Volume 4 | Issue 7 | Jan 2015 ISSN No :2231-5063

International Multidisciplinary Research Journal

Golden Research Thoughts

Welcome to GRT

RNI MAHMUL/2011/38595 **ISSN No.2231-5063**

Golden Research Thoughts Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial board.Readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.aygrt.isrj.org

Golden Research Thoughts
ISSN 2231-5063
Impact Factor : 3.4052(UIF)
Volume-4 | Issue-7 | Jan-2015
Available online at www.aygrt.isrj.org

A FINANCIAL POSITION ANALYSIS FOR COMPANIES PRACTICING CSR

Mohammed Khursid

Ph.D. Scholar, P.G. Department of Commerce, Utkal university, Bhubaneswar.

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.

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.

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).

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 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

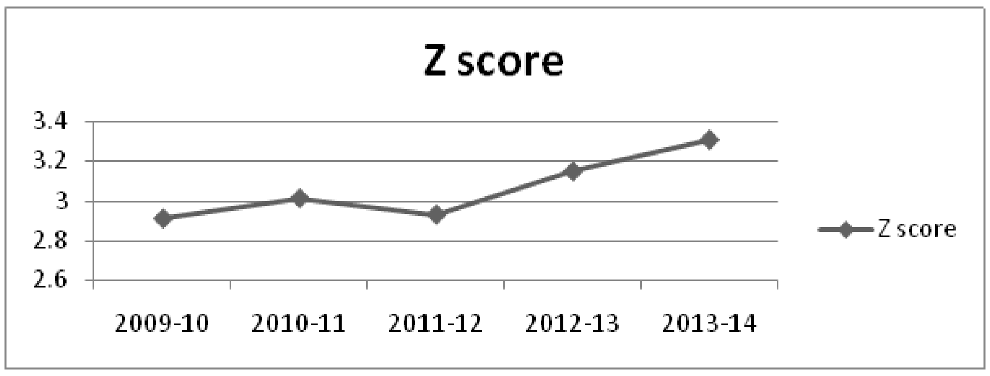
ANALYSIS & INTERPRETATION

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

in the above table Z scores are shown for the sample company from the year 2009-2014. we can see clearly from the table that the Z score which is taken as variable for showing financial performance is not constantly increasing or decreasing for the sample companies.

Graphical presentation of MEAN of Z scores



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.

REFERENCES

1.Adams, C. A., 2002, "Internal Organisational Factors Influencing Corporate Social and Ethical Reporting beyond Current Theorising", Accounting, Auditing & Accountability Journal, 15(2): 223-250.
2.Adams, C. A., 2002, "Internal Organisational Factors Influencing Corporate Social and Ethical Reporting beyond Current Theorising", Accounting, Auditing & Accountability Journal, 15(2): 223-250.
3.Adams, C. A., 2002, "Internal Organisational Factors Influencing Corporate Social and Ethical Reporting beyond Current Theorising", Accounting, Auditing & Accountability Journal, 15(2): 223-250.
4.Adams, C.A, W.Y. Hill and Roberts.C.B. (1998), Corporate Social Reporting Practices in Western Europe: Legitimating corporate behavior, British Accounting Review.30.1-21.
5.Allayannis, G., Brown, G.W., and Klapper, L.F. (2003).Capital structure and financial risk: evidence from foreign debt use in East Asia. Journal of Finance, 58(6): 2667- 2709.
6.Altman, E. (1968). Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bankruptcy, Journal of Finance.
7.Altman, E.I. (1993). Corporate financial distress and bankruptcy. New York: John Wiley, 2nd edition.
8.Altman, E.I. (2002). Bankruptcy, credit risk, and high yield junk bonds: a compendium of writings. Oxford: Blackwell Publishing.
9.Altman, E. (2003). Financial Ratios, Discriminant Analysis, and Prediction of Corporate Bankruptcy, Journal of Finance, 23(4), 589-610.
10.Altman, E., Baidya, T., & Dias, L. (1979). Assessing Potential Financial Problems for Firms in Brazil, Journal of International Business Studies, 10(2), 9-24.
11.Altman E.I. and Brenner, M. (1981). 'Information effects and stock market response to signs of firm deterioration'. Journal of Financial and Quantitative Analysis, 16(1):35-52.
12.Altman, E., Haldeman, R. R. & Narayanan, P. (1997). ZETA Analysis: A New Model to Identify Bankruptcy Risk of Corporations, Journal of Banking and Finance, June.
13.Altman E. & Hotchkiss E. (2006). Corporate Financial Distress and Bankruptcy (3rd ed.), New Jersey, USA: John Wiley & Sons, Inc.
14.Altman, E., and Menachem Brenner. (1981). Information effects and stock market response to signs of firms deterioration, Journal of Financial and Quantitative Analysis, 16, 35-51.
15.Batra, G. S. (1996). Dynamics of social auditing in corporate enterprises: a study of the Indian corporate sector.Business Excellence, Vol 9(1), 35-45.
16.Carcello, J.V., Hermanson, D.R. and Huss, H.F. (1995). 'Temporal changes in Bankruptcy-related reporting'. Auditing: A Journal of Practice and Theory, 14 (2): 133-143.
17.Caouette, J.B., Altman, E.I. and Narayanan, P. (1998). Managing credit risk: the next great financial challenge. New York
18.Chen, K. H., and Thomas A Shimerda, An Empirical Analysis of Useful Financial Ratios, Financial Management, Spring 1981, v10(1), 51-60.
19.Citron, D.B. and Taffler, R.J. (1992). 'The audit report under going concern uncertainties: an empirical analysis'. Accounting and Business Research, 22 (88): 337-345
20.Citron, D.B. and Taffler, R.J. (2001) 'Ethical behaviour in the U.K. audit profession: the case of the self-fulfilling prophecy under going-concern uncertainties'. Journal of Business Ethics, 29(4):353-363.
22.Citron, D.B. and Taffler, R.J. (2004). 'The comparative impact of an audit report 24 standard and an audit going-concern standard on going-concern disclosure rates'. Auditing: A Journal of Practice and Theory, 23(2):119-130.
23.Das. S (2003),"Towards Corporate Social Reporting", Available from http://www.financial express.com/fe_full_story.php?content_id-27639, Accessed on August 25, 2006.
24.Dichev, I. (1998). Is the Risk of Bankruptcy a Systematic Risk? The Journal of Finance, 53(3), 1131-1147
25.Dugan, M. T., and Christine V. Zavgren, How a Bankruptcy Model Could be Incorporated as an Analytical Procedure, The CPA Journal, May 1989, v59(5), 64-65
26.Eidleman, G. J., Z scores – A Guide to Failure Prediction, The CPA Journal, February 1995, v65(2), 52-53
27.Eljelly, A., 2004. Liquidity-profitability trade off: An empirical investigation in emerging market. Int. J.Comm. Manage., 14(2): 48-58.
28.Ferguson, M.F. and Shockley R.L. (2003). Equilibrium anomalies, Journal of Finance, 58(6): 2549-2580.
29.Graham, J.R. (2000). 'How big are the tax benefits of debt?' Journal of Finance, 55(5): 1901- 1941.
30.Griffin, J. and Lemmon, L. (2002). Book-to-market equity, distress risk, and stock returns. Journal of Finance, 57(5): 2317-2336.
31.Kao, D.L. (2000). 'Estimating and pricing credit risk: an overview'. Financial Analysts Journal, 56(4): 50-66.
32.Katz, S., Lilien, S. and Nelson, B. (1985). 'Stock market behaviour around bankruptcy model distress and

recovery predictions'. Financial Analysts Journal, 41(1): 70-74.
33.Lasfer, M., Sudarsanam, P.S. and Taffler, R.J. (1996). Financial distress, asset sales, and lender monitoring. Financial Management, 25(3): 57-66.
34.Louwers, T.J. (1998).The relation between going-concern opinions and the auditor's loss function. Journal of Accounting Research, 36(1): 143-156.
35.Marchesini, R., Perdue, G. and Bryan, V. (2004). Applying bankruptcy prediction models to distressed high yield bond issues. Journal of Fixed Income, 13(4): 50-56
36.Mutchler, J.P., Hopwood, W. and McKeown, J.C. (1997). The influence of contrary information and mitigating factors on audit opinion decisions on bankrupt companies. Journal of Accounting Research, 35(2):295-301.
37.Molina, C.A. (2005). Are firms underleveraged? An examination of the effect of leverage on default probabilities, Journal of Finance, 60(3):1427-1459
38.Morris, R., Bankruptcy Prediction Models: Just How Useful Are They? Credit Management, May 1998, 43-45.
39.Mossman, C. E., Geoffrey G. Bell, L Mick Swartz, and Harry Turtle, An Empirical Comparison of Bankruptcy Models, The Financial Review, May 1998, v33(2), 35-52.
40.Rajesh, M. and N.R.V. Ramana Reddy, 2011. Impact of working capital management on firms' profitability. Global J. Finan. Manage., 3(1): 151-158.
41.Shrieves, R. E. and D. L. Stevens (1979). Bankruptcy Avoidance as a Motive for Merger, Journal of Financial and Quantitative Analysis, 501-515.
42.Sudi Sudarsanam and Jim Lai (2001). Corporate financial distress and turnaround strategies: An empirical analysis, British Journal of Management, 12(3), 183-199.
43.Taffler, R.J. Lu, J. and Kausar, A. (2004). 'In denial? Stock market underreaction to going-concern audit report disclosures'. Journal of Accounting & Economics, 38(1-3):263-296.
44.Wald, J.K. (1999). How firm characteristics affect capital structure: an international comparison. Journal of Financial Research, 22(2):161-187.

Mohammed Khursid
Ph.D. Scholar, P.G. Department of Commerce, Utkal university, Bhubaneswar.