

Financial Performance Measurement of Selected NGOs in West Bengal

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Abstract

Development is a multi-dimensional phenomenon. It depends on the level of education, level of health services, degree of modernization, status of women, level of nutrition, quality of housing, distribution of goods and services, access to communication etc. Socio-economic development is the need of each and every country especially developing nations like India.[1] But in India the progress of socio-economic development among major states like West Bengal is not uniform. The state has received a lot of critique for being too bureaucratic and thus too ineffective to be able to solve all public needs. This has resulted in an increased attention to the Non Government Organization. However, the increased attention has been followed by a greater pressure on the organizations to fill the shortcomings of private and public sector and they now have to face the demands on being able to show what they accomplish.[2] and Joan In this backdrop, the present study has been undertaken to measure the financial performance of NGOs in West Bengal. For the said purpose, various accounting tools like ratio analysis and statistical techniques like descriptive statistics, correlation analysis, multiple regression and hypothesis testing have been used.

Keywords: Multi-dimensional, Modernization, Socio-economic, Shortcomings, Accomplish, Bureaucratic

Introduction

Whatever is the size and nature of a business, financial performance measurement is of crucial importance in any organization including NGOs to make out the objectives of 'Surplus to Fund Employed' and 'Liquidity' as well as the items accountable for changes in working capital. However, this paper focuses on the composition of working capital components, management of liquidity and assessment of the relationship between liquidity and profitability of the selected registered NGOs in West Bengal.

Methodology

An appropriate methodology has been pursued to carry out the present research work. It encompasses the Universe of the Study, Sampling Structure and Method, sample size, data source and tools used.

Universe of the study

The location of the study was West Bengal as recognized by the Planning Commission as the "Socio-economically Backward in India" (Wikipedia). The state West Bengal was selected so that findings from this preliminary study may be used to design a more in-depth study on a larger scale. This research work was thus restricted to all the districts of West Bengal. West Bengal and the characteristics of all the districts in West Bengal are not different. There were 100150 NGOs registered under the Information of Society Registration Office in West Bengal as on 31.03.2009. It was also informed from the same office that 30150 NGOs were just existed only in papers, 70000 NGOs were operated in papers but it was clear

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from the field survey that only 34500 registered NGOs really operated in West Bengal.

Sampling structure and Method

After finalizing the registered NGOs really operated in the field, it has been collected from the field survey that 8625 registered NGOs have audited and published their annual reports regularly. From the audited and published NGOs, we have taken 20 per cent for each district in West Bengal for sampling purposes.

Sample Design

Out of 34500, total 8625 NGOs who audited and published their annual reports regularly are taken as the population for the study. From the 8625 NGOs we have selected 1725 NGOs (20 per cent of the population). The simple random sampling without replacement (SRSWOR) method has been used on these 1725 NGOs. 640 NGOs were rejected through sampling and the remaining 1085 NGOs were then approached to supply annual reports for ten years starting from 2000-01 to 2009-10. Out of 1085 NGOs, 346 NGOs responded very negatively and they are not willing to supply any data and reports (NWSDR). Annual reports and data are not available (DNA) for 10 years in case of 427 NGOs. Only 312 NGOs responded favorably and annual reports and data are available for 10 years in case of only 312 NGOs. Thus, sample size stood at 312 NGOs. However, these 312 NGOs spread up in all the districts of West Bengal as their focused area of operation. The description of the sample is given in table 1.

Data source

The study is based on secondary data for the period from 2001 to 2010.

Secondary data were obtained from the audited Annual Reports and the Balance sheet and Income & Expenditure accounts of the selected NGOs under the study. Besides, the facts, figures and findings advanced in similar

earlier studies and the publications of NGOs are also used to supplement the secondary data.

Period of the study

The study relates to the period of a first decade of the New Century, starting from 2000-01 and ending on 2009-10.

Selected variables

The study uses the commonly used financial ratios which are chosen from those utilized by Bhunia (2009), Refuse (1996) and Singh *et al* (2008). An itemized listing of the variables is accessible in table 1.2.

Tools used

In the course of analysis, accounting technique include ratio analysis, while among statistical techniques the descriptive statistics, correlation statistics, rank correlations, multiple correlations and multiple regressions analysis and the test of significance (chi square test, t-test) have been applied. The use of the technique has been made in the light of the requirement of the analysis

Objectives of the study

The main objective of the present work is to measure the financial performance of selected NGOs in West Bengal. More specifically, it seeks to dwell upon mainly the following issues:

- (1) To examine the working capital management of NGOs under the study period;
- (2) To assess the association between working capital management and surplus to fund employed;

Many more similar issues can be raised. However, the ultimate purpose will be to make the study focused in the line of main objective.

Table 1.1: District-wise representation of the sample NGOs

Districts	Total selected NGOs	Rejected	NWSDR	DNA for ten years	Number of sample NGOs based on SRSWOR	% of sample NGOs
24 parganas (North and South)	268	82	51	74	61	22.76
Bankura	74	24	28	15	7	9.46
Birbhum	87	33	18	22	14	16.09
Burdwan	52	23	11	10	8	15.38
Coochbehar	41	17	9	8	7	17.07
Darjeeling	68	23	29	12	4	5.88
Dinajpur (North and South)	33	7	17	4	5	15.15
Hooghly	36	17	5	6	8	22.22
Howrah	138	24	8	79	27	19.57
Jalpaiguri	71	18	6	35	12	16.90
Kolkata	536	256	93	90	97	18.10
Malda	87	43	15	18	11	12.64
Medinipur (East and West)	140	38	27	39	36	25.71
Murshidabad	13	4	3	4	2	15.38
Nadia	48	23	15	2	8	16.67
Purulia	33	8	11	9	5	15.15
Total	1725	640	346	427	312	18.09

Concept of working capital in NGOs

The Balance Sheet concept of working capital has two aspects, namely, Gross Working Capital and Net Working Capital. Gross working capital concept represents the amount of funds invested in current assets, while net working capital concept refers to the excess of current assets over current liabilities. Since there is no current liabilities, NGOs follow gross concept of working capital only. The gross working capital presents the financial manager with the problem of how to manage the individual components which comprise the list of current assets.

Working capital management in NGOs

Generally, working capital management is concerned with the administration of all current assets and liabilities. In NGOs it is concerned with the administration of gross current assets. It is basically associated with determining the adequate levels of investment

in various gross current assets. Each element of working capital should be periodically examined and it should ensure that the intrinsic value of all the elements of current assets is maintained intact. In other words, NGO should neither have too high nor too low investment in working capital because both of them do have tendency to affect the profitability adversely.

Determination of working capital management in NGOs

The crucial part in managing working capital is required maintaining its liquidity in day-to-day operation to ensure its smooth running and meets its obligation.[3] A study of liquidity is of major importance to both the internal and the external analysts because of its close relationship with day-to-day operations of a business.[4]

In this section an attempt has been made to examine the liquidity position with the help of

Table 1.2: List of Ratios Examined

S. N.	Independent variables	S.N.	Dependent variable
1.	Receivables to working capital (RWCR)	1.	Surplus to Fund Employed (SFE)
2.	Working capital to Grants-in-aid (WCGR)		
3.	Cash to working capita (CWCR)		

Table 1.3: Descriptive Statistics

Year	RWCR	Benchmark Ratio	WCGR	Benchmark Ratio	CWCR	Benchmark Ratio
N	10	10	10	10	10	10
Maximum	555.43	957.18	3.96	18.55	6.84	16.94
Minimum	-5.84	1.87	-0.15	-1.02	-554.43.	-327.88
Mean	0.5070	0.7034	0.1899	0.2335	0.4924	0.7891
S.E. of Mean	0.2441	0.3859	0.0357	0.0784	0.2442	0.5142
S.D.	0.7720	0.8419	0.1130	0.1797	0.7723	0.9628
C.V. (%)	152.26	138.46	59.50	76.96	156.84	122.01
Skewness	0.5053	0.9142	0.4263	0.5504	-0.5037	-0.3220
Kurtosis	0.4659	0.5008	-0.5305	0.8478	0.4527	0.6899

Table 1.4: Management of Working Capital Component, Total Rank and Ultimate Rank of NGOs

Year	Selected Ratios			Ranking			Total rank	Ultimate rank
	RWCR	WCGR	CWCR	RWCR	WCGR	CWCR		
2000-01	0.4200	0.2381	0.5800	2	4	9	15	7
2001-02	0.2813	0.2559	0.7187	8	3	3	14	8
2002-03	0.4109	0.3052	0.5877	3	1	8	12	10
2003-04	0.3662	0.2635	0.6338	5	2	6	13	9
2004-05	0.2843	0.2278	0.7157	7	5	4	16	6
2005-06	0.2718	0.1684	0.7282	9	6	2	17	5
2006-07	0.3946	0.1343	0.6054	4	7	7	18	4
2007-08	0.2280	0.1122	0.7681	10	8	1	19	3
2008-09	0.3576	0.1054	0.6424	6	9	5	20	2
2009-10	2.0557	0.0879	-1.056	1	10	10	21	1

descriptive statistics of selected liquidity indicators. The position of short-term liquidity could better be explained in the light of its management efficiency. For measuring managerial efficiency, appropriate level of liquidity needs to be estimated for comparison with actual level. As such, benchmark has been computed on the basis of all the operating registered NGOs in West Bengal. Generally Receivables to Working Capital (RWCR) ratio, Working Capital to Grants-in-aid (WCGR) ratio and Cash to Working Capital (CWCR) ratio are highly useful in determining both the liquidity position and the efficiency or

otherwise of such management. Comparison of NGO-wise various liquidity ratios with that of the grand average, which is used as a benchmark, would undoubtedly help in examining the pros and cons of the management of liquidity. The position of short-term liquidity could better be explained if we consider the average of all the registered NGOs in West Bengal for comparison.

Descriptive Statistics

Table 1.3 reveals descriptive statistics of the selected liquidity indicators of the selected

NGOs under the study. All variables were calculated using accounting ratios. For measuring liquidity management, three liquidity indicators were tested with comparison of grand benchmark. To make the analysis and interpretation more precise and accurate, the values of A.M., S.D., C.V., maximum, minimum, Skewness and Kurtosis have been computed from the ratios.

All the variables of 312 NGOs show positive and negative skewness and the kurtosis indicates that all the selected variables are less peaked than normal distribution. For a normal distribution kurtosis generally equals to 3.

Table 1.3 shows that three liquidity ratios of selected NGOs during the period of study are very unsatisfactory as its averages are lower than its grand average, which is taken as yardstick. This indicates that they have not been able to meet their matured obligations under the study period. But coefficient of variation of such ratios is very higher than grand average in case of RWCR and CWCR. In the matter of the management of liquidity, it shows less consistency during the study period of these NGOs. Greater variability indicates improper or less efficient management of fund in as much as the excess liquidity could have otherwise been used for investment purposes thereby enabling the NGOs to lead a path of growth.

Management of working capital component

Gross working capital concept represents the amount of funds invested in current assets in NGOs, which consists of receivables, grants-in-aid and cash. An element-wise analysis of gross working capital enables one to study in which element(s) of working capital funds are locked up over the years and to find out the factors responsible for the significant changes in working capital for those years. The share of each element in gross working capital has been calculated in percentages separately for each of the years under the study and the average share in percentages in all the years has also been calculated.

Item-wise analysis of gross working capital

components of selected 312 NGOs is sketched one by one in table 1.4 below.

For the purpose of analysis, elements of gross working capital are divided into three heads, viz., Receivables to Working capital (RWCR), Working capital to Grants-in-Aid (WCGR), and Cash to Working capital (CWCR). During the period under study a remarkable changes have been noticed in the share of different elements of gross working capital. It is observed that the most important part of gross working capital is RWCR, which has increased from a low of 0.2280 percent in 2007-08 to a high of 2.0557 percent in 2009-10. The trend of investment on it is sharply decreasing during 2002-03 to 2005-06. However, blockage of funds in receivables is increasing sharply in case of the NGOs over the period of study. Large ties up of funds in receivables to working capital have been noticed during the last year of the study. These excessive receivables to working capital can place a heavy burden on the cash resources of the NGOs.

WCGR is the important element of gross working capital. In 2002-03 it is 0.3052 percent, highest over the study period and in 2009-10 it has decreased to a low of 0.0879 percent. The trend of investment on it is sharply decreasing during last seven years from 0.2635 in 2003-04 to 0.0879 percent in 2009-10. The blockage of funds in WCGR is declining unevenly during the study period. This apparently has suggested under-investment in Grants-in Aid during last six years especially from 2004-05 to 2009-10. Nevertheless, trend of investment in working capital to grants-in aid has shown a faster declining trend for the NGOs.

The last but not least component of gross working capital is cash & bank balance, the most liquid asset of NGOs. The ratio of cash & bank balance to gross working capital of NGOs has decreased from a high of 0.7681 per cent in 2007-08 to a low of -1.056 per cent in 2009-10. It is observed that the ratio is decreasing disproportionately for the period under review. In a comfortably financed business, cash & bank balance will probably run not less than 5

to 10 per cent of the gross working capital.[5] Table 1.4 shows that the NGOs have maintained maximum cash & bank balance in all the years except 2009-10 of the study period.

The liquidity position of a particular NGO is largely affected by the composition of current assets in as much as any considerable shifts from the relatively more current assets to the relatively less current assets, or vice versa, materially affects a NGO's ability to pay its current debts promptly. Therefore, to determine the liquidity position of the NGOs more precisely a comprehensive test has been done in Table 1.4 also. A process of 'ranking' has been used to arrive at a more comprehensive measure of liquidity in which three ratios as stated earlier, viz., Receivables to Working capital (RWCR), Working capital to Grants-in-Aid (WCCR), and Cash to Working capital (CWCR) have been combined in a point score. A high value indicates relatively favourable position and ranking has been done in the order. Ultimate ranking has been completed on the principle of 'higher the point scored the more favourable' in the liquidity position. Besides, the same principle has been applied in determining ultimate ranking process and its comprehensive test in section 1.8. On the basis of ultimate rank as revealed by Table 1.4, year 2009-10 registered the most sound liquidity position and is followed by the years 2008-09, 2007-08, 2006-07, 2005-06, 2004-05, 2000-01, 2001-02, 2003-04 and 2002-03 respectively.

Kendall's rank correlation co-efficient and its t-value of τ (t- test) are useful to test of significance. The null hypothesis is accepted because the calculated t-value of τ is 0.432 which is less than the tabulated value of 2.896 at 1% level of significance with 9 degrees of freedom. Also low value of rank correlation co-efficient (0.0001) with significant value of t certifies that the NGOs does not follow the principle of composition of gross working capital as compare to the industry vis-à-vis working capital management.

Table 1.5: Correlations Statistics

	RWCR	WCCR	CWCR	SFE
RWCR	1.000			
WCCR	-0.422 (0.224)	1.000		
CWCR	-1.000** (0.000)	0.423 (0.223)	1.000	
SFE	0.225 (0.532)	-0.136 (0.707)	-0.225 (0.532)	1.000

** Correlation is significant at 1% level

Correlation Statistics

Table 1.5 demonstrates result of correlation coefficients and t-values are listed accordingly.

Generally, correlation analysis attempts to find out the degree and direction of relationship between two variables under study. In a bivariate distribution, if the variables have the cause and effect relationship, they have high degree of correlation between them. The coefficient of correlation is denoted by "r". The correlation is studied using Karl Pearson's correlation formula.

$$r = \frac{N \sum xy - (\sum x)(\sum y)}{\sqrt{(N \sum x^2 - (\sum x)^2)(N \sum y^2 - (\sum y)^2)}} \text{---(Karl Pearson's correlation formula)}$$

Spearman's correlation analysis is used to perceive the relationship between financial performance and profitability. If efficient financial performance increases profitability, one should anticipate a negative relationship between the measures of working capital management and profitability variable. Tables 1.5 demonstrate result of correlation coefficients and t-values are listed accordingly. Correlation statistics table among various ratios shows both positive and negative association. During the period a positive association between Surplus to Fund Employed (SFE) and receivables to working capital has been observed in all the years. Negative associations between surplus to fund employed and working capital to grants-in-aid and cash to working capital have also been observed.

Moreover, the results of correlation coefficient confirm a very low and extreme

(Negative) association among two indicators of efficiency (WCCR and CWCR) and SFE. The result of correlation coefficient shows a positive and negative (low and moderate) association between financial stability and profitability. The results of correlation coefficient are significant at 1 per cent (asterisk) and 5 per cent level.

Multiple Regression Statistics

An attempt has been made to examine combined impact of liquidity indicators on profitability through the sophisticated statistical techniques. Accordingly, Most sophisticated multiple regression techniques have been applied to study the joint influence of all the selected ratios indicating financial performance and performance on the profitability and the regression coefficients have been tested with the help of the most popular ‘t’ test. In this study, Receivables to working capital (RWCR), Working Capital to Grants-in-aid (WCCR), Cash to Working Capital (CWCR) have been taken as the independent variables and Surplus to Fund Employed (SFE) has been used as the dependent variable.

The regression model used in this analysis is:

$$SFE = a + b_1 RWCR + b_2 WCCR + b_3 CWCR + \epsilon_t \text{ (unexplained variables or error terms)}$$

Where a, b₁, b₂ and b₃ are the parameters of the SFE line.

Step-wise regressions have been performed to construct the best function of the regression

model using different combination of selected ratios through SPSS. For each function constructed, the model fit will be assessed on how strong is the function, how well it single out and checking the classification matrices for predictive accuracy as well. Multiple correlations and multiple regression analysis of 312 NGOs have been tabulated in Table 1.6

- a. Predictors: (Constant), CWCR, WCCR
- b. Dependent variable: SFE
- c. Variables removed: RWCR

Joint impact of performance indicators on profitability

Table 1.6 discloses that multiple regression results between the dependent and independent variables has been authenticated because the result of tolerance satisfy the model, that is, tolerance value exceeds 0.5.

The strength of the relationship between the dependent variable, SFE and all the independent variables (CWCR, WCCR and RWCR) taken together and the impact of these independent variables on the profitability are given in Table 1.6. It was observed from the above that an increase in WCCR by one unit; the SFE decreased by 0.026 units though the influence of WCCR on SFE was very significant. Again when CWCR increased by one unit, the SFE decreased by 0.015units though the influence of CWCR on SFE was very significant. The multiple correlation coefficients(R) among the dependent variable SFE and the independent variables WCCR, CWCR taken together were 0.229. It indicates

Table 1.6: Multiple Correlations and Multiple Regressions

Regression Coefficient						
Effect	Coefficient	Standard Error	Std. Coefficient	tolerance	t	p-Value
CONSTANT	0.201	0.039	-	-	5.139	0.001
WCCR	-0.026	0.212	-0.050	0.821	-0.124	0.905
CWCR	-0.015	0.030	-0.204	0.821	-0.502	0.631
R=0.229	R ² =0.053		Adjusted R ² = -0.218		S.E. of the estimate = 0.04468	
F statistics = 0.194	Durbin-Watson=1.217		R ² change = 0.053		P-value of F change = 0.828	

that the profitability was not responded more by its independent variables. It is also evident from the value of R^2 that only 5.3 per cent of variation in SFE was accounted by the joint variation in independent variables WCCR, CWCR. Adjusted 'R' square (R^2) signifies that 21.8 per cent of the negative variations in the SFE are explained by the independent variable. Standard Error of regression coefficients being low (0.04468), demonstrates that there exists really line of estimates among the variables. An insignificant variability in profitability could be the result of the composite effect adopted in the analysis as well as many other performance management related unexplained variables.

Findings of the study

The findings of this study are outlined below:

- Three selected liquidity indicators under the study are substandard as its averages are lower than its grand average, which is taken as yardstick. This indicates that they have not been able to meet their matured current obligations under the study period. Coefficient of variation of selected liquidity indicators is very higher than grand average in case of Receivables to Working Capital ratio (RWCR) and Cash to Working Capital ratio (CWCR). In the matter of the management of liquidity, it shows less consistency during the study period of these NGOs.
- The most important indicator, Receivables to Working Capital ratio (RWCR) occupies excessive funds of working capital which is a heavy burden on the cash resources of the NGOs, Working Capital to Grants-in-aid ratio (WCCR) shows a faster declining trend under the study and the ratio of cash & bank balance to gross working capital demonstrates a decreasing trend of disproportionate under the study. The NGOs have maintained maximum cash & bank balance in all the years except 2009-10 of the study period.
- When so far as ultimate rank is concerned in terms of liquidity position, 2009-10 registered the most sound liquidity position and is followed by the years 2008-09, 2007-08, 2006-07, 2005-06, 2004-05, 2000-01, 2001-02, 2003-04 and 2002-03 respectively.
- During the period under study, a positive association between surplus to fund employed and receivables to working capital has been observed in all the years. Negative associations between surplus to fund employed and working capital to grants-in-aid and cash to working capital have also been observed. Moreover, the results of correlation coefficient confirm a very low and extreme negative association among two indicators of efficiency (WCCR and CWCR) and SFE. The result of correlation coefficient shows a positive and negative (low and moderate) association between financial stability and profitability.
- The multiple correlation coefficients (R) among the dependent variable SFE and the independent variables WCCR and CWCR taken together were 0.229. It indicates that the profitability was not responded more by its independent variables. It is also evident from the value of R^2 that only 5.3 per cent of variation in SFE was accounted by the joint variation in independent variables WCCR, CWCR. Adjusted 'R' square (R^2) signifies that 21.8 per cent of the negative variations in the SFE are explained by the independent variable. Standard Error of regression coefficients being low (0.04468), demonstrates that there exists really line of estimates among the variables. An insignificant variability in profitability could be the result of the composite effect adopted in the analysis as well as many other performance management related unexplained variables.

Table 1: One-sample hypothesis test

	Test value=0					
	t	df	Prob.	Mean difference	95% confidence interval of the difference	
					Lower	Upper
SFE	14.777	9	0.000	0.189	0.160	0.218
RWCR, WCGR & CWCR	4.517	9	0.012	0.396	0.116	0.676

Test of Hypothesis

To test the hypothesis, the present study pursued to test the following:

Hypothesis 1

H₀: Working capital management of NGOs is not satisfactory;

H₁: Working capital management of NGOs is satisfactory;

The calculated value of t is more than the significant value, hence null hypotheses is not accepted.

Hypothesis 2

H₀: Association between working capital management and surplus to fund employed does not exist;

H₁: Association between working capital management and surplus to fund employed exist;

Meager relationship between working capital and surplus to fund employed are seen as R = 0.229 and thus p value is not significant.

1.13. Suggestions and recommendations

1. To improve the liquidity position, financial position and financial stability of NGOs, working capital is required to be increased by way of investment in the current assets in the form of liquid resources, foreign grants is required to be increased and proper mixture of different funds have to be made in which significant pressure on future cash flows can be avoid.
2. Professionalization in the management of

finance is highly needed to counter the financial performance of NGOs.

3. Proper attention should be given to improve the assets as well as liabilities of NGOs so that it could run its business smoothly. As far as selected NGOs are concerned, the management of the NGOs should contemplate its efforts in maximizing assets and minimizing liabilities, so that the NGOs financial position could be improved.
4. Proper planning and control of wealth should improve overall financial management performance.

Conclusions of study

The contribution of NGOs in the field of social welfare and financial performance is enormous. The NGOs today have a vast field to work. They have crossed the boundaries of social service and social reform while accepting new challenges of development. Non-governmental organizations have played a major role in pushing for sustainable development at the international level. Campaigning groups have been key drivers of inter-governmental negotiations, ranging from the regulation of hazardous wastes to a global ban on land mines and the elimination of slavery. Not all NGOs are amenable to collaboration with the private sector. Some will prefer to remain at a distance, by monitoring, publicizing, and criticizing in cases where companies fail to take seriously their impacts upon the wider community. However, many are showing a willingness to devote some of their energy and resources to working

alongside business, in order to address corporate social responsibility.

However, the ultimate point is that an organization can be accountable and still have its legitimacy questioned by either mischief makers or powerful vested interests. If the intention or the effect is to weaken, silence or remove the independence of NGOs then it is a poor accountability and must be avoided. But the combination of minimum transparency plus a level of accountability commensurate with stakeholders, size and economic power should discomfort the astroturf and the explicitly business-oriented NGOs rather more than it will discomfort those NGOs that the neo-liberal backlash has been seeking to discredit.[6]

Limitations of the study

The study suffers from certain limitations. In spite of our best efforts, we could not avoid them because of many practical constraints. Hence, we could not but accept the possibility of a certain degree of error.

1. We have selected only 312 NGOs but not considered the entire operating units as sample, which may leave some grounds of error.
2. Study depends on the published financial data, so it is subject to all limitations that are inherent in the condensed published

financial statements.

3. Again, our study is based on the data and information relating to the year 2000-01 to 2009-10, that is, ten years period which is not enough to measure financial performance of NGOs.

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