



A study on corporate social responsibility (CSR) spending and its relationship with share price with reference to fertilizer sectors

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Abstract

For the purpose of making the firms accountable and responsible towards its stakeholders, Companies Act 2013 has introduced mandatory contribution of 2% of average net profit towards Corporate Social Responsibility. In present study, the relationship between CSR spending and Share prices has been studied for five fertilizers companies in fertilizer sector. The study can help us to know that whether this compulsory move by the government is burden on the companies or not. Share prices have been taken as they reflect the wealth of the shareholders and also an impression of investor's confidence. The study based on three variables CSR Spending, Net profit and Share prices. The result of the study, there is a insignificant relationship between CSR and Share price where as there is positive relationship between CSR and Share price in selected companies.

Keywords: corporate social responsibility, CSR spending, share prices, average net profit, fertilizers company

Introduction

Corporate Social Responsibility has become a mandatory requirement for most of the companies except a few. Due to the increasing importance of role of corporate towards various areas of society. These corporates are now viewed as not only profit-making institutions but also as contributors towards betterment of the society. Corporate social responsibility can be define as an obligation of a corporate entity to fulfil the requirements of all its stakeholders through various activities and programmes prescribed by law. It can also be define as maintaining socially responsible relationships with its stakeholders by contributing to their well-being. The social responsibility of a firm means looking after and contributing towards all the sections of the society at large such as investors, suppliers, consumers, employees, government, general public, environment and country. In accordance with the provisions of section 198, the companies Act 2013 has made it mandatory for all the companies having net worth of Rs.500 crores or more or turnover of Rs.1000 crores or more or net profit of Rs.5 crores or more, to spend at least 2 % of its average net profits towards Corporate Social Responsibility. Prior to the introduction of this norm, companies contribute toward CSR voluntarily, but now it has become compulsory to spend 2 % of average net profit towards CSR, it also has become inevitable to know that how such a contribution towards CSR can affect the earnings of the company and its share prices. The present study focuses on Fertilizers companies in India.

Literature review

Before beginning with the research work, we would like to go through some existing literature on the impact of CSR spending on the share prices. According to ^[1] (Dr. Ritu Sapra and Chanpreet Kaur December 2016), in their study on CSR spending and its relationship with share prices, an analysis of top Auto Ancillary companies, it was concluded that there is no relationship between CSR spending and share prices, may be due to a sample size of 35 companies

data availability on CSR spending by Auto Ancillary companies ^[4]. (Fiori, Donato and Izzo, 2015), in their study on Corporate Social Responsibility and Stock prices, an analysis of Italian market (32 Italian companies listed on the MSE), it was concluded that the relationship between CSR and company's performance is still a 'work-in-progress' issue strongly dependent on the particular context of each country. Thus, it is difficult (and may be wrong) to assume on overall general framework for this topic ^[5]. (Miklesh Prasad Yadav and Dr. Manju Gupta January 2015), in their study on Linkage between Corporate Social Responsibility and Return on Net worth (Ronw) of selected companies, it was concluded that there is a insignificant relationship between CSR and RONR where as there is positive relationship between CSR and EPS in selected companies. It means spending in CSR influences positively to the EPS of company not to the RONR ^[11]. (Elif Akben-Selcuk May 2019), in their study on Corporate Social Responsibility and Financial Performance on the Moderating Role of ownership Concentration in Turkey, it was concluded that the results of this study were able to improve our understanding of CSR decisions by managers, through which minority shareholders are expropriated in firms with concentrated ownership. It could be constitute fruitful avenues for further research.

Objective of the study

- To find out stock trend of selected fertilizer company and CSR amount spending during respective years
- To find out the relationship between Compulsory CSR Spending and Share Prices of the Fertilizer companies.
- To analyse the effect of Compulsory CSR Spending on Share Prices of Fertilizer companies.

Hypothesis

H1: There is positive relationship between CSR and Share Prices.

H2: Firms with higher CSR Spending action will affected to share prices and net profit.

Research Methodology

In this study, used causal research design with determining the relationship between CSR and Share Prices. In this study used Secondary data, started first with an organization own data archives. Research gathered data from external sources. The Secondary data was collected from companies Annual reports and their CSR spending activities also from the websites and from the company publications. The sample size is collected of the five fertilizer companies of five-year CSR and share prices & Net Profit. In this study for the data analysis used correlation and regression techniques. The scope of the study is to identified the companies CSR activities amount spent and its relationship with the share prices and also how will its affect on the companies financial performance. The study is based on five fertilizers companies of five-year CSR spent and share prices.

Limitation of the study

- The study is only restrict to Fertilizer Companies
- Share Prices are affected by many other factors such as dividend decisions, earnings etc. and CSR is just one factor.
- Sample size is small and only two criteria is taken for classifying the companies that is Net Profit and Share Prices

Data Analysis and Interpretation

All the data are collected from the Companies Annual Reports, BRR & CRR reports and Companies Websites.

- **GNFC:** GUJARAT NARMADA VALLEY FERTILIZERS & CHEMICALS LTD.
- **GSFC:** GUJARAT STATE FERTILIZERS & CHEMICALS LTD.
- **NFL:** NATIONAL FERTILIZERS LIMITED
- **DFPCL:** DEEPAK FERTILIZERS AND PETROCHEMICALS CORPORATION LTD.
- **IPL:** INDIAN POTASH LTD

Table 1: Trend Analysis of Net Profit, CSR Contribution and Share Prices: Net Profit

Year	GNFC	NFL	DFPCL	IPL	GSFC
2011	38140.95	203.92	1866.24	307.82	74937.14
2012	28383.5	184.2	2129.71	288.05	75756.9
2013	27310.71	76.22	2005.77	78.12	51810.04
2014	29227.23	161.16	3363.9	123.15	34217.25
2015	45206.81	44.72	1082.24	43.7	40050.56



(self-computed)

Chart 1

Interpretation

In the year 2011 out of all 5 companies' price, the highest net profit was GSFC and it was 74937.14 then the second highest net profit was GNFC and is was 38140.95. During the 2012 to 2014 we saw that GSFC net profit goes down in controversy GNFC price is goes up and down. As compare

to GNFC and GSFC another two companies NFL and IPL is profit amount is less then 10000 So that was we saw in above chart. Also, DFPCL Net profit price was less then GNFC and GSFC net profit price. Here we saw that three companies net price is flatulated in the year 2011 to 2015 and another two companies were less net profit compare to GNFC, GSFC and DFPCL.

CSR Contribution

Table 2

Year	GNFC	NFL	DFPCL	IPL	GSFC
2011	17.36	3	3.21	96.21	15.61
2012	5.61	1.9	5.21	132.21	10.05
2013	13.14	1.47	17.21	80.18	7.25
2014	126.57	76	3.02	125.14	5.12
2015	839.92	2	8.02	156.14	13.05



(self-computed)

Chart 2

Interpretation

In the year 2011 to 2013 IPL was highest CSR Spending as compare to another 4 companies. In the year 2014 GNFC and IPL was equally amount spending in CSR activities. In the year 2015 GNFC was highest CSR spending compare to another companies and last 4 years. Compare to IPL, GNFC and GSFC another two companies NFL and DFPCL was very low spending behind the CSR activities.

Share Prices

Table 3

Year	GNFC	NFL	DFPCL	IPL	GSFC
2011	147.14	931.28	21.16	175.56	94.03
2012	161.34	126.73	24.15	180.21	95.06
2013	174.81	170.73	16.65	162.32	13.55
2014	189.52	1.83	27.65	132.25	8.59
2015	159.52	5.3	8.88	152.21	10.78



(self-computed)

Chart 3

Interpretation

In the 2011 NFL share price was highest compare to another company then respectively IPL, GNFC, GSFC and DFPCL

share price was goes down. In the year 2012 firstly IPL and then respectively another companies share prices are up and down. Similarly, as in the year 2015. In the 2014 very low Share price was GSFC and then DFPCL. As to GSFC and DFPCL share price GNFC, IPL and NFL price were near in the year 2013.

Correlation of Net profit, CSR contribution and Share prices

Table 4

	Net Profit	CSR Contribution	Share Price
Net Profit	1		
CSR Contribution	0.139546497	1	
Share Price	-0.13412194	0.053536065	1

(self-computed)

Interpretation

Following table shows that the relationship between CSR contribution and Share prices with the help of net profit of the all the five companies. CSR price is positively correlated with the amount of Net profit and share price was also negatively correlated with the net profit. Share price was positively correlated with the amount of CSR contribution. It saw that all the companies relationship between CSR spending and share price were also affect the net profit for that evaluation.

Regression Analysis of CSR & Share Prices

Table 5

Regression Statistics	
Multiple R	0.053536065
R Square	0.00286611
Observations	25

	Coefficients	P-value
Intercept	64.27747108	0.14087538
Share Price	0.049404849	0.79937342

(self-computed)

Interpretation

Here, The CSR and Share prices are neutrally correlated with each other. R square is 0.002 which is a bad one. It means that near 20% of our values fit the regression analysis model. In other words near 20% of CSR value is explained by share prices. Above analysis is on average of all the five companies regression statistics and that result is very poor on average of all the 5 companies.

Regression Analysis of Net profit & Share Prices

Table 6

Regression Statistics	
Multiple R	0.134121944
R Square	0.017988696
Observations	25

	Coefficients	P-value
Intercept	20582.6175	0.00260218
Share Price	-18.0385107	0.52270904

(self-computed)

Interpretation

Here, The Net Profit and Share prices are neutrally correlated with each other. R square is 0.018 which is a bad one. It means that near 20% of our values fit the regression analysis model. In other words near 20% of CSR value is explained by share prices. Above analysis is on average of all the five companies regression statistics and that result is very poor on average of all the 5 companies.

Result

In the study the trend of Net profit, CSR contribution & Share prices are flatulated of DFPCL, GNFC near 80000 and GSFC near 20000 company and another Companies IPL and NFL below 10000 was respectively downward in trend analysis. All the correlation analysis result was positive or negative also that's why H1 is rejected in the analysis. CSR and share prices are neutrally correlated with each other and also Net Profit and share prices are neutrally correlated with each other. Above all regression analysis is on average of all the five companies regression statistics and that result is very poor on average of all the 5 companies. All the regression analysis result was mforstly bellow 50% of our values fit the regression analysis model. In other words near 90% of CSR value is explained by share prices.

Conclusion

The study concludes that there is a insignificant relationship between CSR and Share price where as there is positive relationship between CSR and Share price in selected companies. It means spending in CSR influences positively to the Share price of company not to the net profit. Increasing CSR spending leads to increasing or decreasing share price and also affect on the net profit. The study is only restrict to Fertilizer Companies Share Prices are affected by many other factors such as dividend decisions, earnings etc. and CSR is just one factor. Sample size is small and only two criteria is taken for classifying the companies that is Net Profit and Share Prices Secondly, the sample size in this study, taken from the five fertilizer companies that does not reflect the overall private sectors. Lastly, given that this study has considered the evaluation for only five years these findings should be interpreted with caution. Future research in this area must consider it necessary to extend the number of periods studied to evaluate recent legal requirements as well.

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