

## IMPROVEMENT OF FINANCIAL RESULTS BUDGETING IN THE CSR CONTENTS

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**Abstract:** Budgeting for financial results has traditionally been considered the preparation of cost and revenue estimates with responsibility centers in an organization. However, currently it covers a wider range, taking into account not only the internal but also the external value chain of the business. Currently, the value of organizations is not only evaluated by financial indicators, but also takes into account the responsibility of business from the point of view of ensuring public interests. The article makes recommendations for budgeting improvement of financial results, based on the requirements of companies' corporate social obligations.

**Key words:** *revenues and expenses, estimates, budgeting, sustainable development, business value chain, responsibility centers, corporate social responsibility*

### Introduction

Budgeting of income and expenses is not at all addressed only to the formation of profit of the organization's activities, but also includes more scopes. As a rule, budgeting is interpreted as the localization of concretely defined objectives in different business activities in order to understand the contribution of each of them to the expected final results (Hakobyan A., Tshughuryan A., & Martirosyan G., 2023, pp. 169-176). With such an approach, it is possible to establish control over the activities of each link of the business, and thereby to form centers of responsibility in line with the results formed by them. In addition, deviations of the actual achievements from the planned results of each responsibility center are compared through budgeting, and the reasons for their occurrence are highlighted. This process is especially important in the context of the implementation of corporate social responsibility, when organizations are accountable to the public, in terms of the financial, social, and environmental consequences of their organized business (Fateeva S.V., 2019, pp. 46-52.). Therefore, it is currently a problem to take into account the perceptions of corporate responsibility undertaken by organizations in the budgeting process of financial results, in order to effectively implement financial control (Fisher M.V. 2018, pp. 204-211).

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### Results and Findings

Traditionally, RA organizations present the financial results of their activities from the point of view of private interest's, when the profits arising from business are disclosed to investors, shareholders, and executive management. With this information, statistical services present reports on the effectiveness of financial and economic activities (see table 1). Moreover, statistical services present reports about the cost structure of production (see table 2). However, such information may partially satisfy external users, especially if they pursue public interests (Tshughuryan A., Hakobyan A., Grigoryan L., & Bayadyan A., 2022, pp. 152-158). Thus, organizations pursuing private interests often bypass public interests during their business activities, damage the environment, form environmental damages, and ignore the social needs of communities. In such situations, the business of organizations is not evaluated as effective, even if they present good financial indicators, while not having environmental, social and effective management obligations assumed before the public (Source:Kharkova D., (2019, pp. 76-80). Therefore, when budgeting for financial results, organizations should take into account separately the income and expenses related to the performance of corporate responsibility to the public.

*Table 1*

#### Indicators of profitability, solvency and financial stability of products and assets of manufacturing industry organizations in RA (%)

Indicators	2019	2020	2021	2022
Product profitability	28,7	48,4	61,0	39,8
Assets profitability	3,1	-8,7	28,2	18,2
Current liquidity ratio	35,2	56,8	133,5	179,9
Equity ratio	59,7	59,1	46,9	41,4
Coefficient of autonomy	-7,1	-13,0	20,0	45,1

*Source: Armenian Statistical Yearbook, 2023, page 478*

*Table 2*

#### Indicators of the structure of production and sales costs of manufacturing industry organizations in RA (%)

Indicators	2019	2020	2021	2022
Costs of production and sales	100	100	100	100
material costs of which	29,0	41,3	41,7	43,4
raw materials	24,7	35,6	36,4	37,7
fuel	1,7	2,0	2,4	2,9
energy	2,5	3,7	3,0	2,8
labor costs	18,0	26,0	27,1	27,4
depreciation	8,1	11,9	10,8	10,89
other expenses	44,9	20,9	10,3	18,4

*Source: Armenian Statistical Yearbook, 2023, page 471*

However, on the other hand, the published information still does not fully reflect the financial and economic side of CSR of the organizations operating in RA. CSR account-

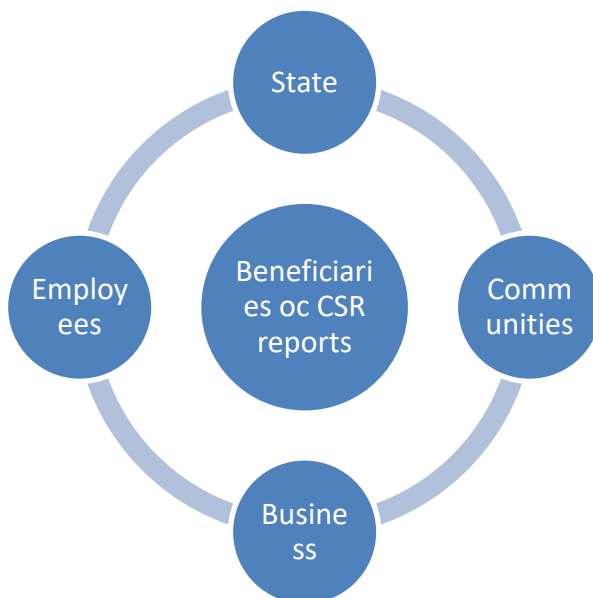
ability in business is mainly declarative in nature, making a cursory reference to implemented social programs (Tshughuryan A, Khachatryan N., 2023, pp: 71-94). In addition, from the financial and economic point of view, these reports are not complete, and the beneficiaries are not informed about the economic results of the implementation of environmental or social programs, how much the costs of the implementation of the programs were, and to what extent the benefits were obtained (Chupalaev M.R., 2014, pp.1108-1111).

Thus, the Grant Tobacco company is currently implementing support programs for rural communities, in the field of construction and repair of schools and kindergartens in different regions of the Republic of Armenia. In addition, the company implements projects for the sustainable supply of drinking water for the inhabitants, projects for the implementation of complex irrigation systems. The programs that support the development of scientific, cultural and sports life receive attention from the company committee.

In 2023, Coca-Cola Hellenic Bowling Company Armenia CJSC implemented the "World Without Waste" program, during which 150 waste sorting bins were installed in 30 schools in Yerevan and trainings were conducted for 1539 students. As a result, more than 3000 kg of waste was collected. 788 thousand formed in the company, 775 thousand kg of non-harmful waste was processed, and 8 thousand kg of hazardous waste was disposed of by the licensed organization. The share of more environmentally friendly models of refrigerators in the total cooling equipment is 48%, which has a tendency to improve by two points annually. And in parallel, such accountability of corporate social responsibility performance does not have financial and economic components at all, the demand of which can be felt by the range of beneficiaries of CSR reports (see Figure 1).

*Figure 1*

**The scope of CSR reporting beneficiaries**

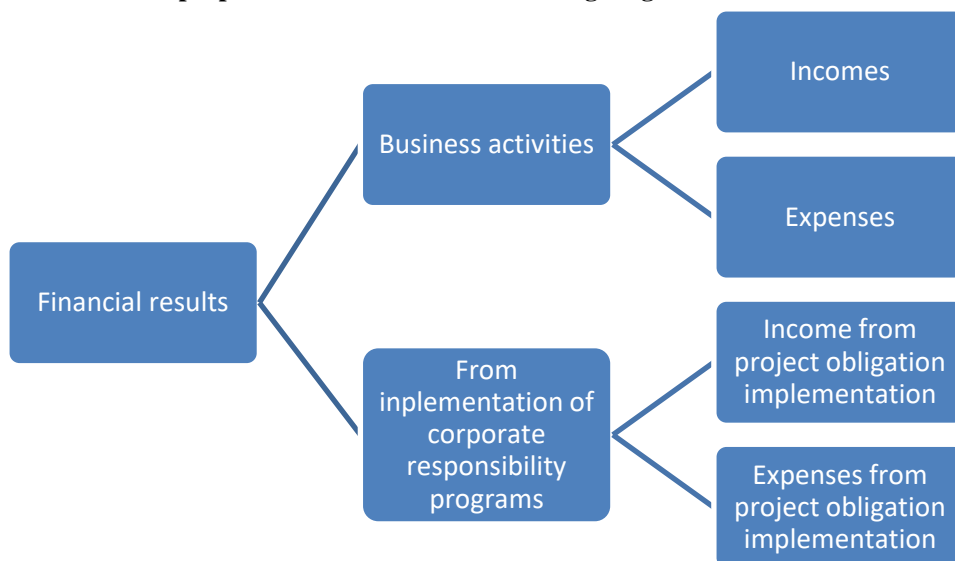


*Composed by author.*

By using a sustainable development toolkit and implementing green entrepreneurship, organizations spend additional resources, expecting additional benefits from it, which need to be included in the framework of corporate social responsibility accountability (Tochilkina O.E., (2019, pp. 47-56). Currently, the reports published by RA organizations mainly reflect the financial results of traditional activities, which do not at all reflect the financial and economic results of the implementation of corporate responsibility. Therefore, presently there is a problem of revising the reporting structure of financial results of organizations, also recording the financial and economic consequences arising from the implementation of corporate social programs. In other words, there is a problem of separation of financial results according to traditional economic activity and according to corporate social responsibility (see Figure 2).

Figure 2

**A proposed information flows for budgeting financial results**



*Composed by author.*

Thus, in the reporting year, the organization undertook social responsibility in a number of directions and budgeted the expenditure of resources for their implementation. At the end of the reporting period, the performance of the planned resource costs and the results derived from them was evaluated, which was presented in the framework of CSR management accountability (see table 3). If such a report is formed within the framework of CSR, then based on it, an opportunity is created not only to evaluate, but also to subject to factor analysis the financial and economic effectiveness of CSR implementation.

Table 3

**Financial and non-financial budgeting information in evaluating CRS performance**

CRS indicators	Financing of CRS implementation processing			Outcome's from CRS implementation		
	proposed	actual	perfor- mative (F)	proposed	actual	perfor- mative (R)
Support for community school building	95 mln	92 mln	0,97	825m <sup>2</sup>	711m <sup>2</sup>	0,86
Use of returnable production waste	134 mln	141 mln	1,05	46 tons	48 tons	1,04
Economical use of water resources	29 mln	25 mln	0,86	25000m <sup>3</sup>	19000m <sup>3</sup>	0,76
Use of alternative energy	478 mln	475 mln	0,99	356m/wt	352m/wt	0,67

*Composed by author, with a conventional example.*

For this purpose, we suggest to use in the calculation of the financial and economic performance CSR index, which provides an opportunity to evaluate the financial and economic efficiency of CSR. Moreover, the proposed index uses relative indicators (coefficients) of the fulfillment of obligations, which provides an opportunity to provide a unified and comparable measurability in terms of financial and non-financial results of CSR implementation. The lower the recommended index becomes less than 1.0, the more negatively the organization's CSR performance is evaluated.

$$I_{CSR} = \frac{1}{n} \times \sum_{n=1}^i I_n = (R1/ F1 + R2/ F2 + R3/ F3 + R4/ F4) / 4 =$$

$$= (0.886 + 0.99 + 0.883 + 0.676) / 4 = 0.885$$

The application of the proposed CSR financial-economic performance index (ICPR) also creates an opportunity to apply factor evaluation of actions, aimed at sustainable development in individual directions. In the presented evaluations, in the reporting period, the organization achieved the most success in the direction of the use of returnable waste, and the result of CSR performance in the field of alternative energy use is the worst.

$$I1 = R1 / F1 = 0.86/0.97 = 0.886$$

$$I2 = R2 / F2 = 1.04/1.05 = 0.990$$

$$I3 = R3 / F3 = 0.76/0.86 = 0.883$$

$$I4 = R4 / F4 = 0.67/0.99 = 0.676$$

Thus, the recommended management reporting of CSR performance allows not only to integrate financial and non-financial information in one reporting format, but also to carry out factor analysis in the sustainable development activities of the organization and to enable CSR beneficiaries to make decisions according to different ESG directions.

### Conclusions

Thus, in RA organizations, we emphasize the budgeting of financial results in the context of CSR in a number of directions.

First, during the budgeting of financial results, the component of non-financial results should also be taken into account, thereby creating informational opportunities for making managerial decisions in the domain of the value chain of the business model.

Second, organize integrated reporting of financial results so that the user of the reports can understand how manageable the revenues and expenses generated by organizations in the business ecosystem become.

Third, organizations should present integrated information on financial results in a standardized format, based on the sectorial features of ESG criteria, which will create an

opportunity to conduct comparative analyzes in the competitive field.

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