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A FINANCIAL POSITION ANALYSIS FOR COMPANIES PRACTICING CSR

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ABSTRACT:

Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders**.** The practice of CSR in India still remains within the philanthropic space, but has moved from institutional building (educational, research and cultural) to community development through various projects. The Companies Act, 2013 has introduced the idea of CSR to the forefront and through its disclose-or-explain mandate, is promoting greater transparency and disclosure. Schedule VII of the Act, which lists out the CSR activities, suggests communities to be the focal point. On the other hand, by discussing a company's relationship to its stakeholders and integrating CSR into its core operations, the draft rules suggest that CSR needs to go beyond communities and beyond the concept of philanthropy.In this study we have tried evaluate and link the participation in CSR by companies and the impact of this contribution on financial position of the respective companies by using Altman's Z score model.

Keywords: CSR, Stake holders, Philanthropy, Financial performance

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INTRODUCTION

The term Corporate Social Responsibility means the responsibility of enterprises for their impacts on society. To completely meet their social responsibility, enterprises should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders. Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (Triple-Bottom-Line Approach), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.

The practice of CSR in India still remains within the philanthropic space, but has moved from institutional building (educational, research and cultural) to community development through various projects. Also, with global influences and with communities becoming more active and demanding, there appears to be a discernible trend, that while CSR remains largely restricted to community development, it is getting more strategic in nature (that is, getting linked with business) than philanthropic, and a large number of companies are reporting the activities they are undertaking in this space in their official websites, annual reports, sustainability reports and even publishing CSR reports. The Companies Act, 2013 has introduced the idea of CSR to the forefront and through its disclose-or-explain mandate, is promoting greater transparency and disclosure. Schedule VII of the Act, which lists out the CSR activities, suggests communities to be the focal point. On the other hand, by discussing a company's relationship to its stakeholders and integrating CSR into its core operations, the draft rules suggest that CSR needs to go beyond communities and beyond the concept of philanthropy.

According to Indian Institute of Corporate Affairs, a minimum of 6,000 Indian companies will be required to undertake CSR projects in order to comply with the provisions of the Companies Act, 2013 with many companies undertaking these initiatives for the first time. Further, some estimates indicate that CSR commitments from companies can amount to as much as 20,000 crore INR. This combination of regulatory as well as societal pressure has meant that companies have to pursue their CSR activities more professionally.

In this study we evaluate , the impact of contribution in CSR towards the financial position of the firm.

OBJECTIVE:

The main objective of the study is

To evaluate the financial position of sample companies who are engaged in CSR activities.

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RESEARCH METHODOLOGY:

The data used for the study is collected from the annual reports available on websites of 10 sample companies named TaTa Steel, Larsen and Tuobro, Reliance India Limited, Hindalco, Bharti Airtel, Mahindra and Mahindra, Maruti Suzuki, TCS, ICICI, Tata Motors. The period of the study is of 5 years from 2009-10 to 2013-14. These companies are selected on the basis of CSR 10 India Index 2012(CSR 10 India Index 2012, Anup Tiwari & Shweta Shukla, www.fundraisingindia.org; May 2013).

The data has been analysed through Altman's Z score model and few accounting ratios. As It explicitly measure(s) a firm's relatively all aspects of corporate performance, lead to clearer conclusions, avoid judgment bias, reliability.

LITERATURE REVIEW:

CSR:

The concept of social accounting originated in different forms by Adam Smith (1776) and Karl Marx (1884), but it developed into full-fledged concept in the 1960s and 1970s (Ghosh, 2003).There are, however, isolated examples that suggest that corporate social reporting has a history of development stretching back over many decades (Guthrie and Parker, 1989) Lewis, et al. (1984) revealed the existence of a body concerning corporate reporting to employees dating back to at least 1919. Honger (1982) studied the annual reports of the US Steel for 1901-1980, and found. In the context of India, CSR studies were few and limited. Singh and Ahuja (1983) conducted the first study in India on CSR of 40 Indian public sector companies for the years 1975/1976 and found that 40 percent of the companies disclosed more than 30 percent of total disclosure items included in their survey. Hegde, Bloom, & Fuglister (1997) conducted a case study of the Steel Authority of India (SAIL), a public sector company. They found that SAIL published a Social Income Statement and a Social Balance Sheet to measure the social benefits to employees, public and the community and the cost involved. These reports showed the efforts made by SAIL in fulfilling its social objectives and responsibilities. The latest study of CSR practices in India was conducted by Raman(2006). Raman used content analysis technique to examine the chairman's message section in the annual reports of the top 50 companies in India to identify the extent and nature of social reporting.

FINANCIAL PERFORMANCE AND ALTMAN Z SCORE:

Financial longevity of a business is a concern to internal and external stakeholders. Internal stakeholders might be interested in whether skills are transferable, while external stakeholders might be concerned directly with their investment or profits (Mossman et al, 1998). To address these concerns, it may be of particular importance to the industry to predict bankruptcy or financial distress. Various authors (Dugan and Zavgren, 1989; Chen and Shimerda, 1981) have outlined seven financial factors that can help to predict financial distress: return on investment, financial leverage, capital turnover, short-term liquidity, cash position, inventory turnover and receivables turnover. By using financial ratios, the accuracy of predicting bankruptcy of a firm is greater than 90% (Chen and Shimerda, 1981).

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One important tool that predicts the volatility and has gained popularity since 1985 is Edward Altman's Z Score Model (Altman, 1968). It is a multivariate formula used for the measurement of the financial health. It has gained wide acceptance with a variety of stake holders like investors, financial analysts, consultants, bankers, auditors, management accountants, courts, and database systems. Further it is also used for evaluation of loans (Eidleman, 2003), as it offers an excellent measure for evaluating the financial health of a subject business. It explicitly measure(s) a firm's relative liquidity, longevity, operating profitability, leverage, solvency, and productivity—virtually all aspects of corporate performance, lead to clearer conclusions, avoid judgment bias, reliability.

The Altman model uses various ratios to consider the seven factors noted above. It should be noted that some researchers (i.e. Morris, 1998) argue that in so far as bankruptcy is due to unforeseeable events and therefore, it cannot be predicted. The widely popular Z-score function used for analyzing and predicting bankruptcies was first published in 1968 by Edward I. Altman (Altman, 1968). The z-score is used as a basic research tool in exploring such areas as merger and divestment activity (e.g. Shrieves and Stevens, 1979; Lasfer et al., 1996; Sudarsanam and Lai, 2001), asset pricing and market efficiency (e.g. Altman and Brenner, 1981; Katz et al., 1985; Dichev, 1998; Griffin and Lemmon, 2002; Ferguson and Shockley, 2003), capital structure determination (e.g. Wald, 1999; Graham, 2000; Allayannis et al., 2003; Molina, 2005), the pricing of credit risk (see Kao, 2000 for an overview), distressed securities (e.g. Altman, 2002: ch. 22; Marchesini et al., 2004), and bond ratings and portfolios (e.g. Altman, 1993: ch. 10; Caouette et al., 1998: ch 19). Z-score models are also extensively used as a tool in assessing firm financial health in going-concern research (e.g. Citron and Taffler, 1992; Carcello et al., 1995; Mutchler et al., 1997; Louwers, 1998; Citron and Taffler, 2001 and 2004; Taffler et al., 2004).

Z score model

Altman (1968) is of the opinion that ratios measuring profitability, liquidity, and solvency are the most significant ratios. However, it is difficult to know which is more important as different studies indicate different ratios as indicators of potential problems. Altman's 1968 model took the following form:

$Z = 0.01\ 2X1 + 0.014\ X2 + 0.033\ X3 + 0.006\ X4 + 0.999\ X5$

Where:

X1 = working capital/total assets,

X2 = retained earnings/total assets,

X3 = earnings before interest and taxes/total assets,

X4 = book value equity/book value of total liabilities,

X5 = sales/total assets.

X1 : This is a measure of the net liquid assets of a firm relative to capitalization. Working Capital is calculated by subtracting the firm's current assets from current liabilities.

X2 : This measures a firm's cumulative profits relative to size. When a firm generates a profit, some of the profit is distributed to the shareholders as dividends and the rest is accumulated to the

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balance sheet in an account in the equity section. These retained earnings are used to pay off debt or invest in research and development. The age of the firm is implicitly considered due to the fact that relatively young firms have a lower ratio and the incidence of business failures is much higher in a firm’s early years. It is also an indication of the firm’s use of external capital to fund its investments and operations.

X3 : This is a measure of the earning power of the firm’s assets without any influence from tax or leverage factors.

X4 : This measures the extent to which a firm’s assets can decline in value before book value becomes negative and the firm becomes insolvent. This assesses the ability of a firm to fund its operations with equity capital, the cost of equity and the market’s outlook for the firm’s prospects. This also adds a market basis dimension to the calculation. Market Capitalization is another name for market value of equity and is calculated by multiplying the company’s stock price by the total amount of shares outstanding.

X5 : This is a turnover ratio that measures the sales generating capacity of the firm’s assets.

The zones of discrimination are:

Z<1.81 -- Distress

1.81<Z<2.99 --Inconclusive

Z>2.99 –Solvent

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ANALYSIS & INTERPRETATION

Z Score Value

year / co.name	2009-10	2010-211	2011-12	2012-13	2013-14
TATA STEEL	2.153007602	2.216509357	2.398215667	2.293859104	2.423926073
LARSEN & TUOBRO	3.031245558	3.125596141	2.814042721	3.28097167	2.977095375
RELIANCE INDUSTRIES LIMITED	2.670018981	2.888401483	3.353934726	3.333504965	2.947830467
HINDALCO	3.342863668	2.864192844	2.122628185	1.52920535	1.448094962
BHARTI AIRTEL	3.158464939	2.955908112	3.087747366	2.943552453	2.954670946
MAHINDRA & MAHINDRA	4.203128689	4.946821056	4.517228522	5.40300875	5.196719034
MARUTI SUZUKI	5.411339032	5.594543504	4.219263744	4.320819043	4.145545691
TCS	5.612864118	5.563355598	5.422973678	5.952391172	6.215899788
ICICI	0.171592025	0.425732558	0.394081575	0.405202889	0.413573332
TATA MOTORS	3.305175518	0.907331092	0.996104507	0.675284833	0.398715712

Graphical presentation of MEAN of Z scores

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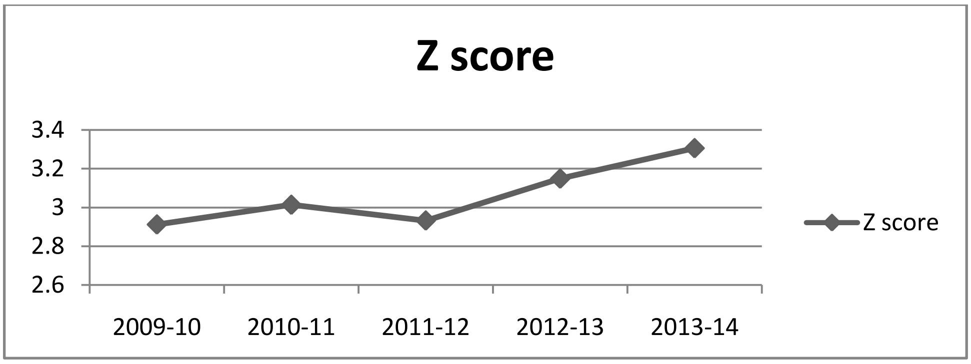

In the above graph the average of Z scores of all the sample companies are shown for respective years. we can see clearly in the graph that in the year 2011-12 the Z score diminishes from a increased position in the year 2010-11. but afterwards it increases for the remaining years.

DISCUSSION AND SUGESSTION :

- practicing CSR does not guarantee a good financial position.
- even though the role of CSR is not very much significant but it has some impact on companies' financial position.
- The other factors in a companies have impact much more than CSR.

CONCLUSION:

Even though the impact of CSR on a firm is not negligible, but It can be concluded that the impact of CSR on firms growth and performance is not very much significant. It can create a good image of the firm. We should not forget that the main aim of CSR is not profit making rather contributing towards society. so the impact on financial position should not be the criteria for contribution towards CSR.

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