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IMPACT OF SOCIAL ACCOUNTING PRACTICES ON FIRM'S FINANCIAL PERFORMANCE: A STUDY OF INDIAN IT SECTOR

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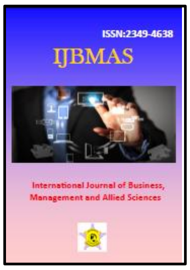

ABSTRACT

Social Accounting is the process of communicating the social and environmental effects of organisation's economic actions to particular interest groups within society and society at large. It is that branch of accounting, which is concerned with the functioning of social system as whole. It may be considered as the accounting for community. The areas covered by social accounting include energy, environment, community development, public health care. This study attempts to analyse the impact of social accounting practices on financial performance of Indian IT companies. This study is based on secondary data for 10 leading IT companies of India for a period of 5 years 2013 to 2018 drawn from annual reports of these companies. Social Disclosure Index (SDI) has been calculated to measure the type and extent of social disclosure of Sample companies. The effect of this index on firm's performance has been evaluated using ROA , ROE and Tobin's Q.
Key Words: Social Disclosure Index, Return on Asset, Return on Equity, Tobin's Q, Market price of share.

INTRODUCTION

The concept of social accounting originated by Adam Smiths in 1776, Later on, Engel and Karl Marks also expressed their views. Tata Iron and Steel Company was the first in India which conducted Social Accounting. There are certain legal obligations that have to be fulfilled by the business, such as social security obligations and welfare measures etc. The management reforms the public and government about the efforts in this regard through social accounting. Some objectives of Social accounting are effective utilisation of natural resources, help to society, help to employees, help to consumers, help to investors etc.

Thus one can say that social accounting has been developed for measurement and reporting the societal impact of business enterprise because of limitation of financial accounting and management accounting.

OBJECTIVE:

The objectives of study are:

1. To evaluate the social accounting practices of the selected IT firms.
2. To study the impact of social accounting practices on firms financial performance.
3. To suggest some strategies to the companies for improving their social accounting practices.

RESEARCH METHODOLOGY:

The study is descriptive in nature. Data of ten IT companies is taken for study from their financial and annual reports published by company for each accounting year .Content analysis was used to examine the disclosures made in the annual reports and financial reports .Content analysis is defined as research technique for the objective, systematic and qualitative description of the content. A Study is made of five financial year i.e. 2014 to 2018. List of IT company is as follows :Tata Consultancy Services (TCS),INFOSYS, WIPRO, HCL, Tech Mahendra, Oracle, L&T, Mind tree, and Cisco.

Variables used for the study are Disclosure score , Return on Asset, Return on Equity, Market price of share and Tobin's Q

Table showing list of formulas used for research:

Name of Variable	Formula
Disclosure score	(Number of items disclosed/ Total number of items of social accounting practices(18items))*100
Return on Asset	Profit after tax/ Total Assets
Return on Equity	Profit after tax/ Book value of shareholders' equity
Market price of share	Market value of equity/ Number of equity Shares
Tobin's Q	Market value of Equity + Book value of debts/ book value of total assets

LITERATURE REVIEW:

Over the past decades due to social accounting and reporting positive impacts were seen on companies so further study was done.

Dr. MD Nazrul Islam and Dr. Tofayel Ahmed (2012) carried out study on social accounting reporting practices in Bangladesh a voluntary approach.The study reveals that no company has separate content for social accounting in annual reports and all disclosing companies disclosed the attitude in descriptive form only and not in quantitative form.A parallel system of social audit should be there similar to financial and cost audit

DR.Anurag Pahuja and Suruchi Juneja (2013) carried out study on corporate social reporting in India an analysis of Bombay Stock Exchange listed companies. The analysis reveal that companies are focusing on the area of environment , energy conservation , disaster management, safety and health care etc. Earlier studies revealed that the maximum disclosures were in the form of qualitative statement but this study has formed the opinion that majority of disclosures are in the form of monetary and non -monetary quantified statements.

OM DUTT (2014) carried out study on social accounting practices in India and found that with increase in number of companies involved in international trade and investment corporate social reporting has gained momentum. Most of the companies have disclosed corporate social information on voluntary basis. A standard format for disclosure should be prescribed by the ministry of corporate affairs. The government should provide some incentives like ,subsidies ,rebate, depreciation allowances etc so that corporations make more contribution to social programmes.

Sandeep Kumar (2018) carried out study on corporate social reporting practices of selected public sector companies of India. The study examines the extent of disclosure in annual reports for social reporting by Indian corporate. The study indicates that there is no exact place for permanent disclosure for annual reports so permanent place should be allotted for same .It is important for companies to setup separate distribution for CSR practices.

DATA ANALYSIS:

TABLE 1: Year Wise Disclosures

Year	2014	2015	2016	2017	2018
Vision	9	9	9	9	9
Mission	9	9	9	9	9
Objective	6	6	6	6	6
Chairman's message	9	10	7	7	8
VAS	0	0	1	0	0
Corporate governance	7	9	9	7	9
Director's report	10	10	10	10	10
Statement of accounting policy	2	3	3	1	1
Note to accounting	4	3	5	3	3
Chairman's statement	7	6	7	9	8
Human resources	5	4	3	2	2
Fair business practices	0	0	0	0	0
Community development	5	2	3	5	2
Energy	5	3	4	6	5
Environment	5	3	5	4	4
Public health care	2	2	1	3	3
Corporate social responsibility	4	4	6	8	7

From the above Table 1, Vision means the future plan of the organisation , nine out of ten companies have their clear vision for five accounting years . Mission means important task that people are given to accomplish, nine out of ten companies have their clear mission for five accounting years. Objective means goal of the organisation , six out of ten companies have their clear objectives for five accounting years. Chairman's message means what chairman of the company wants to convey to consumers and employees, here for 2014 nine companies have disclosed message out off ten, in 2015 all the ten have chairman's message, while for 2016 and 2017 seven out of ten have chairman's message ,in 2018 eight of ten have chairman's report. Value Added Statement is a financial statement that depicts wealth created by an organization and how is that wealth distributed among various stakeholders.one company has disclosed its statement over the period of five years. Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled. In 2014 and 2017 seven out of ten have presented the statement while for 2015, 2016, 2018 nine out of ten have presented the same. A director's report is a financial document that larger limited companies are required to file at end of the financial years. All companies have director's report for all five accounting years. Accounting policies are the specific principles and procedures implemented by a company's management team and are used to prepare its financial statements. In 2017 and 2018

only one company has disclosed while highest is two in 2015 and 2016.Note to accounting provide additional information pertaining to a company's operations and financial position and are considered to be an integral part of the financial statements .In 2015 it is highest five out of ten companies have made note to accounts .Chairman's statement is a report by a company's chairman once a year that gives information to shareholders about the company's performance during the past year.2017 has highest disclosure that is nine companies have disclosed. Human resources are the people who make up the workforce of an organization, business sector, or economy. In 2014 five companies out of ten have proper Human Resource that is the highest disclosure. Fair business practices are not done by any companies .Community development is a process where community members come together to take collective action and generate solutions to common problems. In 2014 and 2017 five companies have taken initiative of community development. Energy means power derived from the utilization of physical or chemical resources, especially to provide light and heat or to work machines .In 2017 six companies have properly utilised energy. Environment means the natural world, as a whole or in a particular geographical area, especially as affected by human activity. In 2014 and 2016 five companies have contributed to environment. Public Health means a field that seeks to improve lives and the health of communities through the prevention and treatment of disease and the promotion of healthy behaviours such as healthy eating and exercise. Public health care is highest in 2017 and 2018 that is three out of ten have contributed. Corporate social responsibility (CSR) is a business model that helps a company be socially accountable — to itself, its stakeholders, and the public .In 2018 seven company out ten have done CSR.

TABLE 2 : Showing Disclosure Index

	Disclosure report (%)				
Name of company	2014	2015	2016	2017	2018
TCS	58.82	35.29	70.58	70.58	58.82
Infosys	88.23	76.47	41.17	35.29	41.17
Wipro	52.94	58.82	58.82	70.58	58.82
Hcl	23.52	35.29	23.52	29.41	29.41
Techmahendra	29.42	41.17	41.17	47.05	35.92
Oracle	47.05	47.05	47.05	47.05	47.05
L&T	70.58	35.29	70.58	82.35	82.35
Mind tree	76.47	76.47	64.7	64.71	70.58
Rolta	58.82	58.82	58.82	64.7	64.7
Cisco	11.76	17.64	23.59	23.52	23.52

Disclosure report:

Disclosure reports are produced for internal and external stakeholders. They showcase a company's business activities and performance. They also often include information on the company's condition, compensation and where they're headed in the future. TCS disclosure was 58.82%in 2014 which reduced to 35.29% in 2015 ,in 2016 and 2017 it was 70.58% while in 2018 it again reduced to 58.82% .INFOSYS disclosure was 88.23% in 2014 it reduced in 2015 to 76.47% while in 2016 it was 41.17% again reduced to 35.29% in 2017 while in 2018 it was 41.17%.Wipro's disclosure was 52.94% in 2014, in 2015 and 2016 it was 58.82 in 2017 it increased to 70.58% while in 2018 it decreased to 58.82% in 2018.hcl disclosure was 23.52% in 2014 in 2015 it increased to 35.29% and in 2016 it reduced to 23.52% in 2017 and 2018 it was 29.41%.Techmahendra disclosure in 2014 was 29.42% while in 2015 and 2016 it was 41.17% it increased to 47.05% in 2017 while in 2018 it reduced to 35.92%.Oracle disclosure was 47.05% for all five years. L&T disclosure was 70.58% in 2014 which reduced to 35.29% in 2015 it again increased in 2016 to 70.58% and in 2017 and 2018 it was 82.35%.Mindtree disclosure was 76.47% for 2014 and 2015 while in 2016 and 2017 it was 64.71 %while it increased to 70.58% in 2018. Rolta disclosure was 58.82% in 2014 , 2015, 2016 while in 2017 and 2018 it was 64.7%. Cisco disclosure was 11.76% was 2014 it increased to 17.64% in 2015 ,in 2016 it was 23.59% while in 2017 and 2018 it was23.52%.

In order to examine the impact of social accounting practices on firms financial performance the following simple regression models have been estimated.

Model 1 :ROA = a0+ a1 DS +e

Model 2 :ROE = b0 +b1 DS +e

Model 3 : MPS = c0 +c1 DS +e

Model 4 : Q = d0 +d1 DS +e

TABLE 3: The estimated results are summarised in the following table

		Dependent variable		
Independent variable	ROA	ROE	MPS	Tobin's Q
Constant	0.97	0.916	0.926	0.489
D.S.	0.417	0.48	1.313	-0.022
Sig-t	0.068	0.076	0.257	0.964
R-square	0.005	0.006	0.027	0.000036
Significance-F	0.223	0.28	0.257	0.768

Disclosure score has positive impact on ROA, ROE, MPS while negative impact on Tobin's Q Here all estimated coefficient are insignificant as their p values are more than 0.05.R-square values are close to zero and insignificant for all the above estimated models.

FINDINGS:

The major findings are:

- ❖ CISCO has made lowest disclosure in comparing to other IT companies, While highest disclosure is done by L&T and Rolta is the most consistent over period of time.
- ❖ Highest disclosure is of INFOSYS in the year 2014 and 2015 but it declines there after.
- ❖ Almost all companies show declining trend of disclosure score over the study period, which indicates that social accounting practices are given lesser importance over the period of time.
- ❖ Disclosure model has positive impact on ROA, ROE,MPS and negative impact on Tobin's Q and R-square values are insignificant for all the models.

CONCLUSION

The study reveals that there is no impact of social accounting practices on firms financial performance of IT companies. The declining trend in disclosure scores indicates that social accounting practices are given lesser importance over the period. The result may be poor due to social accounting is voluntary in nature , so it must be made compulsory to achieve productive results. Thus companies must disclose extra information quantitatively and qualitatively. Companies feel hesitation in disclosing information because companies think that the negative information can affect the company's competitive position in the market. A standard format should given for disclosure and government should also give incentives like subsidies, rebate, tax benefits, depreciation allowances etc. to encourage social accounting.

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