motivation, as well as attracting new employees and sought-after competence (SustainAbility 2001, Bendell 2000).

A fourth point is that reporting can both generate and maintain *internal mobilisation* with respect to CSR. Several companies claimed that the actual report itself was merely the end product of a long and much more comprehensive process within the company. A report can therefore be viewed as the tangible product of a comprehensive learning process in which a company is challenged to reflect on its identity, and expose strengths and weaknesses with respect to the enterprise's impacts on people and society. Viewed in this light, reporting could be a tool that management could make use of to measure achievements over time; "Have we attained the goals we set last year?". The company could also measure itself against other companies within the same industry or geographical area. With an increasing commitment to CSR, reporting could therefore prove to be a useful management tool.

It is important to underline that this survey assessed the quality of the companies' *reporting*; not whether the companies in reality performed well or poorly on CSR. First of all, this means that a company who pollutes or has few CSR goals would be able to score relatively high in the survey if it reported openly on environmental violations, failure to reach set goals or other weaknesses. Secondly, companies who reported well but who did not follow their goals and measures through with concrete actions could also score well. Thirdly, companies who worked earnestly on CSR but who reported poorly will come unfavourably out of our survey. We cannot, therefore, draw any conclusions about the companies' contributions to sustainable development. Nevertheless, there is little doubt that, as a rule, there is a connection between reporting and actual conduct.

In addition to the legally mandated reporting requirements laid down in the Accounting Act, the important criterion for *our* reporting evaluation was that the information be presented in an orderly and credible manner. Good sustainability reporting

² Act relating to Annual Accounts, etc (Accounting Act). Available at: <http://www.lovdato.no/all/tl-19980717-056-003.html#3-3>. Accessed on 6 October 2004.

is a matter of ensuring that the reader is able to form his own opinion about the company's performance on CSR.

1.3 Sustainability reporting as research topic

Norwegian companies and their trade organisations, chiefly the Confederation of Norwegian Business and Industry (NHO), highlight sustainability reporting as an expression of a company demonstrating CSR. Such reporting has also received more media attention over recent years, partly due to last year's ProSus analysis (Gjølborg and Meling 2004), as well as to the annual prizes for best environmental reporting and best reporting on CSR, which are awarded by a collaboration of eight business and industry organisations.⁵

Much of the knowledge about and research on CSR and sustainability reporting has lain with the companies themselves and with consultancy companies. These actors have a self-interest in the knowledge they disseminate, and have primarily been preoccupied with corporate and strategic considerations related to individual companies. There is therefore a need for more independent research in this area. It is here that the academic community has an important role to play.

The purpose of this report prepared by ProSus is to follow up on previous ProSus surveys. We also wish to contribute with more knowledge on sustainability reporting as a tool for companies' work on CSR and sustainable development.

1.4 Report structure

The report consists of two separate parts:

- An evaluation of *legally mandated non-financial* reporting in the *directors' report* based on the legal requirements laid down in the Accounting Act.
- An evaluation of *voluntary reporting* above and beyond the directors' report, comprising different types of *separate reports*: Sustainability reports, CSR reports, health, environment and safety (HSE) reports and similar.

Such a division makes it possible to capture both the legally mandated dimension and the voluntary initiatives often associated with CSR. This could provide a better insight into the dynamics between legally mandated requirements and volition, and what significance this could have for sustainability reporting.

Section 2 provides an account of our methodical approach and how the analysis was carried out. The findings from the evaluation of the directors' reports are presented in Section 3, and the findings from the evaluation of the voluntary reporting are presented in Section 4. In Section 5 we draw our final conclusions, look at any changes in reporting practices that have taken place during recent years, and provide suggestions for how sustainability reporting could be improved.

⁵ Norwegian Institute of Public Accountants, Norwegian Financial Services Association, Norwegian Shipowners' Association, Norwegian Society of Financial Analysts, Norwegian Association of Economists, Confederation of Norwegian Business and Industry, Norwegian Savings Banks Association and Norwegian Foundation for Sustainable Consumption and Production. Available at: <http://www.grip.no/FriskDialog/default.htm>.

2 ABOUT THE ANALYSIS

2.1 Methodical approach

Our approach is based on a methodology developed by SustainAbility⁴, a research and consultancy company regarded as a pioneer within practical work on corporate social accountability and the role of business and industry in sustainable development. Since 1992 SustainAbility has evaluated non-financial reports with a view to identifying best practice companies. SustainAbility's selection comprises the largest and most advanced companies within the area of sustainability reporting worldwide. Statoil is currently the only Norwegian company on the list of the top 100 (SustainAbility 2004a). Because SustainAbility's criteria are so comprehensive and demanding, we found it necessary to adapt them to Norwegian conditions in order to be able to uncover differences between companies. Here we made use of experiences gained from previous ProSus studies which examined both legally mandated and voluntary non-financial reporting by Norwegian companies (Ruud and Mosvold Larsen 2002, 2003; Gjølberg and Meling 2004).

With respect to the previous ProSus studies, two important methodical adjustments have been made. Firstly, the report evaluates both legally mandated and voluntary, non-financial reporting. As with the two first surveys from financial years 2000 and 2001, the reporting in the directors' report is evaluated with respect to legal requirements, but in this year's survey *voluntary* reporting done outside of the directors' report is also assessed.

Secondly, last year's survey of financial year 2003 mapped voluntary reporting on external environment and social conditions. This year's evaluation of the voluntary reporting takes this a step further by taking the triple bottom line (TBL) as its point of departure. In addition to the environmental and social dimensions, the TBL also includes the *economic* dimension. Due to this methodical amendment, some of the figures we present are not directly comparable with the results from last year's survey.

It is important to underline that the economic dimension of the TBL does not entail traditional financial analysis or purely corporate reporting as these appear in a company's annual accounts. The economic dimension of the TBL has first and foremost to do with the company's socio-economic impact at the local, national and global levels. Our utilisation of the TBL concept reflects GRI and SustainAbility's approach to sustainability reporting. This also makes our survey more far-reaching.

2.2 Research design and entities

The entities that are included in this survey are the 100 largest companies in Norway in terms of turnover for the financial year 2003. The list originates from the Norwegian financial newspaper Dagens Næringsliv⁵ (see Appendix 1). The final number of companies

⁴ SustainAbility Online. Available at: <http://www.sustainability.com/>. Accessed on: 6 October 2004.

⁵ Dagens Næringsliv derives its figures from the marketing and credit information company Dun & Bradstreet. These figures are slightly different to those from, for example, Kapital, due to calculation and a different approach to the data set. We have chosen to use Dagens Næringsliv's figures because this list is well established and was also used in ProSus' analysis of environmental reporting under the Accounting Act.

included in the survey was 98. The reason for this was that the SAS Group and the Torvald Klaveness Group are not legally obligated to file their annual accounts and reports with the Brønnøysund Register Centre. They can therefore not be included in the first part of the survey, which examined directors' reports filed with the Brønnøysund Register Centre, so we chose to exclude these two companies entirely from the survey.

The basis material for the analysis was the annual reports for the financial year 2003, plus any separate reports on sustainability, CSR, environment, ethics, HES, corporate governance and other similar non-financial themes.

There is an increasing tendency for companies to publish non-financial information on their web sites. Reports published on web sites in PDF format, or that could be downloaded and appeared to be integrated and independent documents, were included in the survey. Any other information that appeared on a company's web site was included only if specific web sites were *explicitly referred to* in a company's hard copy version. The main reason as to why not all of the information published on the web sites was evaluated was that this information is often under continual revision and updating. A fair and overall comparison of companies would have been difficult to undertake, and would have demanded greater resources and a different methodical approach to carrying out the analysis. Moreover, our delimitation is in line with SustainAbility's method, which includes web sites *only* if explicitly referred to, and if they appear to be an integrated element in a company's reporting (SustainAbility 2004b:5).

Since many companies view the internet as their most important channel of communication, this choice of methodology could of course be debated. Our exclusion of some of the information published on the web sites may well have resulted in some companies coming less favourably out of the survey than they may otherwise have done. However, we registered only two of the 100 largest companies as having had important information on their web sites that was not referred to, or that did not appear, in the hard copy version of their report. A number of companies gave a general presentation of CSR on their web sites, but these lacked factual reporting in the form of figures, measures or goals for environmental or social aspects that are relevant to the enterprise. Neither did they contain anything about management systems, codes of conduct, or supply chain management. In any case, these companies would have scored very low in the survey.

References to a parent company's or subsidiary company's reporting were not included in our evaluation because this would have given a distorted picture of the company's reporting practice. As an example, the survey did therefore not take into account BP's international sustainability report when evaluating BP Norway. This means that subsidiaries of Norwegian parent companies were also not evaluated on the basis of the parent company's reporting. For example, Statoil ASA's reporting had no bearing when evaluating its subsidiary company Statoil Detaljhandel Skandinavia.

As already stated, the report consists of two separate parts: Part 1 assesses the directors' reports with respect to the legal requirements laid down in the Accounting Act. Part 2 is an evaluation of voluntary reporting comprising different types of separate reports.

2.3 Legally mandated reporting in the directors' report – variables and categories

The first part of the survey examines the reporting in the directors' report. The directors' report is the part of the annual report that is signed by the board of directors, and is sent

to the Brønnøysund Register Centre together with the annual accounts. This information should contain the essence of the company's operations, and the board of directors are legally responsible for the information submitted. This part of the survey follows up and expands on previous evaluations carried out by ProSus of Norwegian companies' environmental reporting, based on the legal requirements laid down in the Accounting Act (Ruud and Mosvold Larsen 2002 and 2003). This year's methodical approach deviates somewhat from previous years, and the figures that emerged from the first two surveys are therefore not directly comparable with this year's results.

We evaluated the directors' report with respect to the legal requirements laid down in the Act relating to Annual Accounts, etc (Accounting Act), Section 3-3: Contents of the Annual Report, Subsections 9, 10 and 11.⁶ These deal with reporting requirements for working environment, gender equality and external environment respectively. Our operationalisation of what the Act requires in terms of specific information was based on recommendations and viewpoints from the NHO, the Norwegian Accounting Standards Board (NRS), and the Gender Equality Ombud. These are presented in more detail in Section 3.

The Accounting Act requires reporting in the directors' report itself. Our assessment does therefore not include information provided elsewhere than in the directors' report, even in cases where reference was made to a separate environmental, HES or similar report. Information given in separate reports was captured by Part 2 of the survey, which evaluates voluntary reporting.

For each of the three legal requirements (environment, working environment and gender equality) we evaluated the companies' reporting in terms of five categories, where 0 was the lowest score and 4 the highest. The table below gives an overview of what the different categories signify.

Category 0: Not mentioned	Environment/working environment/gender equality not mentioned.
Category 1: Mentioned	Environment/working environment/gender equality mentioned, but no reporting in relation to own enterprise. Alternatively, the theme is dismissed as irrelevant, for example by stating: "The company has no impact on the external environment".
Category 2: Insufficient	Reports on own enterprise, but lacks one or more required points (e.g. measures, figures).
Category 3: Satisfactory	Reports on all relevant points and meets the legal requirements.
Category 4: Very satisfactory	Comprehensive and accurate reporting above and beyond the legal requirements.

Based on our interpretation of the wording of the Accounting Act, all reporting that fell under Categories 3 and 4 met the legal requirements thereof. These companies were therefore regarded as "law-abiding". Companies whose reporting fell under Categories 0, 1 or 2 were deemed to be "law offenders" in the sense that their reporting practices did not meet the legal requirements.

⁶ Act relating to Annual Accounts, etc (Accounting Act). Available at: <http://www.lovdata.no/all/tl-19980717-056-003.html#3-3>. Accessed on: 6 October 2004.

2.4 Voluntary reporting in separate reports – variables and categories

The second part of the survey examines voluntary sustainability reporting *over and above* the directors' report. This material was taken from separate sections in the annual reports and from separate non-financial reports. For financial year 2003, 49 of the 98 selected companies provided such information within or separate to their annual report. A further four companies referred to information published by a foreign parent company, but this information was not included in the analysis (cf. p. 14).

The analysis of the voluntary reporting was based on criteria developed by SustainAbility, GRI and ProSus. With the exception of some minor adjustments and additions, we have evaluated the reports according to the same variables as were utilised in last year's ProSus report (Gjølberg and Meling 2004). We considered the following four variables:

Variable 1: General CSR

This variable captures the *general* impression a company gives of its understanding and management of CSR. The reporting was evaluated in terms of the company's own operations. We examined how the companies reported on central and relevant challenges, as well as on the presentation of figures, measures and goals. Furthermore, stakeholder relationships, which was a separate variable in last year's report, was included here.

Variable 2: Management systems

This variable refers to a company's description of how, in an organisational and practical sense, it ensures that CSR is taken care of within the company. This means that the company must inform about the management mechanisms and control systems that exist for ensuring that the company's policies and codes of conduct are observed, and that deviations are uncovered and rectified. Also included here are various type of environmental and social certification such as ISO and EMAS, as well as information about delegation of responsibility and whether responsibility is consolidated at top management or line management level or in a separate department/division within the company.

Variable 3: Codes of conduct

This variable examines adopted codes of conduct for companies' conduct with respect to CSR. This can include themes such as environment, corruption, HES, employment conditions etc. It may be a single document, but it should be adopted by the concern as a whole and comprise items with an overarching, entrenched policy. In this way a company can clearly communicate both outwards and internally on what it considers to be acceptable conduct.

Variable 4: Supply chain management

The fourth variable evaluates how a company communicates what demands it makes of its suppliers. A company's supply chain management sends out signals – not just to suppliers, but also to other stakeholders – about the kind of conduct the company does and does not accept. Does the company report on whether it demands that suppliers follow specific codes of conduct, for example ones that are in line with the environmental, social and ethical codes of conduct the company has set for itself?

In the same way as for the directors' report, we evaluated the companies' reporting on each of the four variables in terms of five categories, where 0 was the lowest score and 4 the highest. Reporting on each of the variables was categorised according to the following scale:

Category 0: Not mentioned	Theme not mentioned.
Category 1: Mentioned	Theme briefly mentioned in general terms, but no reporting on own operations. Alternatively, theme dismissed as irrelevant.
Category 2: Insufficient	Theme described with reference to own enterprise, but reporting has major deficiencies with respect to analysis, content and presentation.
Category 3: Satisfactory	Theme described and analysed with respect to own operations. Problems are identified and challenges and solutions are considered, but reporting has some deficiencies with respect to content and presentation.
Category 4: Very satisfactory	Theme is described and analysed systematically and comprehensively with respect to the company's operations. The company demonstrates an integrated and overall perspective.

In our opinion, all four variables have relevance for all the companies. An illustrative example is environment. Many regard environmental impact as relevant only to companies involved in heavy industrial production. From the perspective of sustainability, however, all large companies have an environmental impact, due to their size if nothing else. The impact can be in the form of office materials, waste, air travel, power and water consumption, choice of suppliers/cooperation partners etc. The decisive point is that companies identify and report those aspects of each of the variables that are most relevant for *their* business operation. We therefore rated all the companies on all the variables, and made no exceptions for office-based companies or holding companies, who do not pollute in the conventional sense of the word.

When evaluating reporting practices an emphasis was placed on a reader-friendly and easy to understand presentation. This means that reports that appeared to be complete in terms of information but that were difficult to follow and laboriously presented were placed in Category 4, but these companies will not be cited as examples to be followed.

2.5 Validity and reliability

Validity is about whether the survey is designed in an expedient and appropriate manner (Hellevik 1997:159). Are we rating what we want to rate with the approach we have chosen? There are clearly many different methods by which one can rate and map non-financial reporting. Other variables could be included and more roughly or finely graduated scales could be used to grade the results. However, we consider our system to be solid and scientifically defensible. The final choice of method for the survey was presented to and adapted by a project team at ProSus with considerable specialist competence. In addition to this, representatives from the NHO made useful contributions to refining the approach. This enhanced the validity of the survey.

Our research design for evaluation of the directors' report was derived from the legal requirements in the Accounting Act, while evaluation of the voluntary reporting was

based on SustainAbility's method, which has been tested on international sustainability reporting for more than ten years (SustainAbility 2004b). Regarding the basis for the actual rating, we opted for criteria that were slightly different and more lenient than those adopted by SustainAbility. This is because SustainAbility's design is based on global, leading companies within CSR of whom one has higher expectations than the companies involved in our survey. Nevertheless, the variables we included are, in our opinion, capable of capturing the most relevant aspects of sustainability reporting by Norwegian companies.

Statistics Norway's latest summary indicates that there are just over 440,000 companies registered in Norway.⁷ Only 2,700 of these (0.5 per cent) have more than 100 employees. As many as 282,000 companies (65 per cent) have *no* employees. These are holding companies, or so-called paper companies. At the end of 2003 there were 178 companies listed on the Oslo Stock Exchange.⁸ 15 of these companies are so large that they are also listed on stock exchanges in other countries or on international stock exchange indexes. In other words, there are only a few large companies in Norway. The reason for selecting the 100 largest Norwegian companies in terms of turnover was made on the grounds that, because of their size and resources, these companies could be expected to deliver the most substantial levels of reporting. It is these companies who have the largest influence on the Norwegian economy and society, and the results could to a certain degree be compared with previous ProSus surveys based on the same selection.

Reliability refers to how compliant and reliable the actual data collection is. There are often two challenges one can come up against here. Firstly, there can be deficiencies in the actual data collection itself. In order to remedy this, requests were first sent out by e-mail to all 100 companies. We then followed these up with telephone calls to ensure that we had received all available reports. Secondly, the rating of the variables is to a large degree a discretionary evaluation. In order to counteract unbalanced and inconsistent evaluating all reports were independently assessed by two persons. The ratings were then compared and, in cases where assessments differed, agreement was reached after deliberation. Particularly difficult cases were reviewed twice. In this way we could ensure that the rating scale was as consistent as possible for all the companies concerned.

⁷ Statistics Norway. Available at: <http://statbank.ssb.no/statistikkbanken/>. Accessed on: 19 November 2004.

⁸ Oslo Stock Exchange. Available at: <http://www.oslobors.no/servlet/BlobServer?blobcol=urlblob&blobheader=application%2Fpdf&blobkey=id&blobtable=Document&blobwhere=1085394739688&1085394739688.pdf>. Accessed on: 17 November 2004.

3 LEGALLY MANDATED REPORTING IN THE DIRECTORS' REPORT

3.1 Introduction

As the highest executive organ in a company, the board of directors has a central position. It is therefore particularly interesting to see what a board of directors writes about non-financial themes in their annual report. First of all, the directors' report has a special status, both legally and with respect to signal effects, since it is signed by the board members. Secondly, the annual report is available to the public by virtue of obligatory filing with the Brønnøysund Register Centre. Thirdly, since annual reports are sent to company shareholders, investors, the media and others, the directors' report is read by a wide section of the public. Various kinds of sustainability reports, on the other hand, are often intended for a smaller audience with a special interest.

In Norway we have a rather unusual situation in that the Norwegian Accounting Act requires all companies who are legally bound to keep accounting records to report on three non-financial themes in their directors' report. Since the financial year 1998 all Norwegian companies have been required to report on the impacts they have on the external environment. This requirement entailed a radical tightening of the Accounting Act of 1977 in which the board of directors was required to account for “whether the enterprise pollutes the external environment”. The new Accounting Act requires that all companies in Norway who are legally bound to keep accounting records are obligated to report on “not insignificant impacts on the external environment”, irrespective of their size or of whether they had a discharge permit granted by the Norwegian Pollution Control Authority.⁹ In the same year as the environmental requirements were tightened a new requirement was introduced concerning reporting on the working environment, requiring detailed information on absences due to illness, injuries and accidents. From 1 January 2003 a third legal requirement was introduced concerning the situation on and measures relating to gender equality within the company.

All three of these legal requirements laid down in the Accounting Act sparked debate, and it was therefore interesting to find out to what degree the companies in our selection had managed to arrive at a functional form of reporting for the two more established requirements concerning environment and working environment. Furthermore, it was interesting to find out whether the companies had managed to take on board the new requirement regarding gender equality. The financial year 2003 was the first year for reporting on gender equality, and this was therefore the first time a survey of how the companies followed up this requirement could be carried out.

3.2 Reporting on the external environment

According to the wording of the Accounting Act, Section 3-3a, Subsection 11, the board of directors is obligated to report on the following conditions:

⁹ For more details see: Proposition to the Odelsting no. 42 (1997-1998), Chapter 11.

Information concerning current activities, including production inputs and products, that could cause a not insignificant impact on the external environment shall be provided. Information on the types of environmental effects the different aspects of the operation have or could have, and what measures have been implemented or are planned to implement to prevent or reduce negative environmental effects shall be provided.

This wording demands a relatively comprehensive reporting obligation inasmuch as it requires reporting on input factors, products and aspects of the operation that both have and could have a not insignificant impact on the external environment, as well as reporting on measures. This clause has been the subject of much debate because the phrase “not insignificant impact” leaves room for different interpretations (Ruud and Mosvold Larsen 2003:12-15). Both the Norwegian Accounting Standards Board and the NHO have written guidelines and recommendations regarding exactly what type of information the companies must provide. For evaluating the environmental reporting we took NHO’s recommendations as our starting point.¹⁰ There it is pointed out that even if a company publishes a separate environmental report, the following information must be included in the directors' report:

- Production inputs (including chemicals) and their environmental impacts
- Emissions and waste from production and their environmental impacts
- Environmental impacts due to use and scrapping of products
- Implemented or planned measures for preventing or reducing negative environmental effects

The authorities have done little in the way of following up these environmental requirements, either in terms of providing correct interpretations of the wording of the Act or by enforcing the requirements. There is, for example, no requirement for undertaking an external audit of the information, as in accordance with the Auditing Act. The environmental requirements can thus be said to be left in a regulatory vacuum.

In order for companies to meet the minimum legal requirements of the Act we set a minimum requirement for quantitative information relating to resource management (for example electricity consumption, transport, emissions, waste and recycling) and for an identification of measures. In a strict interpretation of the law this would not be adequate because there are a number of other conditions, for purely office-based companies too, which could be said to have an environmental impact, such as electronic and office equipment, building mass, etc.

For companies producing material products we set an additional requirement to report on all relevant conditions related to the production. In a strict interpretation of the law this would not be adequate either, because it could be argued that the law requires reporting on the entire life cycle, i.e. not just the production stage. Here, too, we have opted for a somewhat more lenient interpretation of the wording than that recommended by the Norwegian Accounting Standards Board and the NHO. Nonetheless, we found that very few companies managed to satisfy even a lenient interpretation of the law. Figure 3.1 illustrates how the 98 companies scored on a scale from 0 to 4.

¹⁰ Accounting Act’s requirement for environmental information: NHO’s recommendations. Available at: <http://www.nho.no/article2801.html>. Accessed on: 6 October 2004.

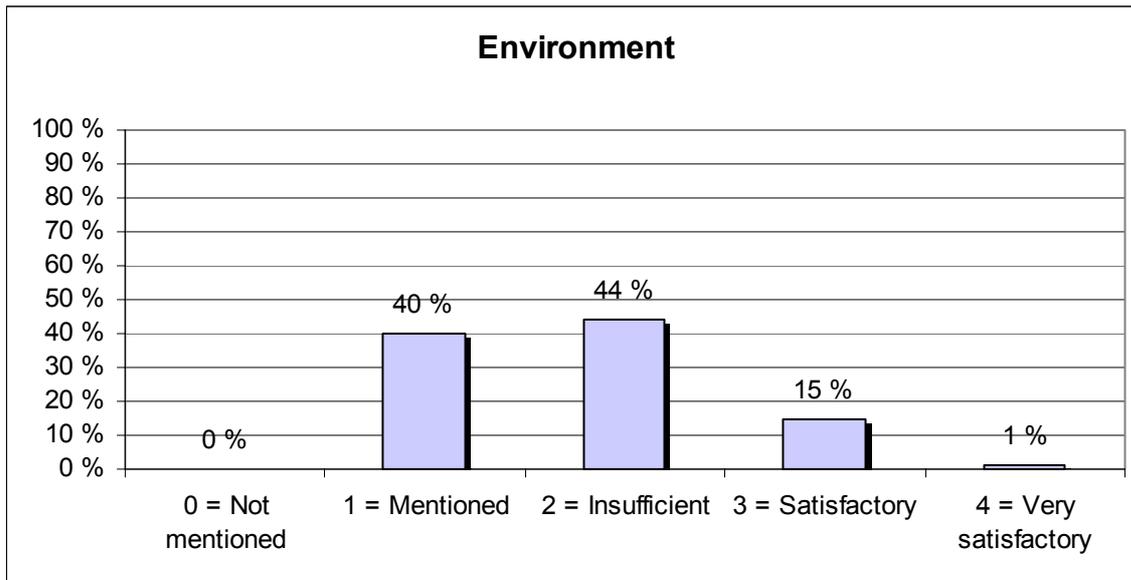


Figure 3.1 Reporting on the external environment in the board of directors' report (N=98)

Only 16 per cent of the companies reported satisfactorily and could be regarded as “law-abiding”, and only one of these companies reported above and beyond the legal requirements. This was ENI Norge, who excelled in terms of reader-friendliness, systematic structure and comprehensive reporting on external environment in the directors' report. The company informed of waste and energy consumption on its office premises, different types of emissions and waste on the Norwegian Continental Shelf, as well as environmental measures and surveys.

As much as 84 per cent of the 98 companies landed in Categories 0, 1 or 2 and could be classified as “law offenders” since they did not meet the minimum requirements of the Accounting Act. Some companies did report on one or more issues relating to energy consumption, transport, chemicals, emissions and waste, recycling and different types of environmental measures. Almost none of them, however, provided information that could be linked to all four issues in NHO’s recommendations: the input factor of production, emissions and waste, environmental impact due to use and scrapping of products, and measures to prevent or reduce negative environmental effects (cf. p. 20).

The environmental requirements demand very comprehensive reporting, and although almost no companies reported satisfactorily under the legal requirements, there were several companies in the petroleum sector besides ENI Norge who reported well and comprehensively on environment in the directors' report. Among these were Norske Shell and ConocoPhillips, who placed an emphasis on reporting on waste management and emissions of oil and GHG gasses into the air and sea.

Interestingly enough, none of the companies omitted to mention environment as a theme, but of the 40 companies who managed to score 1 point (“mentioned”), as many as 12 of them rejected that they were under obligation to report by writing: “The company does not pollute the external environment” or similar wording. By our interpretation of the Accounting Act, all types of companies, including office-based companies and holding companies, are obligated to report as long as the law includes all companies legally bound to keep accounting records and the phrase “non-significant impact” remains. In the previous wording found in the Accounting Act of 1977 the focus was placed on *pollution*,

not *insignificant impact*. This justifies that purely office-based companies at that time could regard the requirement as not relevant to them. As well as including companies who denied any environmental impact, Category 1 (“mentioned”) also embraces companies who acknowledged an environmental responsibility but who made no attempt to report on their own operations. Category 2 (“insufficient”) embraces a more mixed group in which some companies reported very insufficiently while others made attempts to follow the law but failed. In other words, they remain “law offenders”.

3.3 Reporting on working environment

The legal requirement to report on working environment is worded in a much more specific and self-explanatory manner than that on external environment. The Accounting Act, Section 3-3, Subsection 9 reads as follows:

Information on working environment and a summary of implemented measures that are significant to the working environment shall be provided. Information pertaining to absences due to illness, injury or accident shall be provided separately.

The NHO recommends that the directors' report should as a minimum provide a summary of the percentage of absences due to illness, the number and type of personal injuries leading to absences due to accidents (H figure) or other reasons, accidents leading to significant material damage, and implemented measures significant to the working environment.¹¹

In line with the wording of the legal requirements and in order to meet the legal requirements, we set a minimum requirement of the following information: total absences due to illness, accidents and injuries and a description of measures relating to the working environment shall be provided. If this information was provided, the company scored 3 points (“satisfactory”). In order to win a place in Category 4 (“very satisfactory”), extensive information had to be provided, including other factors of relevance to the working environment. Companies who reported very satisfactorily wrote well about various measures taken and how they worked on employee satisfaction, health and safety. Several companies reported on signed agreements on inclusive working environment, annual employee surveys, HSE courses (health, environment and safety) for employees, working environment committees, internal audits, etc.

The results for this variable were as follows:

¹¹ Accounting Act's requirement for environmental information: NHO's recommendations. Available at: <http://www.nho.no/article2801.html>. Accessed on: 6 October 2004.

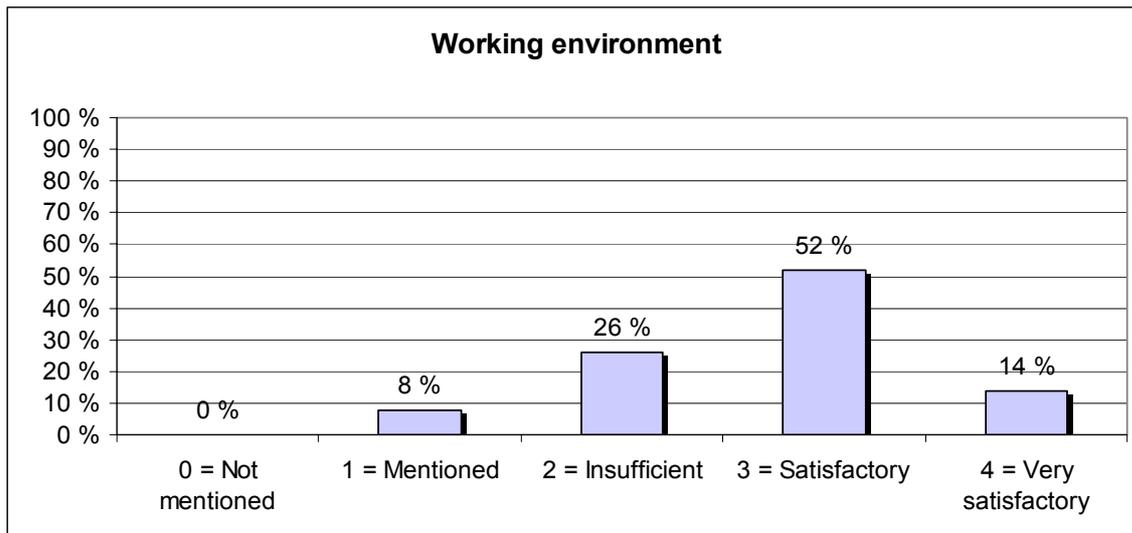


Figure 3.2 Reporting on working environment in the board of directors' report (N=98)

It can be seen here that as much as 66 per cent of the companies could be classified as “law-abiding” and 14 per cent of these reported very satisfactorily. Jotun, Aker Kværner and Posten were among those who excelled in providing systematic and informative reports. Aker Kværner wrote about the company’s new personnel policy, “People Policy”, and about a global employee survey, “Listening to People”. Posten reported on an employee satisfaction survey, competence development and management programmes, establishing an internal employment service (Jobbørs), reorganisation and relocation of the head office and the impacts this had in terms of the working environment, as well as a review carried out by the Norwegian Labour Inspection Authority in the spring of 2003. Jotun’s report was brief, but it did mention measures taken to improve the working environment such as the installation of dust filters, ventilation systems, first aid stations and air cooling systems.

26 per cent of the companies reported insufficiently, but this does not necessarily mean that the deficiencies were extensive. For example, some companies lacked figures for absences due to illness, injuries or accidents. Only 8 per cent ended up in Category 1 for more or less non-existent reporting, and *no* company in the selection omitted to mention working environment.

3.4 Reporting on gender equality

The Accounting Act’s Section 3-3, Subsection 10 contains the following requirement to report on gender equality in the directors' report:

An account of the actual state of gender equality in the enterprise shall be provided. An account of measures implemented and measures planned to promote gender equality and to prevent discrimination contrary to the Gender Equality Act shall be provided.

This is a new reporting requirement that has not been examined since it was incorporated into the Accounting Act in January 2003. As in the case of working environment, the wording is relatively self-explanatory and precise.

Here, too, we opted for a lenient interpretation of the legal requirements. With respect to accounting for the actual state, our minimum requirement was that information on gender distribution for the company as a whole, as well as for the company’s manage-

ment, should be provided. With respect to reporting on measures, our minimum requirement was that the companies should report on what measures they had in place. For this theme we also accepted the following type of reporting: “We have no measures in place with respect to gender equality”. The main purpose of reporting is to provide transparency for stakeholders, and being candid about not having any measures in place provides the reader with this information. Whether or not this represents a breach of the Gender Equality Act is another matter. In our opinion it does not represent a breach of the *Accounting Act*, which is what we are analysing in this report.

The NHO and the Gender Equality Ombud go a step further in their recommendations and suggest reporting on, for example, gender distribution in terms of pay, part-time work and recruitment. The NHO makes the following recommendation:

For most companies it would be relevant to account for the gender balance in general and at management level, pay conditions and other factors relating to recruitment and further training/education of employees.¹²

The Gender Equality Ombud is currently working on mapping and evaluating gender equality reporting by Norwegian companies. The Ombud has adopted more far-reaching criteria for its basis than those of the NHO and ProSus. According to the Ombud, gender distribution in terms of recruitment and internal promotion as well as working hours schemes should also be reported on if the report is to be complete.¹³ These more specific recommendations by the NHO and the Gender Equality Ombud cannot, in our opinion, be derived from the wording of the Act. We chose therefore to classify this reporting as “very satisfactory” and to acknowledge it as exceeding the minimum legal requirement.

Despite gender equality reporting being a new legal requirement, it seems that companies have taken this legislative amendment on board and are making praiseworthy efforts to report correctly. The results for the companies were as follows:

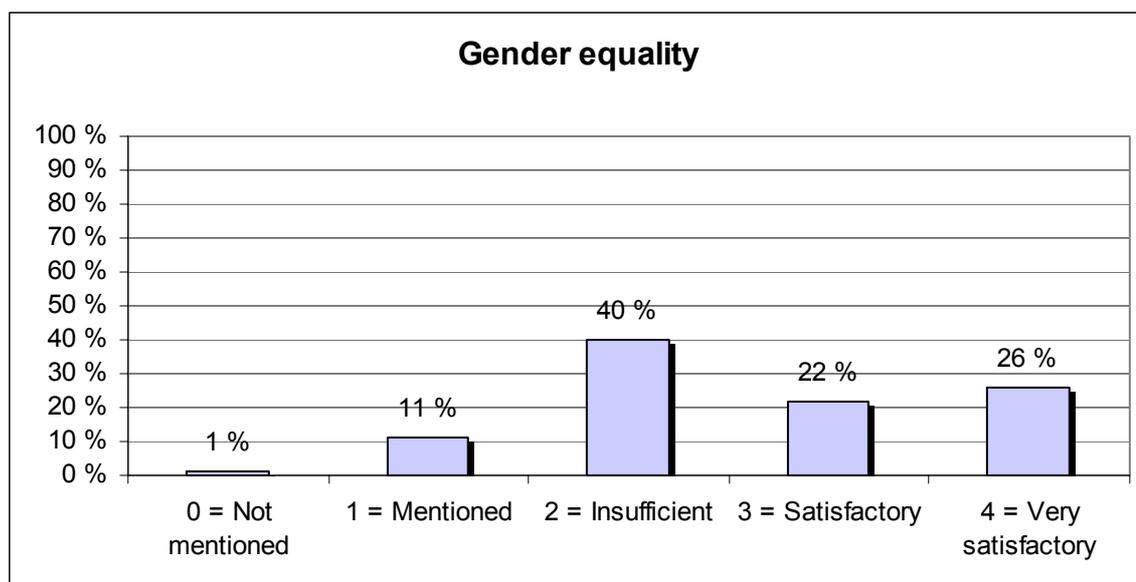


Figure 3.3 Reporting on gender equality in the board of directors' report (N=98)

¹² Gender Equality reporting. Available at: <http://www.nho.no/article4614.html>. Accessed on 6 October 2004.

¹³ Activity and accounting obligations in the private sector. Available at: http://www.likestillingsombudet.no/fremme/16290_lopri.pdf. Accessed on: 6 October 2004.

In this case 48 per cent of the 98 companies could be classified as “law-abiding”, with satisfactory or very satisfactory reporting. Compared with the reporting done on working environment this was a poorer result. There were, however, several companies who reported above and beyond our minimum requirements and who were therefore awarded the highest possible score (Category 4) for gender equality.

Companies who distinguished themselves by exemplary reporting, included Orkla, Statkraft and TINE. They provided easy to understand statistics on gender balance in the company and an informative account of gender equality measures. Orkla reported on a network group who substantiated measures to promote women to managerial positions, a mentor scheme and a personnel and management development system which works to give female employees a “lift” in terms of career development. TINE reported that the company had assigned a gender equality coordinator, arranged motivation courses for women, and facilitated flexible working hours. Other companies mentioned the NHO’s programme “Female Future” or reported on various types of equal opportunity measures to promote diversity in terms of age, cultural background, etc.

As already commented, gender equality reporting stood out by virtue of having the largest percentage of very satisfactory reporting compared with that done on working environment and external environment. Nevertheless, as much as 40 per cent of the companies ended up in Category 2 (“insufficient”) and were therefore considered to be “law offenders”. However, rectifying some of the minor weakness would normally be enough for these companies to advance to Category 3 (“sufficient reporting”).

On the whole the results gave the impression that the legal requirements relating to gender equality have been readily incorporated into companies’ reporting practices. Only one of the 98 companies failed to do so, and omitted to mention gender equality in the directors' report.

3.5 What are the reasons for the variation in reporting practices?

The figures in this survey indicate fairly large differences in legally mandated reporting on external environment, working environment and gender equality. Figure 3.4 illustrates the percentage of companies who reported satisfactorily or very satisfactorily in the directors' report, based on all the 98 companies in the selection.

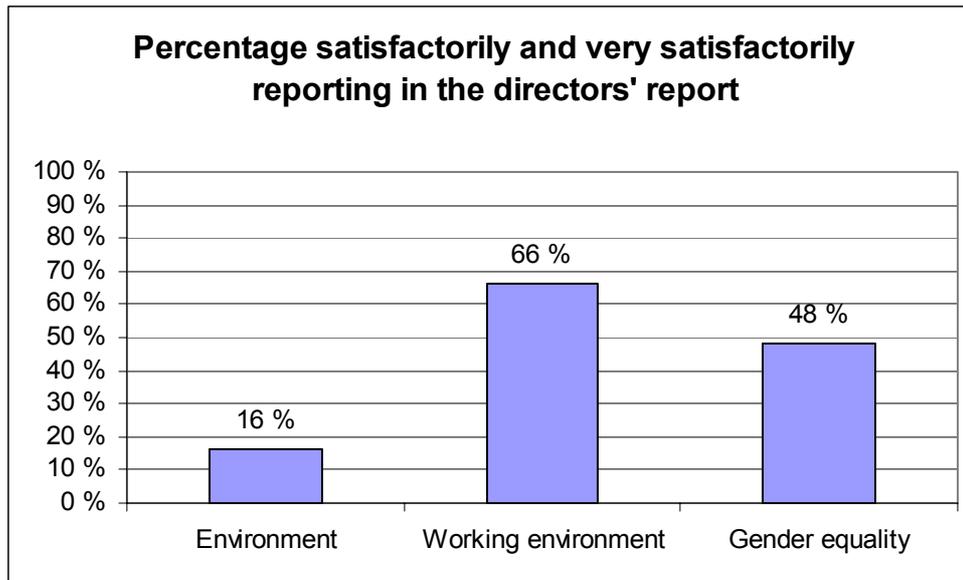


Figure 3.4 Percentage satisfactorily and very satisfactorily reporting in the board of directors' report (N=98)

The best result was achieved for working environment, where 66 per cent of the companies reported satisfactorily or very satisfactorily. 48 per cent reported satisfactorily or better on gender equality. The poorest result achieved was for external environment, where only 16 per cent of the companies reported satisfactorily or very satisfactorily.

We see the same tendency if we compare the average scores for reporting on the three legal requirements. The average score for external environment was 1.3, in other words between Category 1 ("mentioned") and Category 2 ("insufficient"). The average score for gender equality was 2.6, in other words between Category 2 ("insufficient") and Category 3 ("satisfactory"). The score for working environment was a little higher, with an average score of 2.7. This means that all three average scores fell *below* Category 3, the category that represents the level of reporting which we consider satisfactorily meets the requirements of the Accounting Act.

In terms of total score for all three variables, the best legally mandated reporting was provided by ENI Norge and Posten, with 11 of a possible 12 points. Posten lost one point for its environmental reporting, while ENI Norge lost one point for its reporting on gender equality. Together with Norske Shell and ConocoPhillips, ENI Norge has been mentioned as an example of a company with good environmental reporting practices. Jotun, Aker Kværner and Posten reported well on working environment, while Orkla, Statkraft and TINE reported well on gender equality. (For a complete summary of exemplary reports see Attachment 3: Exemplary Reports).

What can explain the different results for reporting done on environment, working environment and gender equality? We shall point out four factors that could have significance.

First of all it is possible that *mobilisation among the employees themselves and trade union movements* contributed to better reporting practices with respect to working environment and gender equality. These are topics that directly concern the employees, and the demands and expectations of the employees may have resulted in access to more data and greater transparency relating to these areas.

Secondly, since they were introduced in 1996, the Internal Control Regulations have required all enterprises to have management systems and to keep statistics on HES-related issues.¹⁴ The Internal Control Regulations' requirement for accessible information may have made it easier for companies to meet the requirements under the Accounting Act for reporting on working environment and absence due to illness, injury and accident. When the Internal Control Regulations were introduced they caused some controversy, and there was a debate over whether it would be at all possible to quantify and collect information on such themes. In the course of time various systems have been developed to work systematically on different aspects of HES, and the reporting in the directors' reports shows evidence of this. It seems today to be a matter of course to report on working environment and none of the companies in our selection ignored this legal requirement.

One argument against the contention that the Internal Control Regulations can explain some of the differences between working environment and environmental reporting is the fact that, as far back as 1977, the Accounting Act legally required companies to account for "whether the enterprise pollutes the external environment". However, this requirement applied only to companies who had discharge permits granted by the Norwegian Pollution Control Authority; in other words, companies with the greatest potential to pollute. Today's environmental requirements apply to all enterprises, including office-based companies, and it is therefore a relatively new requirement for the majority of the companies in our selection.

Thirdly, there is much evidence to suggest that the *legal wording* heavily influences the quality of the reporting. If one reads the requirements for environmental reporting contained in the Accounting Act, the wording can be perceived as very unclear and vague (Ruud and Mosvold Larsen 2002; 2003). To begin with one could question the wording of the phrase: "not insignificant impact". What is "insignificant" and what is "not insignificant"? What is implied by the word "impact"? Secondly, it is also unclear what is considered to be "environmental effects the different aspects of the operation have or could have". What is considered an "environmental effect", and how should one define "have or could have"? Does this apply to the manufacturing of the product, the use of the product and the scrapping the product – in other words, the whole life cycle? This is difficult to infer from the legal wording. The authorities have not followed up with guidelines, interpretations or information. Neither have they actively enforced the law.

Our fourth argument is that the differences are due not only to the requirements for environmental reporting being more obscure, but also to them being *more far-reaching* in practice than those laid down for working environment and gender equality reporting. The amount of information demanded by the environmental requirements is enormous, while the information for the other two requirements is specific and more circumscribed. While very few companies could be expected to report satisfactorily on external environment, it was easier for them to report in accordance with the law on working environment and gender equality, and the results differed accordingly. Our impression is that the quality of environmental information provided in the directors' report was often better and more comprehensive than that provided on working environment and gender equality, but the variances in the wording and expectations expressed in the legal

¹⁴ No. 1127: Regulations relating to Systematic Health, Environmental and Safety Activities in Enterprises (Internal Control Regulations), (6 December 1996) partly based on the Worker Protection and Working Environment Act from 1977.

requirements have led to poorer results for reporting on external environment in our survey.

4 VOLUNTARY REPORTING IN SEPARATE REPORTS

4.1 Introduction

For the financial year 2003, 49 companies (or half of the 98 companies included in this survey) published some form or other of separate information on CSR. This was either in the form of a separate hard copy report in addition to the company's regular annual report, or as separate chapters/pages dealing with non-financial issues included in the annual report itself. We evaluated the voluntary separate reporting using four variables as our starting point: General CSR, management systems for CSR, codes of conduct and supply chain management.

An increasing number of companies are adopting the idea of the triple bottom line (TBL) as the basis for their sustainability reporting. The concept of the TBL was introduced in 1994 by John Elkington, chairman of SustainAbility. The TBL links CSR to three dimensions: an environmental, a social and an economic dimension. This is illustrated in Figure 4.1

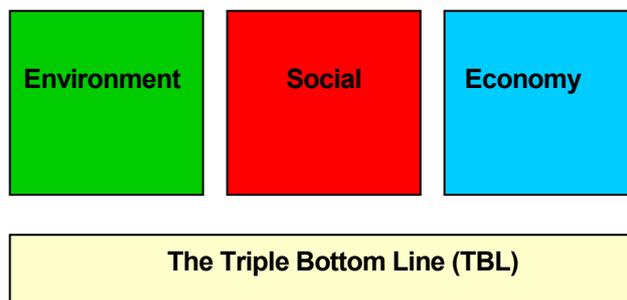


Figure 4.1 The Triple Bottom Line (TBL)

Both the GRI and SustainAbility base their approaches to corporate responsibility on the concept of the TBL and, as already mentioned, we opted to follow this approach. The four variables (General CSR, management systems, codes of conduct and supply chain management) were therefore divided into three dimensions in accordance with the notion of the TBL.

The economic dimension of the TBL entails more than traditional financial analysis or purely corporate reporting as these appear in a company's annual accounts. The economic dimension has first and foremost to do with the company's socio-economic impacts on different stakeholders and on society as a whole. The GRI has the following to say about the economic dimension of the TBL:

The focus of economic performance measurement is on how the economic status of the stakeholder changes as a consequence of the organisation's activities, rather than on changes in the financial condition of the organisation itself. (GRI 2002:46).

In our survey we evaluated whether and how companies reflected on the socio-economic impact they have on local, national and global economies. This included tax contributions,

employment, pay and pensions, using locally-produced products and services in the enterprise in general and for investments, developing infrastructure, innovation, entrepreneurship, and transferring competence and technology to local communities. We also included ethical themes such as corruption, bribery and other forms of economic crime in the economic dimension.

Information on the companies' web sites was only included in the analysis when relevant web sites were explicitly referred to in the written rapport, for example regarding ethical guidelines or corporate governance. The reports and documents that were available on the web sites in PDF format and that appeared to be complete, independent documents were also included.

It should be underlined that the percentages presented in the figures are based on the 49 companies who had separate reports. This means that to look at the selection as a whole (98 companies), then the percentages must be adjusted downwards by approximately half in order to present an accurate picture. This is because the remaining 49 companies who did *not* publish separate information received 0 points on all variables.

4.2 Reporting on General CSR

This first variable was intended to capture the *general* impression a company gives of its understanding and management of CSR. The reporting is evaluated in terms of figures, measures, relevant challenges, goals and concrete examples that do not belong to one of the following three variables (management systems, codes of conduct, and supply chain management). During the evaluation we asked ourselves the following questions: Is the company aware of *what* it reports on and *why* it reports on those particular issues, or does the report seem haphazard? How much of the reporting is qualitative/quantitative? Is there a lot of information that is uninteresting or that cannot be related to the enterprise? Is the information easy to understand, and is the presentation systematic and well prepared? Are the most important elements of the business activity discussed, and are concrete examples of how the company is working on CSR given?

4.2.1 General CSR - Environment

For this theme we examined the relationship between the company and the external environment. The company should reflect on what impacts it has on the environment. An account should be given of challenges, measures and goals, and it should be reported on environmental impact in terms of what is relevant to the company. This could include, for example, emissions, waste, use of chemicals, energy consumption, recycling, transport emissions, effects on biological diversity, etc.

As can be seen from Figure 4.2, environmental reporting is relatively well entrenched in many of the 49 companies who provided separate information.

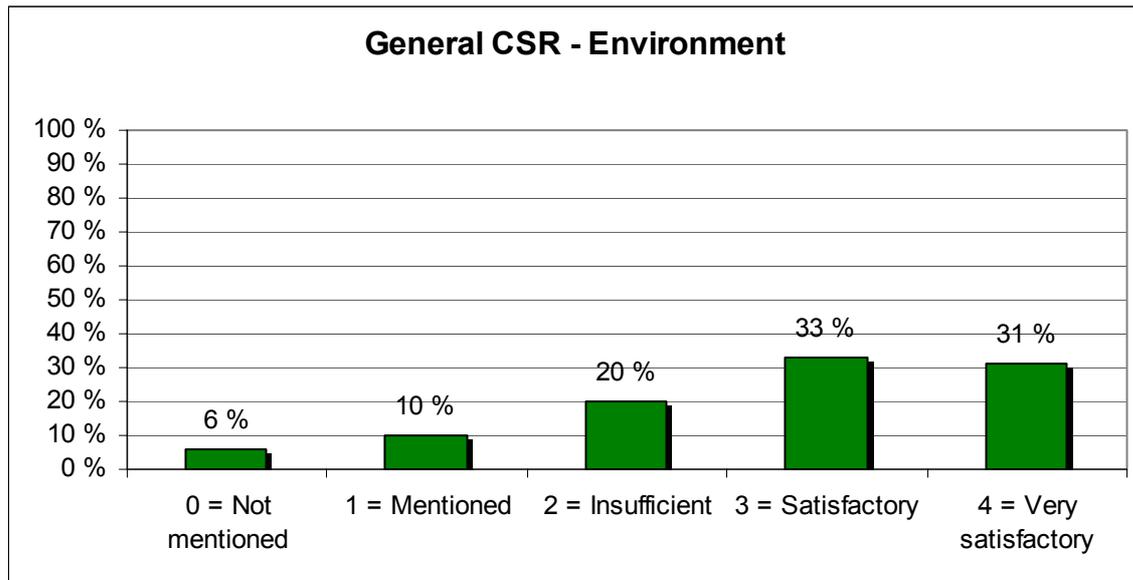


Figure 4.2 Reporting on General CSR – Environment (N=49)

31 per cent received the highest score and reported very satisfactorily on external environment, while 33 per cent were rated as satisfactory. This means that as much as 64 per cent, the equivalent of 31 companies, ended up in the top two categories. These findings testify that environment is regarded as an important variable by the 49 companies who publish separate reports. If the remaining 49 companies who did *not* publish separate reports were included, a rather different picture emerged: 31 per cent of the 98 companies reported satisfactorily, while as much as 69 per cent did not.

20 per cent of the 49 companies reported on certain aspects of their activities, but lacked information in terms of figures, measures, goals and/or identifying relevant environmental challenges. 6 per cent did not mention environment at all, while 10 per cent mentioned environment in general terms but without referring to their own operation.

Norske Skog, TINE and Elkem are among those who can be cited as good examples, with complete and reader-friendly presentations. Norske Skog provided a separate section in its annual report in which it gave a summary of emissions and energy consumption for its various plants around the world. TINE provided a separate environment and society report in which it reported comprehensively on various, relevant environmental aspects of its activities, including transportation of milk. Elkem provided a four-page environmental report integrated into the annual report, in which it reported on greenhouse gas emissions, energy conservation, emissions into the air and water and seabed disposal sites. Four other companies received 4 points, but because their reports were not quite as reader-friendly we chose not to cite them as exemplary cases.

4.2.2 General CSR – Social responsibility

The social dimension has to do with the companies' relations to *people*, both employees and others outside the company who are affected by the operation. For this variable we chose to divide the analysis into two: internal social responsibility and external social responsibility. While the internal social responsibility focuses on relations with the

employees, the external social responsibility focuses on the companies' relations to the rest of society and external stakeholders.

4.2.2.1 Internal social responsibility

Internal social responsibility includes working conditions with respect to health and safety, working environment, employee satisfaction, management and competence development, gender equality, agreements on inclusive working environment, cultural diversity and similar. Figure 4.3 illustrates the distribution of companies in terms of reporting on internal social responsibility.

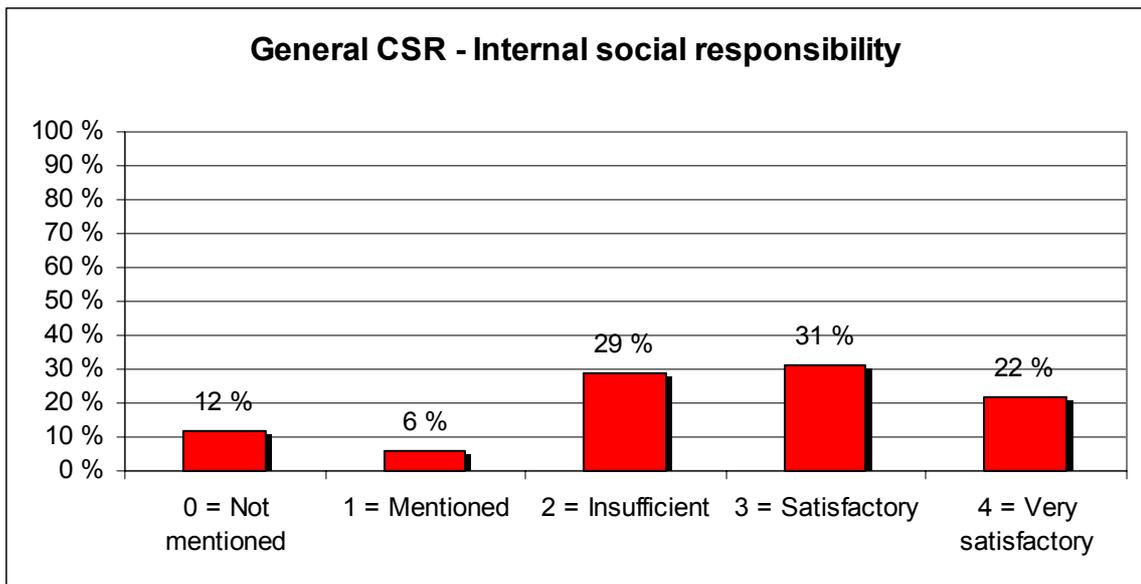


Figure 4.3 Reporting on General CSR – Internal social responsibility (N=49)

22 per cent of the 49 companies ended up in Category 4 (“very satisfactory reporting”) while 31 per cent reported satisfactorily, lacking in a few areas such as content, systematic structure and/or presentation. This means that 53 per cent (26 companies) were placed in the top two categories. It should however be underlined that if the remaining 49 companies who did not publish separate reports were included, the result would then be that only 27 per cent of 98 companies provided satisfactory or very satisfactory reporting.

29 per cent of the companies reported insufficiently, equivalent to Category 2. In these cases the reporting was incomplete with respect to important aspects of the operation. Three companies (6 per cent) did no more than to briefly mention responsibility for employees, or a related theme, while 6 companies (12 per cent) made no mention whatsoever of their internal social responsibility.

Det Norske Veritas, Amersham Health and Statkraft can be cited as exemplary cases. Amersham Health provided a very simple but informative and substantial HSE report. Det Norske Veritas used five pages in its annual report to tell how the company worked on competence development and HSE issues. Statkraft provided a separate sustainability report with a separate section on corporate culture and HSE.

4.2.2.2 External social responsibility

For *external social responsibility* the company's relations with the rest of society was evaluated. Does the company reflect on the impact it has on society and what role does it play as a responsible social actor? In what way does the company involve external stakeholders (voluntary organisations/NGOs, the local community, authorities and others) in the business activity? Are human rights, relations with local and indigenous populations, use of security forces etc discussed by companies wherever these issues are relevant? Also embraced by this variable is sponsoring and charity work associated with humanitarian organisations, sport and cultural institutions.

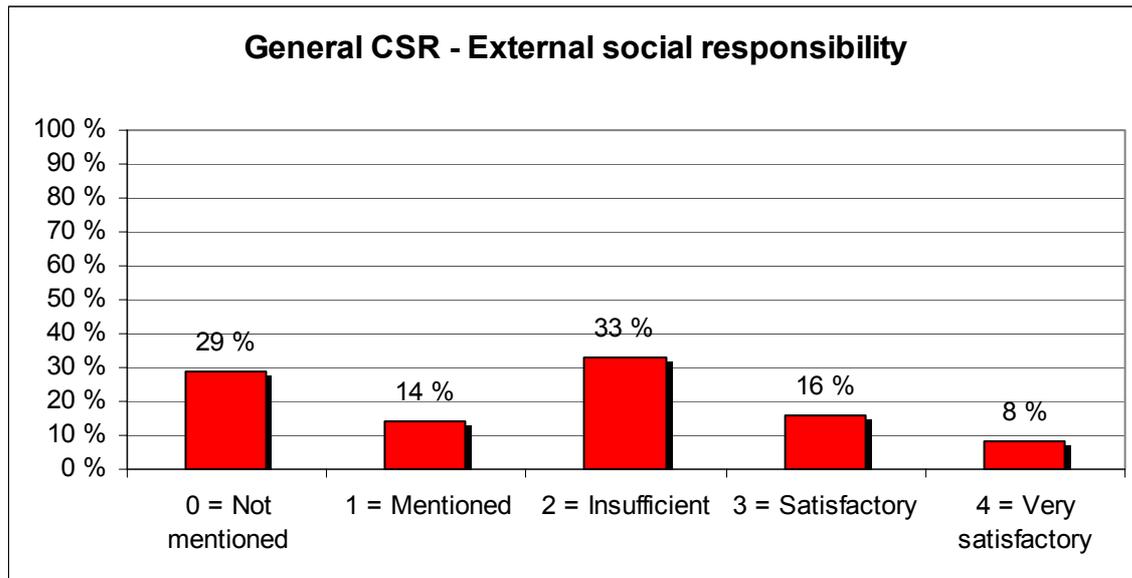


Figure 4.4 Reporting on General CSR – External social responsibility (N=49)

Compared with the results for the two preceding variables (external environment and internal social responsibility), figure 4.4 indicates that the companies' reporting on external social responsibility was poorer. Only 8 per cent (4 companies) scored 4 points ("very satisfactory") while 16 per cent reported satisfactorily. This means that 24 per cent ended up in the top two categories.

Most of the 49 companies reported insufficiently or did not mention their external social responsibility at all. As much as 76 per cent ended up in the three lowest categories; a result that bears witness to a lot of room for improvement in reporting on external social responsibility. If the whole selection of 98 companies is considered, an even poorer result emerges: 88 per cent reported unsatisfactorily.

Among those companies who reported very satisfactorily, Norsk Tipping gave a comprehensive account of its responsibility in relation to compulsive gambling, Statoil gave a good account of its international social challenges and the company's cooperation with various organisations, indigenous/local populations and other external stakeholders. Storebrand gave a good account of socially responsible investments. These three companies can be cited as good examples to follow, though there is still room for improvement in reporting on this variable, even for those who reported best.

4.2.3 General CSR – The economic dimension

In the economic dimension of the TBL we have included reporting on the companies' socio-economic impacts on the local, national and possibly global levels, as well as information on the companies' attitudes to corruption and business ethics. Our results reveal that reporting on the economic dimension of the TBL is much less widespread than that done on the environmental and social dimensions.

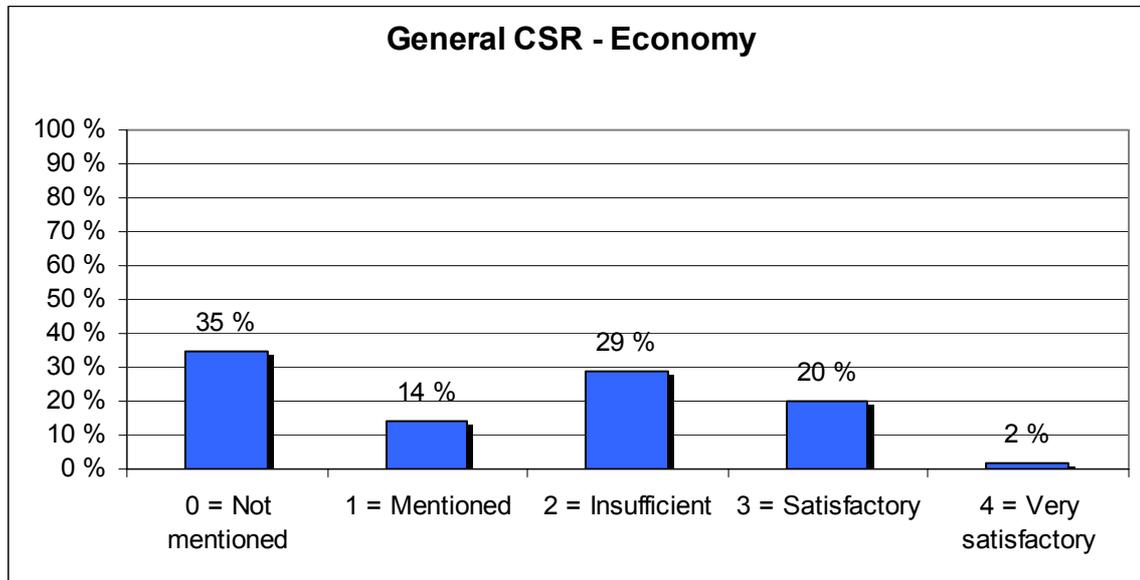


Figure 4.5 Reporting on General CSR – The economic dimension (N=49)

Figure 4.5 illustrates that 35 per cent (17 out of 49 companies) made no mention whatsoever of the economic dimension of the TBL or related topics such as business ethics and value creation. This could have some connection with a poor understanding of the economic dimension of the TBL, and also the fact that environment and social issues have been the prime foci of attention when discussing CSR.

22 per cent (11 companies) reported satisfactorily on the economic dimension and were awarded 3 points. Norske Shell, Statoil and Storebrand scored well here with respect to value creation, while Fjord Seafood and the Kongsberg Group excelled with respect to reporting on business ethics. All 98 companies considered, however, our findings indicate that only 11 per cent reported satisfactorily or better.

Only one company, Statkraft, was awarded 4 points for very satisfactory reporting on the economic dimension. Statkraft's report took the TBL as its point of departure and wrote extensively about both regional and national value creation, business ethics and corporate governance. It also presented a social financial account which included a summary of the company's tax contributions to Norwegian municipalities. However, all this information was placed in the section dealing with social responsibility, while the section concerning the economic dimension of the TBL dealt with the more conventional financial aspects. In the discussion section of this report we shall return to the different interpretations of the economic dimension of the TBL.

4.3 Reporting on management systems

Information about which management systems are in place is extremely important for lending credibility to a company's work on CSR and sustainable development. In this variable we included reporting on delegation of responsibility and the organisation of work done on CSR. In addition to this, information on possible control systems, reporting procedures, positive or negative sanctions relating to employee conduct, environmental or social certification, as well as corporate governance were also included.

The questions we asked here were: Is CSR consolidated at top management or line management level, or in a separate department/division within the company? What procedures are in place to monitor and uncover deficiencies? Is the work on CSR audited externally or internally? What consequences are there for breaches of the code of conduct? Are employees in any way rewarded or evaluated with respect to observing the company's strategy for CSR?

We drew a distinction between management systems linked to environment, social responsibility and economic. In last year's report by ProSus (Gjølberg and Meling 2004) the social and environmental dimensions were combined with a variable for management systems. This year's results are therefore not directly comparable with them.

4.3.1 Management systems - Environment

Here we examined how a company described how its environmental work was organised, where the responsibility was consolidated, whether any management systems were in place and whether the business activity, or parts of it, had certification, for example from ISO or EMAS. Such information gives the reader a good indication of how seriously the company takes its work on environmental responsibility.

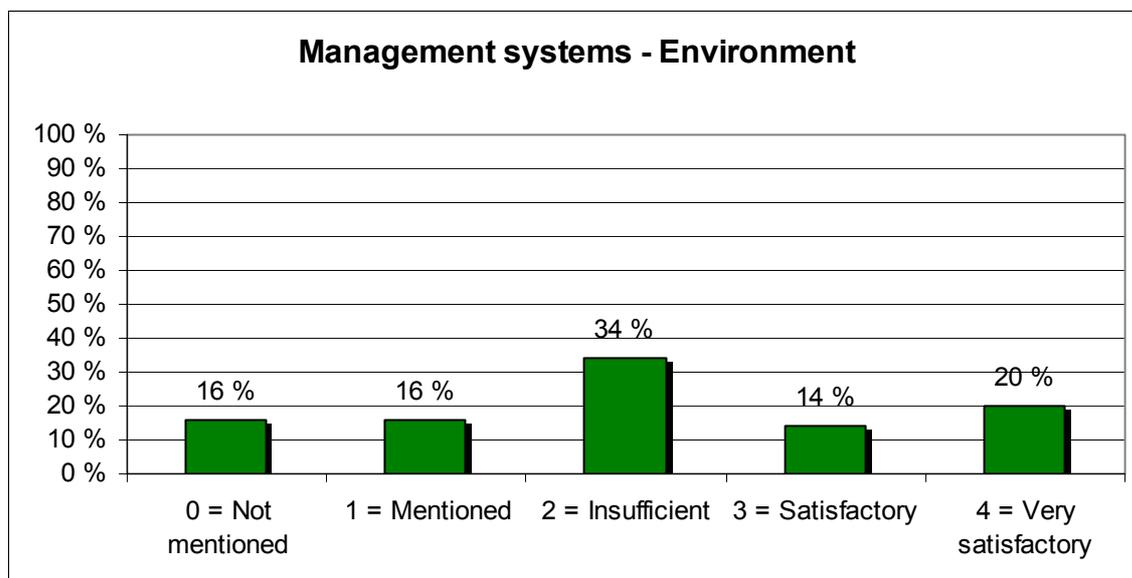


Figure 4.6 Reporting on management systems - Environment

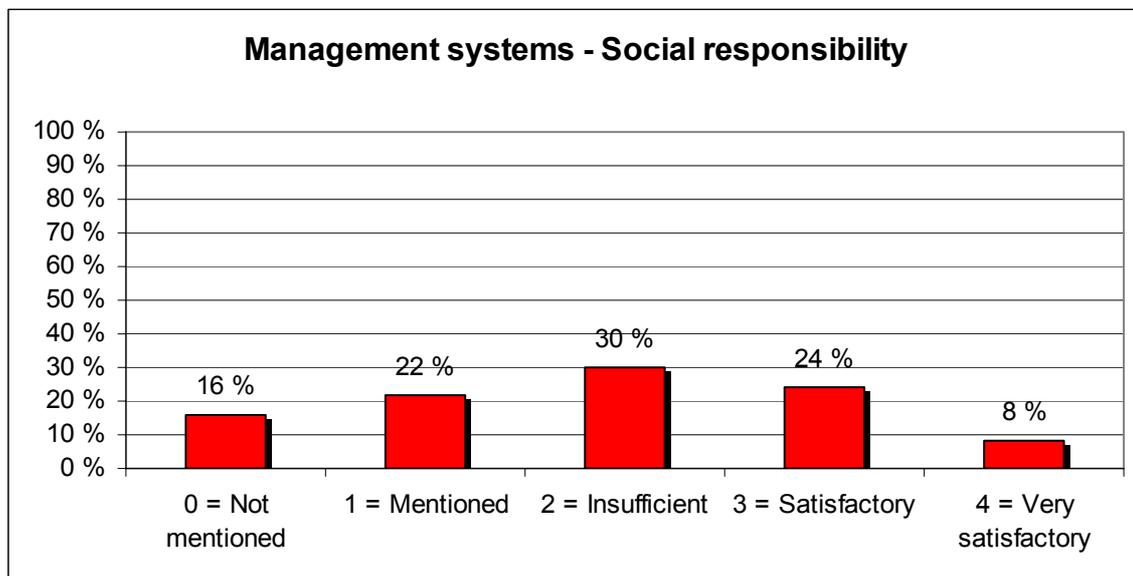
Figure 4.6 illustrates that 35 per cent (17 out of 49 companies) reported satisfactorily or very satisfactorily. 20 per cent of these were awarded the top score. 34 per cent reported insufficiently. This included companies who mentioned, for example, ISO 14001 certification but who failed to describe more closely what this entailed.

A total of 16 companies (32 per cent) were awarded 0 or 1 point. These provided no information of significance in their separate reports. For the selection as a whole, including the companies *without* separate reports, this means that 83 per cent of the 98 companies either partly or totally failed to provide information on established environmental management systems within the company. 17 per cent of the 98 companies reported satisfactorily or better.

Among the best reporters were the Kongsberg Group, Wilh. Wilhelmsen and Jotun, all of whom provided good and comprehensive information concerning their environmental management systems. These companies gave complete and relatively reader-friendly presentations that dealt with delegation of responsibility and which reporting and control systems were in place. Examples of these were various types of environmental accounting, environmental plans of action, life cycle analyses, energy programmes, goal management systems, keeping accounts on environmentally harmful substances and similar.

4.3.2 Management systems – Social responsibility

Companies should also report on any management systems for internal and external social responsibility. For this variable we assessed delegation of responsibility, management systems and control procedures relating to employees' health, safety and working environment, as well as management systems relating to a company's external social responsibility and relations with external stakeholders.



Figur 4.7 Reporting on management systems – Social responsibility (N=49)

Figure 4.7 illustrates that 8 per cent (4 companies) received the top score for this variable; a slightly poorer result than for environmental management systems. The best companies here were Storebrand, Statkraft and Amersham Health, all of whom reported well on delegation of responsibility, organisation of HES work, established HES standards, any working environment surveys and plans of action that may exist, and relations to external stakeholders, etc.

24 per cent could be said to have reported satisfactorily, though with some deficiencies with respect to content, structure or presentation. 30 per cent ended up in Category 2

(“insufficient” reporting), while as much as 22 per cent (11 companies) scored 1 point (“mentioned”). These companies either mentioned social management systems in the form of keywords or mentioned one relevant measure, for example that the company carried out regular working environment surveys or had established HES standards, but without offering any further details. 16 per cent of the companies provided no information whatsoever.

Seen as a whole this means that 38 per cent of the 49 companies, or 68 per cent of the total selection of 98 companies, reported very poorly or not at all on social management systems. 32 per cent of 49 companies reported satisfactorily or better.

4.3.3 Management systems – The economic dimension

Management systems for the economic dimension of the TBL are linked to corporate governance and the debate on good corporate governance. Points were awarded here for how the company was managed and led in order to secure sound and ethically defensible economic management, as well as for how the company handled ethical issues relating to corruption, bribery, etc.

The concept of corporate governance has gained increasing currency in the aftermath of international financial scandals such as Enron and WorldCom, and FinanceCredit here in Norway. Corporate governance has no direct translation to Norwegian, but terms such as “selskapsstyring”, “selskapsledelse”, “aksjonærpolitikk” and “styreskikk” are commonplace, although none of these quite covers the English term.¹⁵ In a strict sense of the term, corporate governance has to do with financial management and with making boards of directors accountable to shareholders by means of control mechanisms between the owners, the board of directors and the company management. A great number of companies actually mentioned the term “corporate governance” in such a context. The purpose of corporate governance is to build confidence and ensure transparency, and this is incorporated into the broader term “good corporate governance”; a term associated with CSR. Issues concerning corruption, directors’ fees, relations between board and management, the board’s independence and possible competence issues are important when discussing good corporate governance.

¹⁵ *What is Corporate Governance?* Oslo Stock Exchange. Available at: <http://www.oslobors.no/ob/hvaercg>.

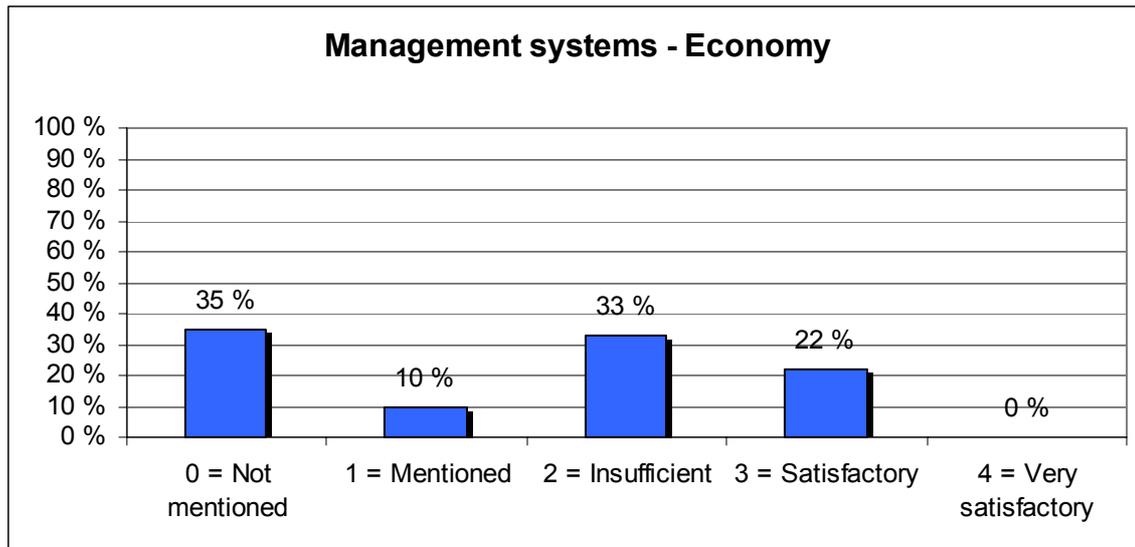


Figure 4.8 Reporting on management systems – The economic dimension

What was most striking in our analysis was that as much as 35 per cent (17 companies) of the 49 companies did not touch on this theme at all (cf. Figure 4.8). This accounted for 66 per cent of the selection of 98 companies as a whole. This also applied to large and high-profile companies who reported well on other aspects of CSR. In the separate reports there were, in our opinion, grounds for expecting more comprehensive treatment of corporate governance.

None of the companies received the top score, but 22 per cent (11 companies) received 3 points (“satisfactory”). These accounted for 11 per cent of the total selection of 98 companies, and included DnB NOR, Det Norske Veritas and Storebrand. As well as giving a good account of corporate governance, these companies also discussed relevant ethical challenges with respect to corruption, bribery/gift-giving, incompetence and board and management independence.

As much as 33 per cent gave reasonable, standard accounts of corporate governance, and these were awarded 2 points (“insufficient”). The flaw in these companies’ reports was that no attempt was made to link the information to CSR or the TBL. This point was also highlighted in the latest survey carried out by SustainAbility and UNEP (2004:4) of the best companies reporting on non-financial reporting worldwide.

4.4 Reporting on codes of conduct

A code of conduct, in the form of a separately adopted document containing fixed guidelines, is an important tool in a company’s work on social accountability. For those companies who have drawn up their own code of conduct it is easy to make these known through non-financial reporting. In addition to increasing transparency and credibility, reporting on codes of conduct can also contribute to increasing familiarity with these guidelines *internally*. Nevertheless, our analysis revealed little reporting on codes of conduct.

It is important to note here that it is not sufficient to mention some general goals or areas of special focus in order to score top marks for this variable. The report should make clear that the codes of conduct have been adopted in the form of a binding document that

obligates the company and its employees. We drew distinctions with respect to codes of conduct linked to environment, social responsibility and the economic dimension.

4.4.1 Codes of conduct - Environment

The survey revealed that a great number of companies had not drawn up their own environmental codes of conduct or, if they have, they did not publish them.

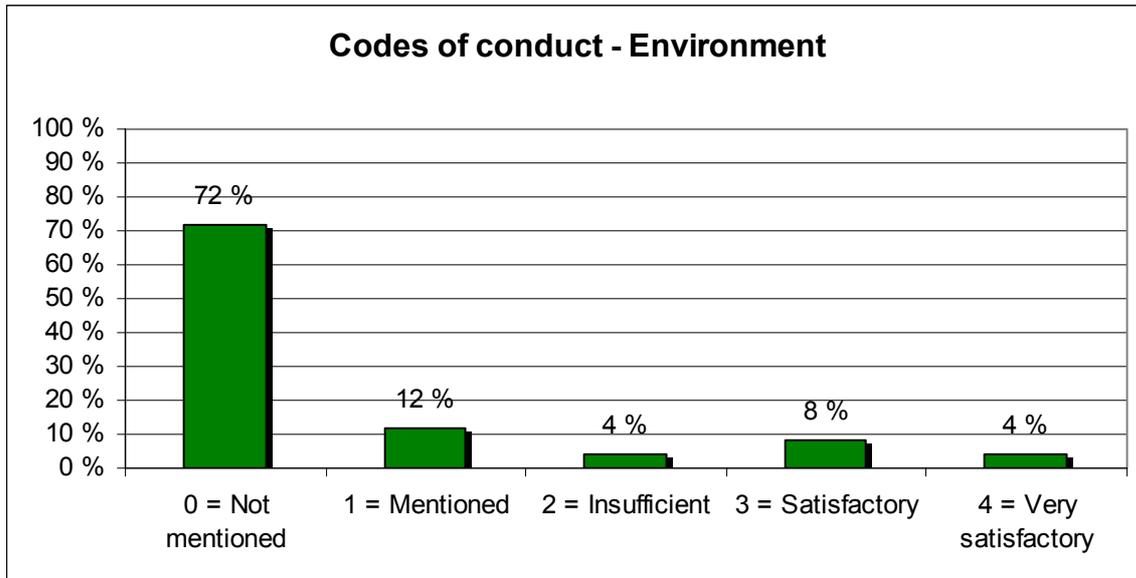


Figure 4.9 Reporting on codes of conduct – Environment (N=49)

As many as 35 of the 49 companies (72 per cent) did not mention environmental codes of conduct (cf. Figure 4.9). 7 companies received a score of 1 (“mentioned”). These mentioned that the company had a code of conduct but did not specify whether this included external environment. 6 per cent provided insufficient reporting by writing that the company did have environmental codes of conduct but without saying much about what these involved. A few companies had published their codes of conduct on the company web site, but because they did not refer explicitly to them in their hard copy version of the report, they did not receive any points. A couple of companies also referred to their foreign parent company’s code of conduct, but these were only included in the survey if the Norwegian company showed a clear ownership of the code by, for example, emphasising this in its own report and/or by translating the code into Norwegian.

Only Norske Skog and NCC Construction reported very satisfactorily in this area. These two companies gave easy to read and systematic presentations of their codes of conduct, along with a short explanation. 4 companies, including Veidekke, presented important parts of the code of conduct, and were placed in Category 3.

Seen as a whole, this means that 94 per cent of the companies in the total selection of 98 companies either failed to provide or failed to present sufficiently the companies environmental code of conduct. Only 6 per cent reported satisfactorily or better.

4.4.2 Codes of conduct - Social responsibility

With respect to social codes of conduct, it seems that there is the same tendency as for environment. Very few companies reported on any code of conduct set up with respect to responsibility for employees in terms of health, security and working environment, or the company's position on external stakeholders such as voluntary organisations, local and indigenous populations. Other themes that should have been included where relevant were human rights and use of security forces.

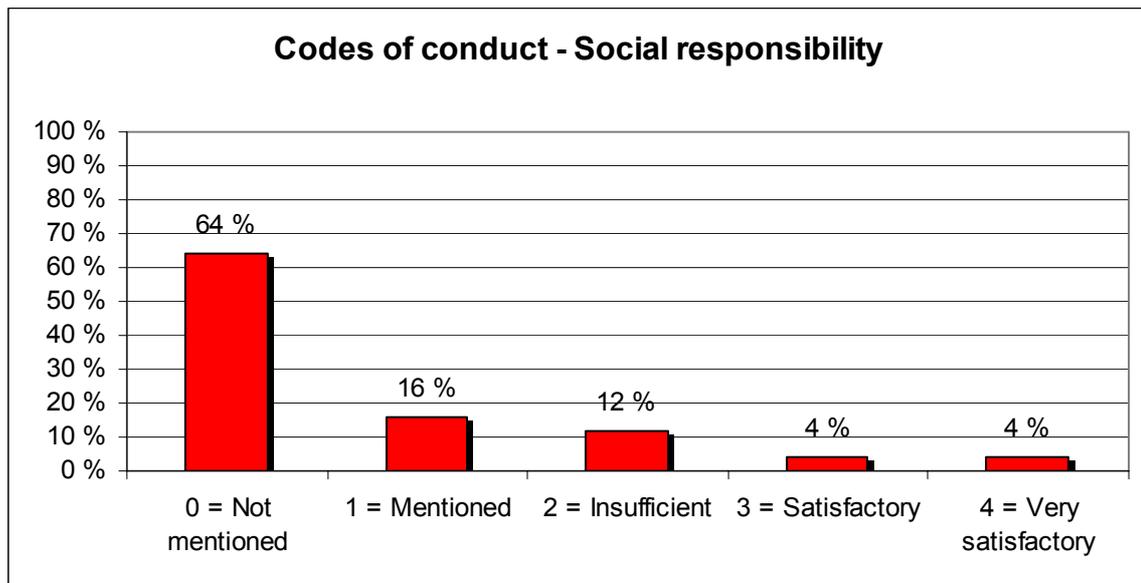


Figure 4.10 Reporting on codes of conduct – Social responsibility (N=49)

Figure 4.10 illustrates that as many as 31 of the 49 companies (64 per cent) did not mention a social code of conduct whatsoever. 12 per cent (6 companies) reported that they had a social code of conduct but presented only one or two points from it, without going into any further detail. These included companies who stated that they endorsed the ten principles of the UN Global Compact concerning human rights, workers' rights, environment and anti-corruption¹⁶, but yet failed to account for what this meant to the company or how it was being followed up.

One 4 per cent of the companies reported very satisfactorily. This represented two companies: Norsk Tipping and NCC Construction. The Kongsberg Group and Norsk Hydro received 3 points, which indicates that the companies highlighted several relevant codes of conduct, but without a complete, systematic and explanatory presentation of the contents. These two companies referred to their web sites and had little information in the hard copy editions of their reports.

For the selection taken as a whole, this means that only 4 per cent of the 98 companies reported satisfactorily on a social code of conduct. 96 per cent reported insufficiently or not at all.

¹⁶ The Global Compact. Available at: <http://www.unglobalcompact.org/Portal/Default.asp>. Accessed on: 3 December 2004.

4.4.3 Codes of conduct – The economic dimension

In order to score top marks for this variable the company should present a document in which the company's ethical code of conduct and the company's economic impact on society are stated.

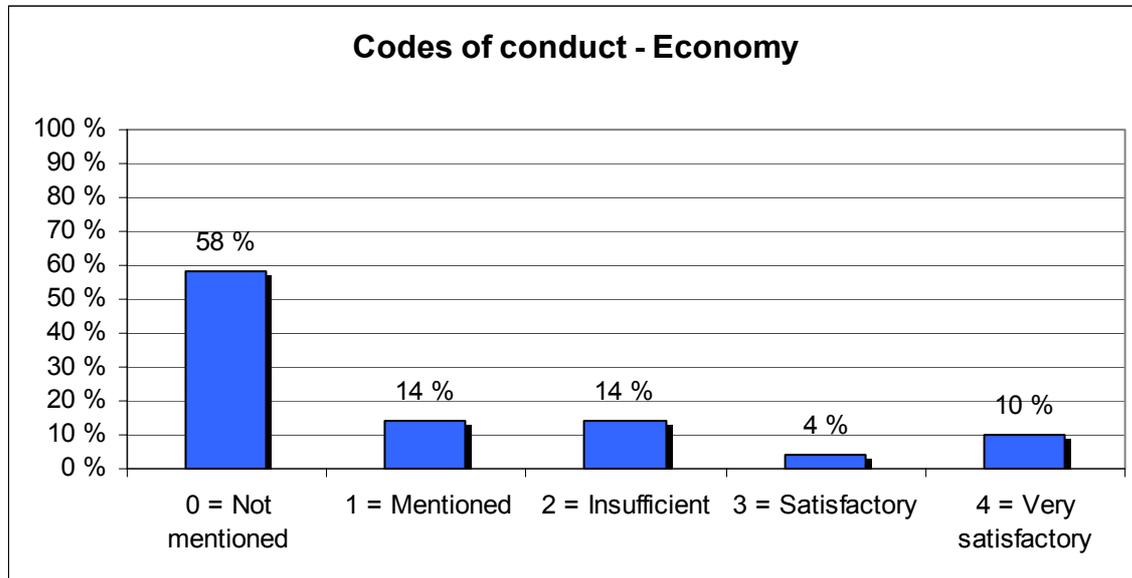


Figure 4.11 Reporting on codes of conduct – The economic dimension (N=49)

It is perhaps within the economic dimension, and for ethics in particular, where codes of conduct are most widespread. But here, too, surprisingly few companies presented a code of conduct or accounted for any adopted documents in that area. As much as 58 per cent did not mention the theme whatsoever (cf. Figure 4.11). 7 companies (14 per cent) mentioned by way of keywords or one sentence that they had an ethical code of conduct, while 7 other companies in addition highlighted one or two of the guidelines.

4 per cent (2 companies) reported more comprehensively and analytically, while a further 10 per cent gave a very satisfactory presentation in which relevant documents are mentioned by name, guidelines from the codes were stated, and a little bit written about who they affected and the consequences for breaching the code. Norsk Skog, Fjord Seafood and NCC Construction did this well, and can be cited as exemplary cases.

For the selection of 98 companies as a whole this means that only 7 per cent reported satisfactorily or better, while as much as 93 per cent failed to report satisfactorily on codes of conduct within the economic dimension of the TBL.

4.5 Reporting on supply chain management

Another important theme in the debate on CSR is what demands companies make of their suppliers. Several companies who themselves behave responsibly are often criticised because they choose a supplier who infringes human rights, workers' rights or environmental requirements. In other words, larger companies are held responsible for the practices of their suppliers and collaborative partners. Supply contracts from large companies are often very attractive. As buyers, the large companies have the power to directly and indirectly influence suppliers by making demands when choosing cooperation

partners. At the same time, large companies often have many suppliers to deal with. Responsible supply chain management is therefore complicated.

How did the companies in our selection report on supply chain management? We asked ourselves the following questions: Are any demands made of the suppliers, for example in the form of a code of conduct similar to that of the buyer company? Did the companies report purposefully on how this was done? Are there any control mechanisms for following up the code of conduct? Is certification demanded? Does the company carry out its own inspections? Is separate reporting demanded? A company's supply chain management sends out signals – not just to suppliers, but also to other stakeholders – about the kind of conduct the company does and does not accept. For this variable, too, we drew distinctions with respect to demands that can be grouped under environment, social responsibility and the economic dimension.

4.5.1 Supply chain management - Environment

Even though many companies have probably become more aware of making demands of their suppliers over the past few years, reporting on environmental supply chain management is still not very commonplace.

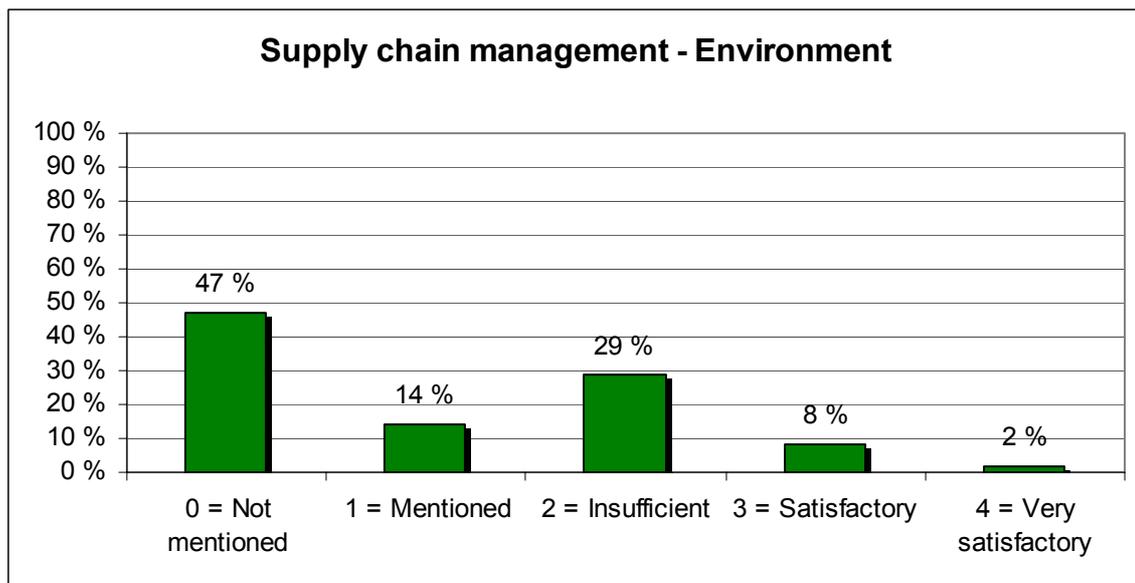


Figure 4.12 Reporting on supply chain management - Environment (N=49)

Figure 4.12 illustrates that as much as 47 per cent of the 49 companies did not mention environmental supply chain management whatsoever. 14 per cent (7 companies) reported that they had environmental guidelines for their suppliers but failed to provide more details about what these entailed. These companies received a score of 1 (“mentioned”). 29 per cent gave examples of what was expected of their suppliers, and these were placed in Category 2 (“insufficient”). 4 companies provided more information and could be said to have reported satisfactorily. Among them were NCC Construction and Norgros.

Only one company received the top score. This was Varner-gruppen, who reported both the company's general environmental requirements and its more specific criteria for using chemicals in textile manufacturing. Varner-gruppen also excelled in last year's ProSus survey (Gjølberg and Meling 2004).

For the selection as a whole this means that 95 per cent of the 98 companies had either not established or failed to report on any environmental supply chain management system that might be in place. Only 5 per cent did so in a satisfactory manner.

4.5.2 Supply chain management – Social responsibility

With respect to reporting on social supply chain management, the figures were somewhat poorer than for environment. This correlates with last year’s findings.

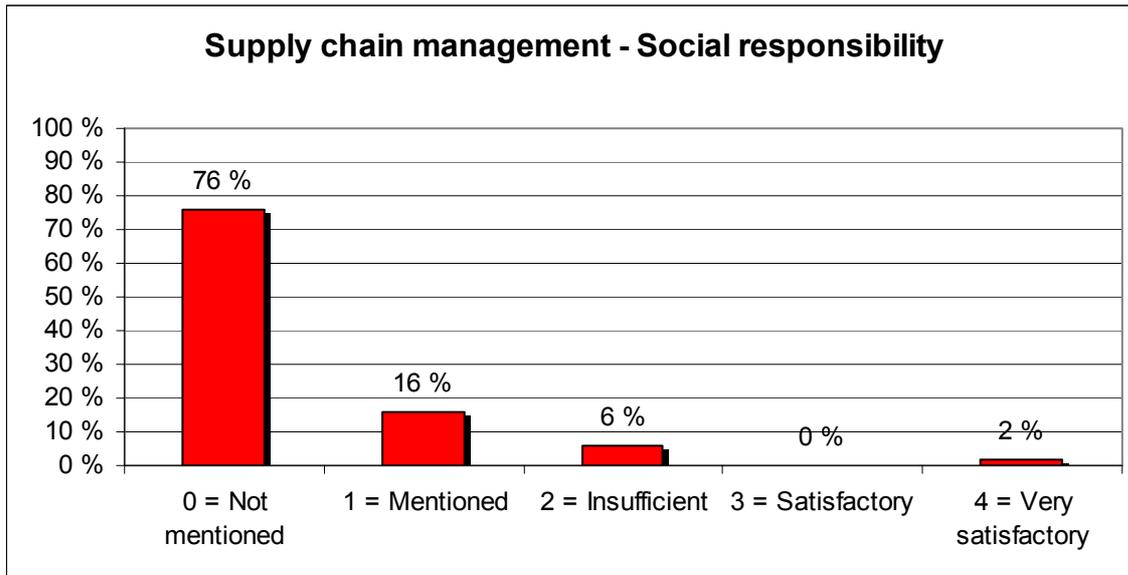


Figure 4.13 Reporting on supply chain management – Social responsibility (N=49)

Figure 4.13 illustrates that as much as 76 per cent (37 out of 49 companies) said nothing about whether they placed social demands on their suppliers, for example with respect to workers’ rights. 16 per cent mentioned this theme, and were therefore awarded 1 point (“mentioned”). 6 per cent wrote in a little more detail and provided an example. These companies were awarded 3 points for satisfactory reporting. Among them was Bama-gruppen, who wrote a bit about the company’s cooperation with the Ethical Trading Initiative.

Varner-gruppen also stood out on this variable, and was the only company to receive the top score. Varner-gruppen stated its demands relating to employment conditions and hours, workers’ rights, child labour and discrimination. The company also wrote about how these would be followed up in practice.

If the companies with no separate reports are included, our findings show that as much as 98 per cent of the companies cannot be said to have reported satisfactorily on social supply chain management.

4.5.3 Supply chain management – The economic dimension

This variable has to do with how companies report on any demands they make of their suppliers with respect to corruption and general business ethics, local value creation, competence building, innovation and entrepreneurship.

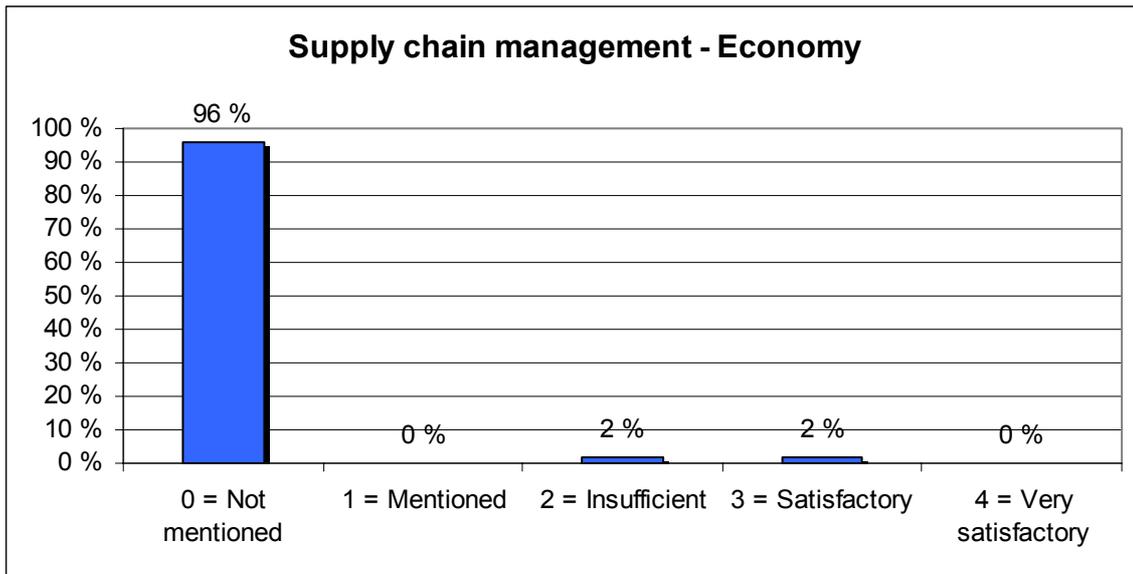


Figure 4.14 Reporting on supply chain management – The economic dimension (N=49)

This is where we found the poorest results of the whole survey. Figure 4.14 illustrates that almost none of the companies mentioned socio-economic or ethical supply chain management whatsoever. As much as 98 per cent of the selection of 98 companies provided no report on this area. The two exceptions were NCC Construction and Varnergruppen, whose reporting was rated as insufficient and satisfactory respectively.

Varner-gruppen also stood out in terms of environmental and social supply chain management and was the only company in the selection who systematically and comprehensively attempted to approach this theme. The company wrote in detail about what its supply chain management system entailed, how it was followed up and possible consequences for violations. There is room here for considerable improvement by the rest of the companies in this selection.

4.6 Summary of findings

What were the main findings of our evaluation of these companies' separate reports?

Figure 4.15 illustrates the percentage of the 49 companies that reported satisfactorily or very satisfactorily in their separate reports on all four variables: General CSR, management systems, codes of conduct and supply chain management.

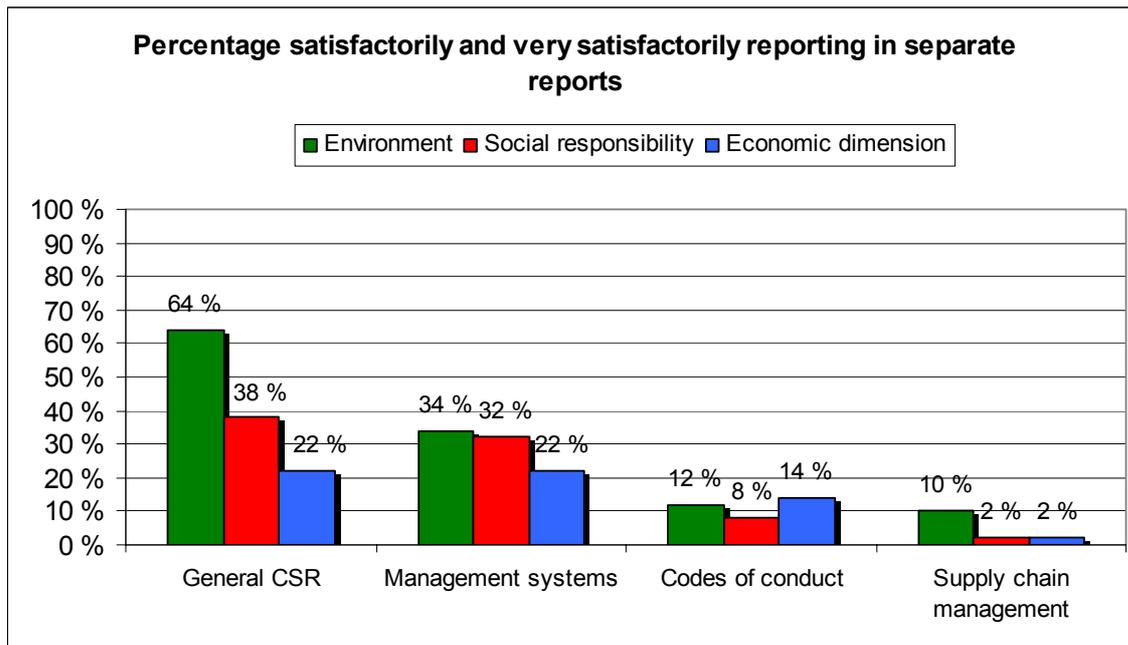


Figure 4.15 Percentage satisfactorily and very satisfactorily voluntary reporting in separate reports (N=49)

The first variable, General CSR, captures the general impression the company gives of its performance on CSR. 64 per cent of the 49 companies reported satisfactorily or very satisfactorily on environment. The results for reporting satisfactorily or better on the social and economic dimensions were poorer, with 38 per cent and 22 per cent respectively. The social dimension was divided into two parts in this analysis: *internal* social responsibility, which dealt with employees' health, safety and working environment, and *external* social responsibility, which dealt with external stakeholders and the companies' position on human rights, local/indigenous populations, use of security forces, sponsoring and charity etc. It became apparent that there were considerable variances in reporting practices within these two areas. While 53 per cent of companies reported satisfactorily on their internal social responsibility, only 24 per cent reported as well on their external social responsibility.

These results reveal that the reporting done on external environment and internal social responsibility was much more satisfactory than that done on external social responsibility and economy. These differences are not so surprising when one takes into consideration the focus that has been placed on environmental and HES themes over a number of years. The economic dimension of the TBL was relatively unknown to many companies. However, considering the increasing attention being paid to business ethics and corruption over the past few years, more companies ought to devote more thought to this theme.

The average scores reflect these findings. All 49 companies considered, the average score for General CSR – Environment was 2.7, corresponding to Categories 2 (“mentioned”) and 3 (“satisfactory”). The average score for internal social responsibility was 2.5, while that for external social responsibility was 1.6. The lowest average was for reporting on the economic dimension, with 1.4. In fact the averages for all four variables were *below* 3, corresponding to satisfactory reporting. This means that for most of the companies in our selection there is great room for improving their reporting practices on environment, internal and external social responsibility and the economic dimension.

Statkraft, Storebrand and Statoil are the companies who came out best overall in reporting on General CSR. These three companies reported relatively well and comprehensively on all three dimensions of the triple bottom line (TBL). Siemens, Kongsberg-gruppen, TINE, Norske Shell and Norske Skog can also be cited positively.

With respect to the variable “management systems”, the conclusion reached was that the best and most comprehensive reporting was done on environment and corporate accountability, on which 34 per cent and 32 per cent respectively reported satisfactorily or better. For the economic dimension the result was poorer, with 22 per cent reporting satisfactorily.

The poorest results were for reporting done on codes of conduct and supply chain management. The average score here was 2 (“mentioned”) or less for all variables. This means that the majority of the 49 companies made no mention of this theme whatsoever, or only mentioned it by name. Considering the increasing focus on ethical codes of conduct over the past few years, this poor result was surprising. Most of the companies in the selection have a lot of potential for improvement in this area. Having said that, it is also possible that the reports do not fully reflect the actual situation in this area. Companies may have established codes of conduct that are known internally, but which they omitted to present in their external communications. But this would make it more difficult to carry out external audits of their compliance with these codes, and would thereby diminish their credibility as companies who genuinely strove to comply with their adopted codes. On the whole the companies in the selection reported slightly better on ethical codes of conduct than on environmental and social codes of conduct.

Beyond that we found the same tendency as in last year’s ProSus survey (Gjølberg and Meling 2004). The companies have very different practices in terms of which themes and areas they place emphasis on in their voluntary reports. Many companies concentrated on individual themes and ignored others which, considering their business activity, ought to have been relevant. Almost none of the companies scored well for all the variables. Statoil, Statkraft, NCC Construction, Kongsberg-gruppen, Storebrand, Norsk Hydro and Norske Skog were the companies who scored best. Siemens, Telenor, Norsk Tipping, Fjord Seafood, TINE, Det Norske Veritas, Veidekke, DnB NOR, Orkla and Jotun also did relatively well. For a complete summary of exemplary reporting on the individual variables see Attachment 3: Exemplary Reports.

It is important to note that companies presented as exemplary for individual variables are *not* necessarily exemplary in terms of their voluntary reporting as a whole. Some reported extremely well on certain specific variables, but extremely poorly on others. Even though they reported well on individual variables, some companies produced reports that were very long, not very reader-friendly and unstructured. The quality of these reports was not always in proportion to their length, and they should therefore not be cited as examples to be followed by other companies.

5 CONCLUSION AND DISCUSSION OF FINDINGS

5.1 Main findings

Our evaluation of the legally mandated, non-financial reporting in the directors' report in Part 1 of our survey, shows that 66 per cent of the companies reported satisfactorily or very satisfactorily according to the reporting requirements on working environment. 48 per cent reported well on gender equality, while the poorest results were for the reporting on external environment, where only 16 per cent met the reporting requirements. The average score for all three variables was below 3, representing what we consider to be satisfactory reporting in accordance with the requirements laid down in the Accounting Act. This means that many of the companies in the selection can be said to be “law offenders”, particularly with respect to environmental reporting. Our impression is that the poor result for environmental reporting is due primarily to the fact that the environmental requirements are vaguely worded and demand extremely comprehensive reporting. The reporting requirements for gender equality and working environment are more circumscribed and concrete, and therefore easier to meet.

Part 2 of this survey examined the voluntary reporting done in separate reports. The results here can be summarised by taking the three dimensions in the TBL as our point of departure: environment, social responsibility and the economic dimension.

64 per cent of the selection of 49 companies reported satisfactorily or very satisfactorily on their general environmental responsibility (cf. the variable “General CSR – Environment”). These companies presented their most important environmental challenges, goals and measures, and supplemented these with figures. The results for reporting on environmental management systems were slightly poorer: 34 per cent reported satisfactorily or better. The results for environmental codes of conduct were poorer again, with only 12 per cent ending up in the top two categories. Worst of all was the reporting done on environmental supply chain management, where only 10 per cent of the companies were considered to have reported satisfactorily or very satisfactorily.

With respect to reporting on social responsibility, we found similar tendencies. For the variable General CSR, the results for the *internal* social responsibility relating to employees was relatively good. 53 per cent of the 49 companies reported satisfactorily or better here. However, only 24 per cent reported as well on *external* social responsibility and relations to external stakeholders. With respect to social management systems, 32 per cent reported satisfactorily or very satisfactorily. The results were much poorer for social codes of conduct, with only 8 per cent of the 49 companies reporting satisfactorily or better, and for social supply chain management, where 2 per cent reported satisfactorily.

For the economic dimension the results were poor for all four variables. 22 per cent presented satisfactory or very satisfactory information on business ethics and companies' socio-economic value creation (cf. the variable “General CSR – Economic dimension”). The same percentage of companies (22 per cent) scored well for good reporting on corporate governance. These were assessed to have provided satisfactory information about their management systems within the economic dimension of the TBL. 14 per cent

reported well on ethical codes of conduct, but only 1 of the 49 companies reported satisfactorily on ethical supply chain management.

The main impression after evaluating the voluntary reporting is that companies reported best on environmental issues and on social responsibility for their own employees. The fact that the reporting on external environment came out *best* in the voluntary reports, yet *worst* in the legally mandated reporting in the directors' reports, confirms our suspicion that it is the actual wording of the environmental requirement, and not necessarily the information itself, that leads to the companies' poor results for legally mandated environmental reporting. It is also possible that some companies consider it more practical to present their environmental information in separate reports from the point of view of space limitations in the directors' report. This means that although those companies did not meet the environmental requirements in the directors' report, they did score well in the evaluation of the voluntary environmental reporting.

Compared with the results for environment and internal social responsibility, the evaluation of the voluntary reporting showed consistently poorer results for reporting done on external social responsibility and on the economic dimension of the TBL. Most of the companies in the selection have a lot of potential for improvement in these areas. Reporting on supply chain management and codes of conduct was also generally poor, while slightly better results were achieved for reporting on management systems.

5.2 Overall scores and tendencies

The maximum possible overall score for the reporting presented in the directors' report was 12 points. None of the companies in the selection achieved this. Posten and ENI Norge achieved the best overall scores, with 11 points in total. Posten lost one point for its environmental reporting, and ENI Norge lost one point for its reporting on gender equality. A minimum of 9 points (3+3+3) is necessary in order to be assessed as "law-abiding" in terms of reporting on environment, working environment and gender equality, but 73 per cent of the companies scored less. The average score for the companies in the selection was 7 points.

Why did some companies report well and others poorly in the directors' reports? Is there any connection between the size of the company and the quality of the reporting in the directors' reports? Figure 5.1 illustrates the distribution of the overall scores, ranged by size of company based on annual turnover. No. 1 in the figure represents the largest company in the selection and no. 98 the smallest.

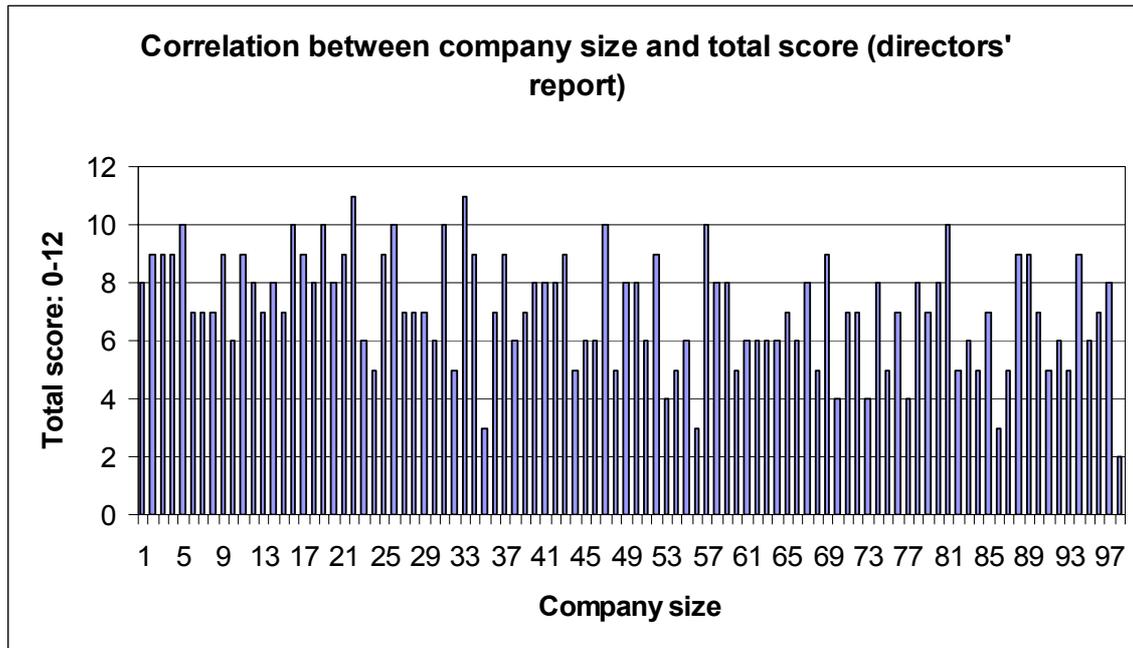


Figure 5.1 Correlation between company size and total score (directors' report) (N=98)

If it were the case that the largest companies did the consistently best reporting, then the tallest columns would be concentrated on the left hand side of the figure, i.e. with the largest companies. As can be seen from the figure, however, the distribution is relatively evenly spread, though there is a slight tendency for the largest companies to score a little better for their reporting in the directors' reports.

The explanation for this could be that the largest companies have more resources to draw on when preparing their annual reports. They have more personnel resources to work on the non-financial aspects and on updating them. They have the opportunity to hire external consultants and to systematically work on external environment, working environment and gender equality. All this makes it easier to report well on these areas.

Nevertheless, there were some admirable exceptions to be found among the smaller companies in the selection, among them NCC Roads and Smedvig. These two companies were ranked as nos. 83 and 96 respectively, and yet their respective scores were 10 and 9 points. We found only a weak connection between size of company and quality of reporting in the directors' report. There is however reason to assume that this connection would have been much stronger if we had expanded our selection to include the 500 or 1000 largest Norwegian companies. Only 0.5 per cent of the 440,000 companies in Norway have over 100 employees, and only 178 are listed on the Oslo Stock Exchange.¹⁷ In other words there are relatively few large companies in Norway, and it is likely that the non-financial reporting in the directors' reports of smaller companies is less comprehensive than that of the 100 largest.

Because the majority of companies in Norway are relatively small and have few employees, they also have fewer incentives, and do not consider themselves to have the same opportunity to utilise resources on non-financial reporting. This is easy to understand, and it would not be natural to expect the same comprehensive reporting from a small company as from the 100 largest. Nevertheless, all companies who are legally

¹⁷ Statistics Norway. Available at: <http://statbank.ssb.no/statistikkbanken/>. Accessed on: 19 November 2004.

bound to keep accounting records, regardless of size, also have a reporting obligation under the Accounting Act.¹⁸

What about the *voluntary, separate* reporting – is there any connection between size of company and reporting there? Figure 5.2 illustrates the distribution of overall scores for the separate reporting, ranked by size of company, where no. 1 is the largest in the selection and no. 98 is the smallest.

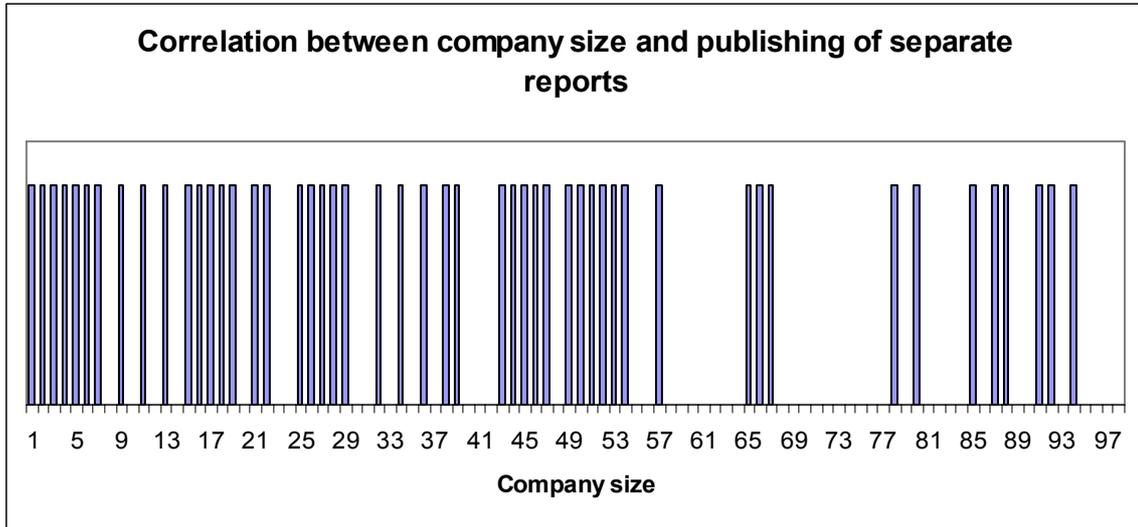


Figure 5.2 Correlation between company size and publishing of separate reports (N=98)

As can be seen from Figure 5.2, the size of a company has a bearing on whether a company actual *published* a separate report. The accumulation of columns on the left-hand side of the figure shows that it was more usual with separate reports among the largest companies. 33 of the 49 largest companies published separate reports, while only 16 of the remaining 49 companies did likewise. This tendency corresponds with last year’s finding that large companies *more often* published separate reports (Gjølberg and Meling 2004:36).

¹⁸ From and including financial year 2004, companies legally bound to keep accounting records who have employed for five man-labour years or less no longer have to report on absences due to illness, on grounds of protection of privacy.

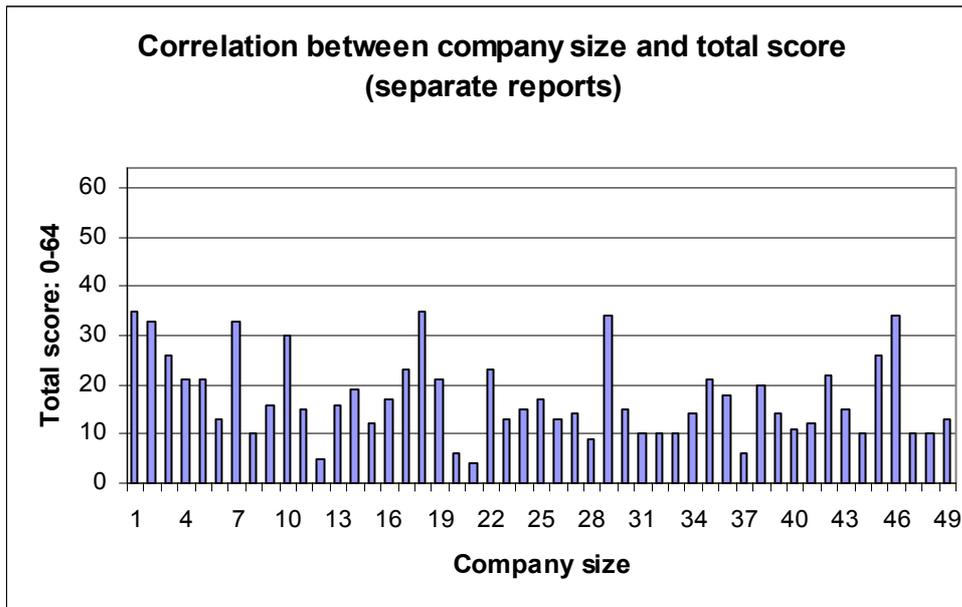


Figure 5.3 Correlation between company size and total score (separate reports) (N=49)

Since it is the largest companies who published separate reports more often, it would perhaps be natural to expect that they scored best in the evaluation of separate reporting. However, Figure 5.3 shows that there was *no* clear connection between size of company and overall score for separate reporting. In other words, it was not necessarily the largest companies who provided the best and most comprehensive sustainability reporting. For example, NCC Construction and Siemens received a high overall score, despite being ranked as nos. 89 and 90 respectively in terms of size. By comparison, 6 of the 20 *largest* companies published *nothing* that resembled reporting on non-financial themes in their annual report or elsewhere, and 7 of these 20 largest companies received an overall score of less than 20 out of a possible 52 points. Overall this means that voluntary reporting by 13 of the 20 largest companies in the selection was either lacking or was of rather poor quality. The highest score attained was 35 out of a possible 52 points, so there is much room for improvement here by all the companies.

We also took a look at the companies' overall scores for the directors' reports and the separate reports (cf. Figure 5.4).

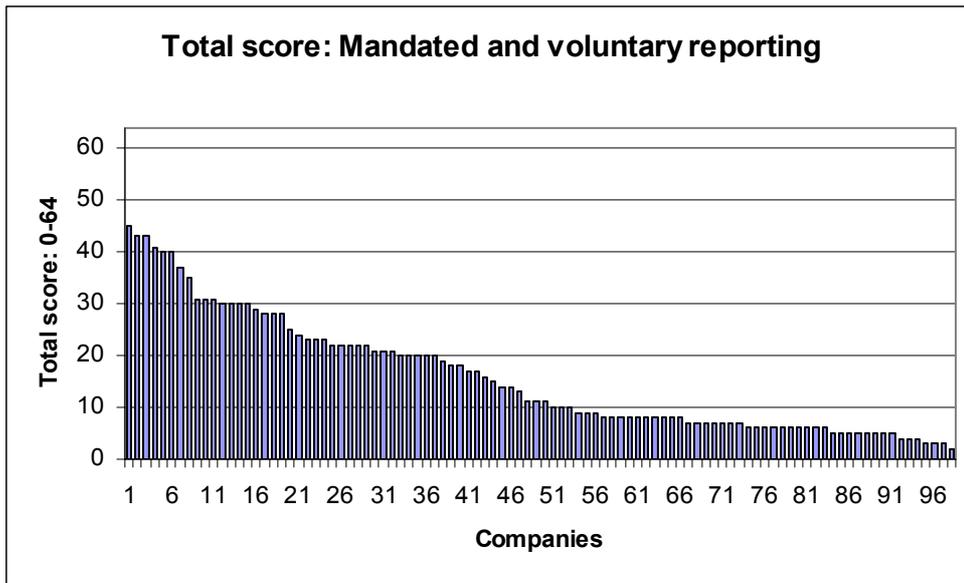


Figure 5.4 Total score directors' report and separate reports (N=98)

Figure 5.4 indicates a steady decline from the best result, which was 45 out of a possible total of 64 points. When the total scores for the directors' reports and the separate reports were added together, Statkraft, Statoil and NCC Construction were the three companies who came out on top. These companies reported well both with respect to the legally mandated reporting in the directors' reports and the voluntary reporting in the separate reports. As can be seen from this, the best companies cluster around the 40 point mark, the next best around 30 points, and thereafter down around the 20 point mark. The 49 companies in Figure 5.4 with the poorest results reported only in the directors' report, and the maximum overall score there was 12 points. 47 of these attained 10 points or less.

Another question was whether there were any systematic differences to be found between industries. Were there any particular branches of industry or lines of business whose average scores were better than others? This was investigated in last year's ProSus study (Gjølberg and Meling 2004). However, no clear connection was found then between reporting practice and branch, and there was little reason to expect any major changes in this area during the past year. It is also important to keep in mind here that this selection of 98 companies is so small that it would in any case be difficult to draw any valid conclusions about differences in reporting practices between different branches. It could however prove interesting to examine, for example, any differences in environmental reporting by purely office-based companies and companies with their own product manufacturing and large potential to pollute. Such a comparison will be considered for next year's ProSus survey.

Differences in media exposure and the significance of branding could be other possible explanations for good or poor reporting practices. Perhaps those companies who are most visible to the Norwegian general public have more incentive than other companies to report well? Companies who operate in industries that are more closely monitored by the media and are subject to criticism from civil society could feel a greater need to inform about and justify their activities than companies operating in less controversial areas of business and industry. We found for example that many companies operating within the petroleum sector, such as BP, Shell and Statoil, reported well on CSR. It is also possible that companies who depend on branding for much of their success have more incentive

than other companies to report well on CSR. TINE and its dairy products is such an example in a Norwegian context. These factors were not assessed in this year's survey, but could be subjects for investigation in next year's ProSus survey on sustainability reporting,

5.3 Have there been any changes in reporting practices in recent years?

In previous years ProSus has carried out surveys on legally mandated environmental reporting in directors' reports by the largest Norwegian companies for financial years 2000 and 2001 (Ruud and Mosvold Larsen 2002; 2003). For financial year 2002 a larger mapping of voluntary, non-financial reporting in directors' reports and in separate reports was carried out (Gjølberg and Meling 2004). Although this year's survey is more comprehensive and has adopted some new methodical tools, it is still possible to make some comparisons with previous years. The question is whether we can detect any obvious changes in reporting practices during the course of the last three years.

The reports on external environment in the directors' reports for financial years 2000 and 2001 revealed that 70 and 65 per cent respectively of the companies *did not* meet requirements for environmental reporting as laid down in the Accounting Act. Our survey revealed that 84 per cent of the companies did not report satisfactorily on environment in the directors' report (cf. Figure 3.1). This year's results therefore seem to be poorer compared with previous years, but the main reason for this is a methodical change. In previous ProSus surveys, companies who explicitly referred to a good separate environmental report in their directors' report were placed in the category "satisfactory" (Ruud and Mosvold Larsen 2002, 2003). The NHO, however, recommends that the information that is legally required should be included in the annual report itself, even if the company published a separate environmental report. We therefore assessed those companies who reported poorly in the annual report to be "law offenders", even though they referred to good, separate environmental reports. Because of this change, 22 companies (20 per cent) who in the survey for financial year 2001 were assessed to be "law-abiding" were in this year's survey assessed to be "law offenders". With this methodical change and corresponding adjustment of the results taken into consideration, the conclusion reached was that we actually found a slight improvement in the results from 2001 through to 2003. While 10 per cent of the companies would have been assessed as "law-abiding" in 2001, the figure for 2003 was 16 per cent; in other words an improvement of 6 per cent. The differences were small, however, and the comparison revealed that no major changes had occurred in the course of the last two years.

It is possible to make some comparisons between voluntary reporting in the separate reports for financial year 2003 and last year's mapping of non-financial reporting for financial year 2002 (Gjølberg and Meling 2004). The *number* of companies who published separate reports had not changed since last year's survey. Just as was the case for last year, only half of Norway's 100 largest companies are currently publishing separate reports or including pages in their annual reports on non-financial themes.

In fact, a comparison of the overall scores for the voluntary, separate reporting indicates a decline in the percentage of companies who reported well. For financial year 2002, 27 per cent of the companies achieved an overall score of more than half of the possible top score of 32 points. This year's survey indicates that only 19 per cent of the companies achieved more than half of the possible top score of 52 points.

Much of this decline can be attributed to the introduction of the TBL and the economic dimension in our method. This is the dimension on which many companies reported worst, and it was not evaluated in last year's survey. If we omit the economic dimension from this year's survey, the variances between last year's and this year's results are not as great. 23 per cent of the companies in this year's survey (compared to 27 per cent last year) then achieve an overall score of more than half of the highest possible score. This indicates a slight decline of 4 percentage points from 2002 to 2003. However, taking the methodical change into consideration, it is difficult to draw any final conclusions about changes in overall scores for voluntary reporting between 2002 and 2003.

The figures for reporting on the variables "General CSR – Environment" and "General CSR – External social responsibility" are the only two variables that are directly comparable with last year's results. Last year 54 per cent of the companies ended up in the two best categories for their general reporting on external environment. This year's results indicate a slight improvement of 10 percentage points; 64 per cent were placed in the two best categories, for either satisfactory or very satisfactory voluntary environmental reporting.

A comparison of the results for external social responsibility indicates that whereas 20 per cent of the companies in last year's survey ended up in the two best categories, 24 per cent of them reported either satisfactorily or very satisfactorily in this year's survey. However, this change is so small that it is difficult to conclude whether any definite improvement in reporting practices has actually taken place.

Last year's survey indicated that both environmental and social supply chain management was not at all prevalent among the companies in the selection. For financial year 2002 only 6 per cent of the companies reported satisfactorily with respect to the environmental requirements. For the financial year 2003, the figure was 10 per cent: in other words, a slight improvement.

With respect to *social* supply chain management, 78 per cent of the companies in last year's survey did not even mention this theme. There was almost no change in this result; 76 per cent did not mention social supply chain management in this year's survey. We also detected a deterioration in terms of the number of companies in the two best categories. Last year 6 per cent received either 3 or 4 points, i.e. satisfactory or very satisfactory reporting, whereas this year only 2 per cent did likewise.

All in all the comparisons with previous analyses show that there are no grounds for drawing any conclusions about clear changes in the companies' non-financial reporting in recent years, neither in the directors' reports nor in separate reports. While there was a slight improvement for both legally mandated and voluntary environmental reporting, there was also a slight decline in the number of companies who reported on supply chain management. Apart from this there were no clear changes, either positive or negative.

5.4 Legally mandated reporting versus voluntary reporting

The connection and dynamics between legally mandated requirements and voluntary initiatives is a topical theme in the debate surrounding CSR. Whereas business and industry has traditionally been opponents of regulating this area and has been in favour of voluntary reporting, many NGOs and authorities have been more positive towards legal requirements as a means to consolidate companies' work on CSR. At the same time there

is a tendency for companies who do work well on CSR to seek higher demands made of those companies who are lagging behind so that competitive terms apply for everyone; a so-called level playing field. An interesting question in this connection was whether we would find in our survey any clear connection between the quality of the legally mandated reporting in the directors' reports and that of the voluntary reporting in the separate reports.

It would perhaps be natural to expect the same companies who reported well in the directors' reports to do likewise in the separate reports, because those companies have a lot of information available and because they work systematically on non-financial aspects. Or perhaps the opposite was the case? Could it be that the companies reported well in one instance, either in the directors' report or in a separate report, and did not therefore consider it necessary to report well elsewhere? One such example was ENI Norge, who scored very well for its reporting in the directors' report, but who did not provide any separate reports. It could also be that some companies who reported poorly in the directors' report compensated for this by reporting well in a separate report. A comparison of the results for the reporting done in the directors' reports and in the separate reports could give us some indication of whether any connection did actually exist here.

We found a slight tendency by the companies who *published* separate information to report slightly *better* in the directors' reports than those companies who had not provided separate reports. Those companies who did publish separate reports scored an average of 8 out of a possible 12 points in the evaluation of the directors' reports, while those companies who did not publish separate reports scored an average of 7 points. This is illustrated in Table 5.1. This means that those companies who reported voluntarily scored better than other companies for the legally mandated reporting in the directors' reports.

Voluntary, separate reporting		
Mandated reporting	Publish separate report	Do NOT publish separate report
Average score (board of directors' report)	8 points	7 points

Table 5.1 Average score (board of directors' report) for companies who publish/do not publish separate reports

Of the 49 companies who published separate reports we found no systematic connection between the quality of the reporting in the directors' reports and that done in the separate reports. For example, it was not the case that companies who received high scores for their separate reports scored generally better or poorer in their directors' reports than other companies. In other words no clear tendency was found of the quality of the voluntary reporting in the separate reports and that of the legally required reporting in the directors' reports having influenced each other, either positively or negatively.

Nevertheless, the analysis of the directors' reports reveal that legal requirements are an effective means of obtaining information on non-financial aspects. While only half of the

98 companies in the selection chose to provide supplementary voluntary reports, we found that 100 per cent of the companies reported in the directors' reports, albeit to varying degrees of quality. There is therefore reason to believe that far fewer companies would have reported on environment, working environment and gender equality in the directors' report had this not been legally required.

In our opinion the legally mandated reporting in the directors' report is positive in the sense that it ensures a minimum of non-financial information for the stakeholders by way of access to this information via the Brønnøysund Register Centre. The legal requirements also entail that company boards must deal with these themes. As a company's most senior organ, the board can in turn initiate internal awareness processes and concrete measures with respect to the company's work on CSR. This was one of the arguments that was used when the requirement for environmental reporting in the directors' report was adopted by the Storting (Norwegian parliament) in 1998 (Ruud and Mosvold Larsen 2003:13).

This was the same year that the Storting agreed that the Accounting Act should be evaluated after three financial years. An evaluating committee was therefore set up for this purpose in 2002.¹⁹ In its report to the Ministry of Finance submitted in the autumn of 2003, the committee proposed that the requirements for reporting on non-financial aspects should be restricted "to the degree necessary to understand the enterprise's development, results, financial situation and risks" (Proposition to the Odelsting no. 89 (2003-2004)). The Ministry of Finance, however, did not want any changes made to the wording of the Act, and justified this as follows:

The Ministry deems that the requirement of non-financial information should be subjugated to objective requirements so that the decision as to what extent such information should be given does not lie with the individual enterprises themselves. Such a restriction could pave the way for some enterprises setting high standards in terms of what information shall be given. This will diminish the argument for setting requirements for non-financial information in annual reports, which is precisely to make company administrators and boards of directors aware of this aspect of the enterprise. Furthermore, the Ministry reasons that such non-financial information could be significant for investors and other users of financial statements when evaluating an enterprise.²⁰

The Ministry of Finance won support for this view from a majority in the Standing Committee on Finance and Economic Affairs. The new Accounting Act was passed by the Odelsting on 26 November 2004 and was made effective from financial year 2004.²¹ A minor amendment was made concerning the requirements for non-financial information: on grounds of protection of privacy, companies who are legally bound to keep accounting records and who have employed less than five man-labour years no longer have to report on absences due to illness.²² It was also agreed that the annual reports of companies who compiled group accounts should also cover operations in the group.

¹⁹ See for example ProSus web site: "Kravene til miljøinformasjon i årsberetningen foreslås betydelig redusert" [Significant reductions in the requirements for environmental information in annual reports proposed]. Available at: <http://www.prosus.uio.no/info/pronet/2003/regnskapslovutvalget.htm>. Accessed on 16 November 2004.

²⁰ Proposition to the Odelsting no. 89 (2003-2004), Chapter 8. Available at: <http://odin.dep.no/fin/norsk/dok/regpubl/otprp/006001-050062/hov008-bn.html>. Accessed on: 1 December 2004.

²¹ Odelsting Resolution no.19 (2004-2005). Available at: <http://www.stortinget.no/beso/beso-200405-019.html>. Accessed on: 5 December 2004.

²² The new wording in the requirement for reporting on working environment reads as follows:

"Information on the working environment and a summary of implemented measures that are significant to the working environment shall be provided. Information pertaining to injuries and accidents shall be provided separately. Separate information pertaining to absences due to illness shall in addition be provided by companies legally bound to keep accounting records who have a minimum of 5 man-labour years in the course of the financial year."

The results of our survey indicate that legally mandated reporting has an important role to play in conveying necessary information to the general public. But there is also reason to believe that the reporting in itself contributes to an increased focus on and an awareness of CSR and practices by company management and boards of directors. In this way the legally mandated requirements for sustainability reporting may perhaps have a positive influence on companies' actual work on CSR.

5.5 How can sustainability reporting be improved?

What can be done to stimulate more Norwegian companies to provide sustainability reporting, and how can those companies who already do so become even better? We will highlight five factors which can contribute in different ways to improving non-financial reporting: introduction of legal requirements and development of common standards for reporting; focus on quality rather than quantity of reporting; awareness of a company's social challenges and the purpose of reporting; utilisation of the report as a management tool; and, finally, focus on openness and credibility.

5.5.1 Legal requirements and common reporting practice

We saw how the legal requirements for reporting in the directors' report has had a positive effect in that all of the 98 companies in the selection at least mentioned external environment, working environment and gender equality (with the exception of one company who failed to mention gender equality). The legal requirements function as an effective means for obtaining information on non-financial aspects. The non-financial reporting provided in the directors' reports would clearly have been much poorer without them. An example of this is that, in the directors' reports, only 22 companies mentioned CSR in general terms or in relation to non-financial themes that were *not* linked to the three legal requirements. Only three companies made more out of this than writing one or two sentences. These were DnB NOR, KLP Forsikring and Norsk Tipping. Norsk Tipping wrote about the company's social responsibility with respect to compulsive gambling. KLP Forsikring reported on its support for the UN Global Compact and on the introduction of minimum ethical standards for financial investments. Our analysis of directors' reports therefore indicates that, on the whole, the legal requirements have contributed to better reporting on environment, working environment and gender equality than what would otherwise have been the case.

Legal requirements do not necessarily have to be limited to the information provided in the directors' report; they may also apply to the separate, non-financial reporting done elsewhere. SustainAbility and UNEP (2004a:5) mentioned public regulation and standardisation of non-financial reporting as two of four likely trends in the coming years. Public regulation by way of legal requirements could be a means to arriving at common standards and indicators so that companies could appraise themselves and compare themselves more easily with other companies. As an alternative or supplement to legal

Former Section 3-3 relating to the contents of the annual report is now divided into two: Section 3-3: *Contents of annual reports for small enterprises*, and Section 3-3a: *Contents of annual reports for enterprises who are legally bound to keep accounting records and who are not small enterprises*. The same requirements for non-financial information apply to both small and large enterprises. Odelsting Resolution no.19 (2004-2003). Available at: <http://www.stortinget.no/beso/beso-200405-019.html>. Accessed on: 5 December 2004.

requirements, trade organisations and authorities could play an important role by arriving at standards that promote common reporting practices.

The legal requirements in the Accounting Act have provided companies with set reporting requirements to comply with, and this has also made it easier to compare companies' reporting practices. Nevertheless, we seek a more active role on the part of the authorities in terms of guidance, information and following up with respect to what specifically is required of the reporting done on the three legal requirements laid down in the Accounting Act. This applies in particular to the environmental requirement, which is both comprehensive and vaguely formulated.

5.5.2 Avoid the carpet bombing approach; quality rather than quantity

Another important factor is improving the quality of the voluntary reporting. We found that it was mostly the larger companies rather than the smaller ones who published separate reports. This reflects yet another difference in access to resources and the possibility to use time and money on collecting data and compiling environmental, HES or sustainability reports. However, our survey indicates that these resources did not always yield good returns in the form of improved quality of reporting.

Comprehensive reports are not always equivalent to systematic and concise reporting that benefits the company and its stakeholders. We found in particular that some of the more lengthy sustainability reports contained a lot of information that bore more of a resemblance to marketing or advertising copy, political contributions, "success stories" and suchlike. Inasmuch as our emphasis is concentrated on information effectiveness and reader-friendliness, this is information that ideally does not belong in a sustainability report. An important objective for the reporting is to contribute to an ongoing stakeholder dialogue. That is why reader-friendliness and presentation is so important. Norwegian sustainability reports are by and large much less comprehensive than those of large foreign companies, but some Norwegian companies should be aware of the "carpet-bombing" syndrome and aim for quality and focus rather than length.

We also got the impression that more and more companies are opting to post their non-financial information on their web sites rather than printing hard copy versions. The internet can be a good supplement to a hard copy report, and is a good channel for reaching more stakeholders. Nevertheless, companies should be conscious of how using web sites can increase the danger of "carpet-bombing". In SustainAbility and UNEP's survey of the companies who did best on sustainability reporting internationally (2004a:24), some of the companies' web sites were described as "black holes" of information, referring to the extreme difficulty experienced in finding one's way to specific, concrete information. Because web sites are often continually amended and updated, the increase in use of the internet also makes evaluations and comparisons between companies and over periods of time more difficult. Our decision to exclude web sites that were not explicitly referred to in the hard copy versions of the reports could of course be debated. It is important to be keep in mind that our exclusion of some information on the web sites may have resulted in some companies coming worse out of the survey than they might otherwise have done. However, we have registered only two of the 98 companies in the selection as having had important information on their web sites that was not referred to, or that did not appear, in the hard copy version of their report. A number of companies gave a general presentation of CSR on their web sites, but these

lacked factual reporting in the form of figures, measures or goals for environmental and social issues that are relevant to the enterprise. Neither did they write anything about management systems, codes of conduct, or supply chain management. These companies would therefore have scored very poorly anyway in Part 2 of our survey dealing with voluntary reporting.

5.5.3 Awareness of companies' challenges and the purpose of reporting

A vital question is whether companies reflect enough on what function they want sustainability reporting to have and which target groups they want to reach. Are they conscious of their motives for reporting? Companies we were in touch with told of difficulties in determining whether the reports should also serve marketing purposes in addition to their reporting function. In addition to this, some companies also seek to promote specific business policy interests through the report. In such cases, different departments within the company will often have different interests and points of view. Clarifying priorities and what the company wants to attain with a report therefore becomes even more essential in order to produce a good and structured report.

As long as no legal requirements exist for the non-financial reporting done over and above the directors' report, it is chiefly up to the individual companies to determine how they want to resolve their various communicative needs. The danger here is that if no clear position is taken, companies will end up with reports that serve neither reporting, marketing, nor business policy purposes in a satisfactory manner. Apart from complying with any legal requirements, the basis for a good report is in our opinion the ability to identify the essential target groups for the report and the challenges faced by the companies in terms of CSR and sustainable development.

5.5.4 The report as a management tool

The success of a sustainability report depends on whether or not it can function as a management tool for a company. The report should be actively used in a company's ongoing work on CSR and not just be a document that lies there until the next year's report is prepared. A company's management team and board of directors have an important job to do in this respect. By promoting a company's strategy for CSR, boards and management teams can initiate internal awareness, as well as concrete measures with respect to the company's work on CSR.

Statoil can be cited here as an example of a company who has worked well at including work on sustainability in the company's management processes at the board and management levels (SustainAbility and UNEP 2004a:12). From the reports we evaluated, our impression is that several other Norwegian companies, among them TINE and Storebrand, actively use their sustainability reports as tools in the work done on CSR.

As well as a good sustainability report functioning as an internal management document, a report that is supported by management and board will generate greater credibility in the company's work on CSR on the part of employees, authorities, the media, voluntary organisations and, not least, potential business partners. In this way a sustainability report will in itself act as an effective tool for *credible* external and internal communication.

5.5.5 Openness, credibility and external verification

Openness and transparency are often brought up as vital factors in the debate on CSR. A good and credible sustainability report can contribute to consolidating a company's reputation in these respects. The report should not only contain "success stories", but should also report on problems, dilemmas, progression and goal achievements, or lack thereof. Only in this way can reporting function both as credible external information and as an internal management tool.

In order to secure credibility a board and management should prove ownership and support of the reports and the information they contain. The legally mandated reporting on external environment, working environment and gender equality in the directors' report should be automatically linked to the work of the board. But the board and management should also refer in the directors' report or in the CEO's report to any separate reports or sections in the annual report that take up non-financial aspects. Our review of the reports submitted by the largest companies in Norway indicates that many boards and CEOs could be more active in this respect.

Greater credibility could also be gained by external verification of the non-financial information. Consultancy and auditing firms are increasingly taking on the verification of companies' sustainability reports to monitor whether the information given is correct, complete, balanced and relevant (AccountAbility 2003:7). According to Norwegian auditing laws it is only the financial content in an annual report, i.e. the annual accounts, that are subject to mandatory auditing by a third party.²³ A pertinent question in this connection is whether amending the Auditing and Auditors Act to include legally mandated, third-party verification of non-financial information in annual reports would contribute to better and more credible sustainability reporting.

Several companies do however request external auditing of the directors' report, and some also do likewise with their voluntary sustainability reports. AccountAbility, who develops auditing standards for social and ethical reporting, is sceptical about the usefulness of such verification (AccountAbility 2003:8). AccountAbility points out that the voluntary auditing of non-financial reporting now being practised by consultancy firms has not contributed significantly to boosting reporting credibility.

5.6 The triple bottom line (TBL) and the GRI Guidelines – useful tools?

The Global Reporting Initiative (GRI) has developed a document for voluntary sustainability reporting: *Sustainability Reporting Guidelines*.²⁴ This document acts as a guide for companies who wish to compile sustainability reports. A survey carried out by SustainAbility and UNEP (2004:5) showed that as many as 47 of the 50 best sustainability reports worldwide referred to the GRI. As with SustainAbility, the GRI also uses the triple bottom line (TBL) as a starting point for sustainability reporting. Three Norwegian companies (Norsk Hydro, Statoil and Storebrand) have associated themselves with the GRI, and we observed that other companies referred to the GRI as a source of inspiration

²³ Act relating to Auditing and Auditors (Auditing Act). Available at: <http://www.lovddata.no/all/tl-19990115-002-001.html>. Accessed on: 26 November 2004.

²⁴ Sustainability Reporting Guidelines. Available at: <http://www.globalreporting.org/guidelines/2002.asp>. Accessed on: 20 October 2004.

for developing their reports. Could the TBL and the GRI Guidelines become useful tools for improving Norwegian companies' sustainability reporting?

Our survey has shown that only a handful of Norwegian companies reported on all three dimensions of the TBL. Consequently the conclusion that can be drawn from this is that the TBL as a concept does not currently hold a strong position as far as the largest companies in Norway are concerned. Besides, the review of the reports revealed that some of the companies who used the TBL as their starting point interpret the economic dimension of the TBL differently than do the GRI and SustainAbility. The GRI and SustainAbility highlight a company's economic impact on different stakeholders and its socio-economic value creation at the local, national and international levels as the most important elements in the economic dimension (GRI 2002:45-46; SustainAbility 2003:28). In the section dealing with the economic dimension of the TBL, however, many of the Norwegian companies presented more traditional financial results, or provided a summary of costs related to, for example, environmental and HES measures. Alternatively, some wrote about the company's socio-economic impacts in the section dealing with social responsibility. Other companies referred to their annual report for the economic dimension of the TBL, but the information there was not linked to any discussion of environment and social responsibility contained in the sustainability reports. On the whole it appears that Norwegian companies' understanding of the TBL is poor. Only three companies in the selection proved to have a unified approach to the TBL: Statoil, Norsk Hydro and Statkraft.

At the same time a vital point here is that the increasing focus on the concept of the TBL can contribute to a wider gap between the three areas of environment, social responsibility and economics and to an inability to view sustainability and CSR in a wider perspective. This point has also been made by the GRI.²⁵ Without integration and a broad perspective the ability to see the dynamics between the three dimensions is lost.

SustainAbility and UNEP's survey entitled *Trust Us* emphasised the importance of the GRI's role and work in stimulating reporting and in improving the quality of the world's best sustainability reports (SustainAbility and UNEP 2000:2, 14). At the same time, however, the GRI has been criticised for encouraging a focus on detail at the expense of relevance (ibid.,17). A company can report in accordance with many of the GRI indicators without getting to the core of the challenges it faces. For the GRI Guidelines to function as a useful tool it is therefore essential that a company first of all has an awareness of its social challenges so that these may form a basis for developing its main strategies with respect to CSR and sustainability reporting. A slavish approach to the GRI Guidelines will not necessarily yield expedient reporting practices. As long as no clear standards or legal requirements exist, companies must use their discretion when preparing separate reports and concentrate the focus on the real challenges they face in exercising CSR. Having said that, the GRI Guidelines could provide an important basis for a common standard for sustainability reporting, and thus generate greater consensus and, perhaps in the long term, development of legal requirements for non-financial information from Norwegian companies *above and beyond* that contained in the directors' report .

²⁵ Sustainability Reporting Guidelines. Available at: <http://www.globalreporting.org/guidelines/2002/c44b.asp>. Accessed on: 2 November 2004.

5.7 Evaluating sustainability reporting – which way forward?

The debate surrounding CSR continues both in Norway internationally, and ProSus will follow developments relating to sustainability reporting. Our comparison of reporting practices in Norwegian companies has not uncovered any obvious improvements or deteriorations over the past years, neither with respect to the legally mandated nor to the voluntary reporting. Hopefully we will witness considerable improvements in the years to come.

ProSus has been working on finding a suitable method for evaluating sustainability reporting for quite some time, and this has entailed refining and amending our methodical approach from year to year. These changes have unfortunately affected the opportunity to make valid comparisons over time. With this year's survey we have arrived at an approach which will form the basis for future surveys, and which will make comparisons over time easier to carry out. ProSus will follow up this work in 2005 by carrying out a new evaluation of sustainability reporting which will be directly based on this year's analysis.

The surveys carried out by ProSus have focused on companies' *reporting*; not on whether the companies in reality performed well or poorly on CSR. This means that companies whose CSR performance was in reality good but who omitted to report on it have come badly out of our survey. We can therefore not draw any clear conclusions from our results about which companies are seriously working on CSR and sustainable development.

Nevertheless there is little doubt that, for the majority of companies, there is a connection between reporting and actual conduct. In this light sustainability reporting is a useful and important tool which can promote more responsible conduct by Norwegian companies. ProSus will follow up this theme in new analyses of how business and industry contributes to a sustainable development.

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APPENDIX 1: LIST OF COMPANIES

List of the 100 largest companies in Norway (according to total turnover).²⁶ The list originates from the Norwegian financial newspaper Dagens Næringsliv.

1	STATOIL	40	PGS
2	NORSK HYDRO	41	VINMONOPOLET
3	TELENOR	42	SKANSKA NORGE
4	ORKLA	43	HYDRO TEXACO
5	DNB NOR	44	WILH. WILHELMOSEN
6	AKER KVÆRNER	45	MØLLERGRUPPEN
7	STOREBRAND	46	KONGSBERG GRUPPEN
8	EXXON MOBIL	47	ODFJELL
9	TOTAL E&P NORGE	48	BP NORGE
10	REITANGRUPPEN	49	DYNO NOBEL
11	NORGESGRUPPEN	50	BERTEL O. STEEN
12	STATOIL DETALJH.	51	TORVALD KLAVENESS
13	NORSKE SKOG	52	CERMAQ
14	ICA NORGE	53	STATNETT
15	KLP FORSIKRING	54	DET NORSKE VERITAS
16	CONOCOPHILLIPS	55	VARNER-GRUPPEN
17	GJENSIDIGE NOR FORSIKRING	56	FERD HOLDING
18	ELKEM	57	KRAFT FOODS
19	NORSKE SHELL	58	ELKJØP GROSSIST
20	NORDEA BANK	59	JOTUN
21	COOP NORGE	60	NETCOM
22	POSTEN NORGE	61	NORDEA LIV
23	COOP NKL	62	ARROW ELECTRONIC
24	SAS	63	NMD GROSSISTHANDEL
25	AKER RGI	64	FOKUS BANK
26	TINE GRUPPA	65	STAR SHIPPING
27	STATKRAFT	66	APOKJEDEN
28	VEIDEKKE	67	MOELVEN INDUSTRIER
29	ABB	68	FELLESKJØPET ØST VEST
30	GILDE NORSK KJØTT	69	BAMA GRUPPEN
31	BRAVIDA	70	SHELL MARKETING
32	VESTA FORSIKRING	71	EMENTOR
33	NORSK TIPPING	72	O.N. SUNDE
34	ENI NORGE	73	BERGESEN D.Y.
35	HAFSLUND	74	NORGES RÅFISKLAG
36	A.L. INDUSTRIER	75	UMOE
37	SCHIBSTED	76	EDB BUSINESS PARTNER
38	SPAREBANK 1 GRUPPEN	77	ROLLS-ROYCE MARINE
39	NSB	78	OLAV THON GRUPPEN

²⁶ No. 24 SAS and no. 51 Torvald Klaveness are not included in the study.

79	OPTIMERA GRUPPEN	90	NCC CONSTRUCTION
80	FJORD SEAFOOD	91	NRK
81	KVERNELAND	92	FJORDKRAFT
82	AMERSHAM HEALTH	93	NORGROS
83	NCC ROADS	94	RIEBER & SØN
84	BAUDA	95	IDEMITSU PETROLEUM
85	EXPERT	96	SMEDVIG
86	NOR CARGO	97	KOMMUNALBANKEN
87	SPAREBANKEN ROGALAND	98	IBM
88	ELKJØP NORGE GROSSIST	99	CHOICE HOTELS SCAN.
89	SIEMENS	100	FRANK MOHN

APPENDIX 2: CATEGORIES

The reports are evaluated in terms of five categories, where 0 is the lowest score and 4 is the highest score. The tables below give an overview of what the different categories signify.

PART 1: MANDATORY REPORTING IN THE BOARD OF DIRECTORS' REPORT

Reporting that falls under categories 3 and 4 meet the legal requirements of the Accounting Act, based on our interpretation of the wording of the Act.

Category 0: Not mentioned	Environment/working environment/gender equality not mentioned.
Category 1: Mentioned	Environment/working environment/gender equality mentioned, but no reporting in relation to own enterprise. Alternatively, the theme is dismissed as irrelevant, for example by stating: "The company has no impact on the external environment".
Category 2: Insufficient	Reports on own enterprise, but lacks one or more required points (e.g. measures, figures).
Category 3: Satisfactory	Reports on all relevant points and meets the legal requirements.
Category 4: Very satisfactory	Comprehensive and accurate reporting above and beyond the legal requirements.

PART 2: VOLUNTARY REPORTING IN SEPARATE REPORTS

Category 0: Not mentioned	Theme not mentioned.
Category 1: Mentioned	Theme briefly mentioned in general terms, but no reporting on own operations. Alternatively, theme dismissed as irrelevant.
Category 2: Insufficient	Theme described with reference to own enterprise, but reporting has major deficiencies with respect to analysis, content and presentation.
Category 3: Satisfactory	Theme described and analysed with respect to own operations. Problems are identified and challenges and solutions are considered, but reporting has some deficiencies with respect to content and presentation.
Category 4: Very satisfactory	Theme is described and analysed systematically and comprehensively with respect to the company's operations. The company demonstrates an integrated and overall perspective.

APPENDIX 3: BEST PRACTICE

The list below presents a selection of firms which can be seen as examples of "best practice" for CSR-reporting. However, also these firms have a potential for improvement.

PART 1: MANDATORY REPORTING IN THE BOARD OF DIRECTORS' REPORT	
ENVIRONMENT	
ENI Norge	URL: http://www.eninorge.no/
ConocoPhillips	URL: http://www.conocophillips.no/
Norske Shell	URL: http://www.shell.com/no-no
WORKING ENVIRONMENT	
Jotun	URL: http://www.jotun.no/
Aker Kværner	URL: http://www.akerkvaerner.com/
Posten	URL: http://www.posten.no/
GENDER EQUALITY	
Orkla	URL: http://www.orkla.no/
Statkraft	URL: http://www.statkraft.no/
TINE	URL: http://www.tine.no/

PART 2: VOLUNTARY REPORTING IN SEPARATE REPORTS	
GENERAL CSR – ENVIRONMENT	
Norske Skog	URL: http://www.norske-skog.com/
TINE	URL: http://www.tine.no/
Elkem	URL: http://www.elkem.no/
GENERAL CSR – INTERNAL SOCIAL RESPONSIBILITY	
Statkraft	URL: http://www.statkraft.no/
Det Norske Veritas	URL: http://www.dnv.no/
Amersham Health (+ Statoil)	URL: http://www.amersham.no/
GENERAL CSR – EXTERNAL SOCIAL RESPONSIBILITY	
Norsk Tipping	URL: http://www.norsk-tipping.no/
Statoil	URL: http://www.statoil.com/
Storebrand	URL: http://www.storebrand.no/
GENERAL CSR – ECONOMY	
Statkraft	URL: http://www.statkraft.no/
Statoil	URL: http://www.statoil.com/
Norske Shell	URL: http://www.shell.com/no-no

MANAGEMENT SYSTEMS – ENVIRONMENT	
Kongsberg	URL: http://www.kongsberg.com/nor/kog/
Wilh. Wilhelmsen	URL: http://www.wilh-wilhelmsen.no/
BP Norge	URL: http://www.bpnorge.no/
MANAGEMENT SYSTEMS – SOCIAL RESPONSIBILITY	
Amersham Health	URL: http://www.amersham.no/
Storebrand	URL: http://www.storebrand.no/
Statkraft	URL: http://www.statkraft.no/
MANAGEMENT SYSTEMS – ECONOMY	
DnB NOR	URL: https://www.dnbnor.no/
Storebrand	URL: http://www.storebrand.no/
Det Norske Veritas	URL: http://www.dnv.no/
CODES OF CONDUCT – ENVIRONMENT	
Norske Skog	URL: http://www.norske-skog.com/
NCC Construction	URL: http://www.ncc.no/
Veidekke	URL: http://www.veidekke.no/
CODES OF CONDUCT – SOCIAL RESPONSIBILITY	
Norsk Tipping	URL: http://www.norsk-tipping.no/
NCC Construction	URL: http://www.ncc.no/
Kongsberg	URL: http://www.kongsberg.com/nor/kog/
CODES OF CONDUCT - ECONOMY	
Fjord Seafood	URL: http://www.fjordseafood.com/
Norske Skog	URL: http://www.norske-skog.com/
NCC Construction	URL: http://www.ncc.no/
SUPPLY CHAIN MANAGEMENT – ENVIRONMENT	
Varner	URL: http://www.dressmann.no/
NCC Construction	URL: http://www.ncc.no/
Norgros	URL: http://www.norgros.no/
SUPPLY CHAIN MANAGEMENT – SOCIAL RESPONSIBILITY	
Varner	URL: http://www.dressmann.no/
SUPPLY CHAIN MANAGEMENT - ECONOMY	
Varner	URL: http://www.dressmann.no/
NCC Construction	URL: http://www.ncc.no/