

# Harmonization of CSR Reporting in the Contemporary World

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## ABSTRACT

The conspicuous changes CSR has brought in the contemporary world, is a sign that structured approach towards societal reformative goals will aid in its comprehensive acknowledgement and achievement. India is one of the first countries to have codified the social obligations of the corporates. The mandatory CSR fund to be reserved every financial year, has helped in the upliftment of the society, through various CSR projects. There are different methods followed for CSR accounting in different countries. The social responsibility of companies towards its stakeholders and society, can be analyzed from the ratio of its net profits and CSR expenditures. Harmonization of CSR accounting has not been a major concern of the world leaders yet. Many global crises such as climate change, rehabilitation of refugees, hunger, malnutrition, illiteracy, etc., could be effectively addressed to find rapid and substantial solutions, with the help of structured practice of CSR. CSR has the potential to change the social and economic phase of the world. Doctrinal method has been used in the research paper, relying on various literature sources.

**Keywords:** CSR Reporting, Corporate Social Responsibility, Harmonization of finance, CSR Harmonization, Global Reporting Initiative.

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## I. INTRODUCTION

The world, in its totality, has the propensity for coming together as a single unit. *Vasudhaiva kudumbakam* has been an ideology, India presented before and practiced in the world since time immemorial. The main driving force behind this intention, is the common human tendency to break boundaries and, expand and explore one's own life and lifestyle. Harmonization is a way of breaking such boundaries and consolidating similar or less contradicting laws in order to reach that aim, in the financial arena. The dynamics in the financial sector has the potential to influence the societal progress in a Nation. Which is why, CSR has been an integral part of the business world for a while now. The financial advancement in any company, is a result of the direct and/or indirect participation of the society. This particular participation deserves a reciprocal action of its acknowledgement by the companies.

The companies depend on the society on various levels. The human resource, geographical resources, public utilities, etc. The emanations from the companies, not just the good, but the adverse ones as well, are equally borne by the society. This is where, CSR plays an important role. It reminds companies that they have a duty towards the community which helps them grow. In India, CSR is mandated under section 135 of the Companies Act, 2013. Moreover, there are CSR Rules released by the Central Government to guide and strengthen the CSR provision in the Companies Act, 2013.

Corporate Social Responsibility, though incorporated by many countries in the world, is not a mandatory part of the business in many countries. The United Nations has had a significant role to play in universal acceptance of the idea of CSR with their promotion of the "Global Compact" to which various countries are signatories. This global compact binds the signatories to universally accepted principles of social responsibility

which the businesses in those countries ought to follow and which is tracked for implementation.<sup>1</sup> Some of the countries which have mandated CSR includes China, UK, US.

### HARMONIZATION AS A GENERAL CONCEPT

Harmonization, according to Black's Law Dictionary, means the changing differences on different measurements and procedures or schedules to make them uniform and compatible.<sup>2</sup> In the new era of liberalization and globalization, it is important to have a synchronized system of financial system in order encourage the expanding world economies and Multi-National Companies. The harmonization of financial reporting is nothing but the eradication of multiple financial procedures in order to accelerate participation of the same on an international level.

It has been inferred from various researches that low harmonization levels are both due to the degree of flexibility available in selecting benchmark treatments in some International Accounting Standards (IAS) and also to non-compliance by companies with IAS-mandated requirements. The extent of harmonization could be examined using the eighteen measurement practices drawn from seven IAS (now known as International Financial Reporting Standards (IFRS)) covering the following broad areas:<sup>3</sup>

1. accounting for inventory,
2. property, plant and equipment,
3. accounting for leases,
4. pension and retirement benefit costs,
5. foreign currency transactions and translations,
6. business combinations, and
7. accounting for investments.

While introducing harmonizing accounting and other financial standards, the results of such practices have to be analysed to trace the pace at which world economies are accepting such changes.<sup>4</sup> In China, since 1998, a newly promulgated Accounting Regulation for Listed Companies is in effect. This new regulation is the most comprehensive effort at harmonizing Chinese generally accepted accounting standards (GAAP) with International Accounting Standards (IAS). Based on a sample of listed companies required to reconcile accounting earnings from Chinese GAAP to IAS, it was found that the Chinese government's efforts did not eliminate or significantly reduce the gap between Chinese and IAS earnings despite harmonized accounting standards.

Evaluation of the compliance of IAS is one of the most important ways to assess the effect of harmonization measures.<sup>5</sup> The World Bank is working to promote harmonized international standards in two areas — between public and private sector auditing standards that govern financial reporting, and between the International Public Sector Accounting Standards issued by the International Federation of Accountants and the Government Finance Statistics maintained by the IMF.<sup>6</sup> Harmonization means working more closely with borrower institutions, not just other donors. In India, where the Bank has a large program of State Financial Accountability Assessments, the review in Andhra Pradesh was led by the state government, with staff from the Bank and the UK's Department for International Development providing advice.

There could be many challenges faced in the process of harmonization of various financial relations. Financial relations are not merely the accounting standards, but every other aspects such as management, governance, reporting, assessment etc. Corporate Social Responsibility is another area where the harmonization could bring about significant changes to the working mechanisms of CSR projects and related divisions in corporates.

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<sup>1</sup> <https://www.managementstudyguide.com/csr-practice-around-the-world.htm>

<sup>2</sup> <https://thelawdictionary.org/harmonization/> Black Law's Dictionary, 2<sup>nd</sup> Ed.

<sup>3</sup> [https://doi.org/10.1016/S0897-3660\(06\)19002-9](https://doi.org/10.1016/S0897-3660(06)19002-9)

<sup>4</sup> <https://doi.org/10.2308/acch.2002.16.3.183>

<sup>5</sup> [https://web.worldbank.org/archive/website01531/WEB/IMAGES/FM\\_NO-10.PDF](https://web.worldbank.org/archive/website01531/WEB/IMAGES/FM_NO-10.PDF)

<sup>6</sup> Supra

## CSR REPORTING STANDARDS IN THE WORLD

CSR reporting is the practice of reporting an organization's performance of non-financial metrics, providing transparency on the organization's impact on society and the environment.<sup>7</sup> Good CSR performance has the potential to result in good business performance as well. There are many definitions of CSR, however, from the point of view of CSR reporting in EU context it could be considered the most relevant one. According to the mentioned definition, it is possible to conclude that CSR is a concept mostly focused on interaction and dialogue between a company and its stakeholders. The most common tool of interaction and dialogue are CSR reports issued by companies in order to respond to their stakeholders' needs.<sup>8</sup>

CSR reporting is mandated in India under Rule 8 of The Companies (Corporate Social Responsibility) Rules, 2014. According to the rule, the format for the annual report of CSR activities to be included in the Board's report includes the summary on CSR activities held that financial year, composition of committee, amounts spent in administrative overheads, impact assessment of the CSR project (wherever applicable) etc. The system in India seems to be more streamlined and it has also included impact assessment.

As confirmed by 2022 research from KPMG, the GRI Standards remain the most widely used sustainability reporting standards globally. Overall, 96% of G250 (unchanged from 2020) and 79% of N100 (77% in 2020) report on sustainability or ESG.<sup>9</sup> The Global Reporting Initiative (GRI) has shaped a reporting framework for CSR reporting.<sup>10</sup> Researches indicate that CSR reporting mechanisms have significant differences among different EU countries.<sup>11</sup> The results of sustainability reports of nine firms which have been analyzed based on the Global Reporting Initiative (GRI) indicators show that though, the selected firms' sustainability reports fulfill requirements related, "Profile Disclosures" and "Disclosures on Management Approach", it fails to consistently disclose "Performance Indicators".<sup>12</sup>

There is no association between accounting and market-based variables and the reporting quality, and although the quality disclosure is improving throughout the years studied, the scores are still low.<sup>13</sup>

Similarly, in 2009 Denmark mandated CSR reporting by all the companies with total assets of more than 19 million Euros or revenue of more than 38 million or having more than 250 employees.<sup>14</sup> Companies in the UK spend only 0.5-1% of their pre-taxed profit on CSR. 50% of companies in the UK agrees to spend the amount on social development and 25% agrees on environmental development.<sup>15</sup>

The CSR law in UAE was enforced from February 1, 2018 which stipulates companies to report on CSR activities and financial contributions. The purpose of the law is to establish a regulatory framework for CSR contributions in the UAE which will keep a record of all development activities undertaken through CSR and will incentivize companies that are making effective contributions.<sup>16</sup>

Therefore, UNGC, GRI and OECD, etc., present frameworks for CSR practice and reporting. Most of the countries are yet to legislate CSR laws. Some of the countries rely on the CSR laws of other Nations as well.

<sup>7</sup> <https://www.ibm.com/blogs/internet-of-things/what-is-csr-reporting/#:~:text=CSR%20reporting%20is%20the%20practice.CSR%20performance%20reporting%20is%20voluntary.>

<sup>8</sup> [https://www.researchgate.net/publication/284029274\\_Corporate\\_Social\\_Responsibility\\_Reporting\\_Differences\\_among\\_Selected\\_EU\\_Countries](https://www.researchgate.net/publication/284029274_Corporate_Social_Responsibility_Reporting_Differences_among_Selected_EU_Countries)

<sup>9</sup> <https://www.globalreporting.org/news/news-center/four-in-five-largest-global-companies-report-with-gri/>

<sup>10</sup> [https://www.researchgate.net/publication/284029274\\_Corporate\\_Social\\_Responsibility\\_Reporting\\_Differences\\_among\\_Selected\\_EU\\_Countries](https://www.researchgate.net/publication/284029274_Corporate_Social_Responsibility_Reporting_Differences_among_Selected_EU_Countries)

<sup>11</sup> supra

<sup>12</sup> Aktas, R., Kayalidere, K., Kargin, M. (2013), "Corporate sustainability reporting and analysis of sustainability reports in Turkey", International Journal of Economics and Finance, Vol. 5, No. 3, pp. 113-125. <https://www.ccsenet.org/journal/index.php/ijef/article/view/25044>

<sup>13</sup> Ching, Hong & Gerab, Fábio & Toste, Thiago. (2017). The Quality of Sustainability Reports and Corporate Financial Performance: Evidence From Brazilian Listed Companies. SAGE Open. 7. 2158244017712027. 10.1177/2158244017712027.

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<sup>14</sup> <https://www.careerguide.com/career/career-counselling/csr-in-different-countries-career-counselling>

<sup>15</sup> supra

<sup>16</sup> <https://www.egyankosh.ac.in/bitstream/123456789/74141/1/Unit-1.pdf>

## NEED FOR HARMONIZATION OF CSR REPORTING

Transparency is one of the three pillars of corporate governance, to be upheld by companies. It is not just about curtailing corruption, but for the public at large to have a clear picture on the social responsibility actions taken and implemented by companies. Transparency leads to trust of the stakeholders in the companies. CSR reporting can be a tool to ensure transparency within and outside the company with respect to its non-financial on non-business undertakings.

CSR reporting would ensure that the world sees the sustainability actions taken by companies on the global crises.<sup>17</sup> According to Eka, 10 most popular ESG standards and frameworks include Global Reporting Initiative Standards (GRI Standards), Sustainable Development Goals (SDGs or UN SDGs), Sustainability Accounting Standards Board (SASB), Integrated Reporting (IR) Framework, Carbon Disclosure Project (CDP) Guidance, Dow Jones Sustainability Index (DJSI), Task Force on Climate-related Financial Disclosures (TCFD), International Finance Corporation (IFC) Performance Standards, UN Principles for Responsible Investment (PRI), Streamlined Energy and Carbon Reporting (SECR). Most of these frameworks are free of cost. They all result in creating a report that valuate the overall social effect of the corporates. Some of them are qualitative rather than quantitative. Some are too extensive that they tend to intimidate the new reporters. Others help the corporates identify the unsustainable practices that are likely to affect the financial and/or operating conditions of companies within their contemporaries. Therefore there has to be a system wherein the differences are eradicated to an extent wherein the stakeholders could depend on any framework to analyze the CSR situation of a company.

Kristalina Georgieva, IMF Managing Director, on *Confronting the Crisis: Priorities for the Global Economy*, talked about a four-point plan: essential containment measures and support for health systems; shield affected people and firms with large, timely, targeted fiscal and financial sector measures; reduce stress to the financial system and avoid contagion; plan for recovery. The unsustainable practices of the corporates are leading to a global financial crisis, which, if not addressed soon, could lead to a phase where recovery would be almost impossible. From natural disasters to climate change, every single crisis can be addressed and solved by an integral approach within the globe. Therefore, the need for harmonization of CSR reporting can be summarized as follows:

- Increase transparency of companies
- Acknowledgment of global crises
- Easy access to reports
- Global expansion of CSR activities
- Addressing CSR activities as a separate and significant function
- To understand which goals, need more attention

## CHALLENGES IN HARMONIZATION OF CSR REPORTING

Due to different complexities within the globe, it is quite challenging to introduce any sort of harmonization in the financial sphere. Even though CSR is mandated to certain companies in India, CSR reporting is not applicable to all those companies which have CSR expenditure (Rule 8 of the CSR Rules, 2014). Mandating disclosure of CSR expenditure for all companies would only result in more accountability of companies. Every company has a duty towards the society as none can function without depending on the society at large. One way or the other, all companies owe to the society. Therefore, all companies, irrespective of its size, value and type, are obligated to do their part (however small), in building a better environment around them.

Since there are different types of CSR reporting frameworks, it is likely that companies would be categorized as per size, value, etc. This categorization could be a challenge in harmonizing CSR reporting, as it is not practicable to not do so, due to differences in the accessible and feasible resources for companies. The only way this can be tackled is through government initiatives which provide accessible resources for CSR reporting to all companies, especially budding ones.

There is high chance for manipulations in the internal and external CSR reports. This is mainly due to the misappropriation of CSR funds that happen within and outside companies. This could be scrutinized through effective impact assessment which should also not be a voluntary procedure. Rather than imposing the impact assessment on companies, there could be public agencies set up for the same. Harmonization of CSR reporting would likely result in companies choosing CSR activities on global concerns rather than local ones. This could be a potential challenge to be faced by companies. It is important for all companies to protect the interests of the stakeholders.

<sup>17</sup> <https://eka1.com/blog/sustainability-frameworks-101/>

The most crucial challenge faced in harmonization of CSR reporting would be the compliance mechanism. Even if the law, treaties, etc., mandate a streamlined procedure to ensure CSR and CSR reporting, unless the nations are ready to comply with it, harmonization would be in vain. Therefore, the following are some of the challenges faced in harmonization of CSR reporting in the contemporary world:

- Transparency and Non-disclosure of CSR projects
- Voluntary CSR and CSR reporting
- Grouping Nations and Corporates
- Manipulations in Reports: Discrepancies in internal and external reports.
- Reports without Impact Assessment
- Balancing local interests of stakeholders
- Compliance of the frameworks by Nations

## II. CONCLUSION

There are different types of CSR reporting frameworks. Therefore, it is imperative to reduce the differences among these and present an easier way to analyse the CSR activities of corporates. The best framework for CSR reporting depends on the target audience, value and purpose of the report. For example, investors looking to determine the carbon emissions or climate change mitigation of an organization might select the CDP or DJSI framework as the best choice. These public frameworks will also be ideal if your goal is to compare your data to your peers. However, if the CSR report is aimed at stakeholders such as NGOs, suppliers, employees or customers, and it seeks to determine the social, economic or environmental impact of an organization on these stakeholders, the GRI framework might be more appropriate.<sup>18</sup>

There is no doubt that CSR can aid in long-term value development of companies. It not only creates an external impact, but an internal one too. CSR could aid in slowing down the hustle culture of corporates and focus on sustainable and quality life personally and professionally for their employees. Having a streamlined CSR reporting could help CSR activities attain wider and global acceptance and reduce the complex frameworks of CSR reporting, thus encouraging more and more companies to treat CSR as an integral part of them.

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