

CSR Spending and its Relationship with Share Prices (with Special Reference to Top Indian Auto Ancillary Companies in Light of Companies Act 2013)

* Dr. Ritu Sapra

** Chanpreet kaur

Effulgence

Vol. 14 No. 2

July - December, 2016

Rukmini Devi Institute of Advanced Studies

E-mail : effulgence@rdias.ac.in, Website : www.rdias.ac.in

<http://effulgence.rdias.ac.in/user/default.aspx>

<https://dx.doi.org/10.33601/effulgence.rdias/v14/i2/2016/28-36>

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 the present study, the relationship between Mandatory CSR spending and Share Prices has been studied for top Auto Ancillary companies listed on NSE. The study can help us to know that whether this compulsory move by the Government is a burden on the companies or not. Share Prices have been taken as they reflect the wealth of the share holders and also an impression of investor's confidence. The companies have been divided into various categories on the basis of net profits and the relationship has been studied for each category and on overall basis. The results depict chance relationship between compulsory CSR Spending and share prices for all companies except those falling in lowest category of net profits.

Key Words: *Corporate social responsibility, CSR spending, Share Prices, Auto Ancillary Companies, Average Net Profits, Companies Act 2013.*

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 corporate are now viewed as not only profit making institutions but also as contributories towards betterment of the society. Since they use society's various resources, they are therefore obliged to give back to it in most developmental manner. Hence the government has decided to make them accountable for the use of society's scarce resources and make them responsible to pay it back on time as efficiently as possible.

Corporate Social Responsibility

Corporate Social Responsibility can be defined 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 defined as maintaining socially responsible relationships with its stakeholders by contributing to their well being. Earlier Corporate Social Responsibility was viewed as a Philanthropic activity which was carried out voluntarily by the firms. But with the expansion of businesses across the world and in particular India, there is a need to keep a track of the resources used by the firms and how these firms cater to the needs of this resourceful society through its Social Initiatives. 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.

The Companies Act 2013

In order to make corporate officially responsible the Company's Act 2013 in its section 135 has prescribed the

* Associate Professor, Department of Commerce Delhi School of Economics, Faculty of Commerce and Business, New Delhi

** Guest Faculty, Department of Commerce and Business Studies, Faculty of Social Sciences, Jamia Millia Islamia, New Delhi

conditions and the manner in which the Corporate Social Responsibility can be fulfilled by a firm. According to this section all those companies having

1. Net worth of Rs.500 crore or more or Turnover of Rs.1000 crore or more or Net Profit of Rs.5 crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which one director shall be an independent director.
2. The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.
3. The Corporate Social Responsibility Committee shall,
 - (a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;
 - (b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
 - (c) Monitor the Corporate Social Responsibility Policy of the company from time to time.
4. The Board of every company referred to in sub-section (1) shall,
 - (a) After taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and
 - (b) Ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.
5. The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. Of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its

Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

Provided further that if the company fails to spend such amount, the Board shall, in its

Report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

Explanation. for the purposes of this section "average net profit" shall be calculated

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 crore or more or net profit of Rs 5 crore or more, to spend at least 2% of its average net profits towards Corporate Social Responsibility. The average net profits shall be the average of the profits of three preceding financial years. There are various dimensions in which the social responsibility can be fulfilled, such as education, health, environment, art and religion, culture, creation of employment opportunities, training and many other ways through which corporate can contribute towards the upliftment of the weaker sections of the society and economy as a whole. Every organisation takes something from the society to carry out its operations and earn revenue, and hence it becomes a duty of these organisations to pay something useful back to the society. Prior to the introduction of this norm, companies contributed towards social responsibility voluntarily, but now since 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 Auto Ancillary companies in India.

REVIEW OF LITERATURE

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 (Fiori, Donato and Izzo September 2007), in their study on Corporate Social Responsibility and Firms Performance, an Analysis of Italian Listed Companies, it was concluded that there is no relationship between CSR and stock prices, may be due to a small sample size of 25 companies and some hindrances in the availability of data on CSR spending by firms in Italy. (Francesca Di Donato and Maria Federica Izzo, Jan 2012) in their study on Corporate Social Responsibility and Stock Prices: An Analysis of Italian Listed Companies also show negative results. (Priyanka Aggarwal 2013) carried out an empirical analysis of impact of sustainability performance of 20 companies listed on NIFTY on the financial performance of the firms, by taking accounting variables such as ROA, ROE, PBT and also studied the impact of each dimension of sustainability, such as community, environment, employee and government on the performance of the companies. It was concluded that sustainability performance as a whole has no significant effect on the financial performance of the companies, however separate dimensions have varying effect on financial performance and the firms should use them to enhance their financial performance.(Daniel Mogaka Makori and Ambrose Jagongo Oct 2013) in his paper on Environmental Accounting and Firm's Profitability found that environmental accounting has a positive relationship with Net Profit Margin and Dividend per Share and a negative relationship between Return on Capital employed and Earning per Share, where environmental accounting is represented by environmental cost incurred by the companies. (Forum Mehta and Satish Deodhar, Dec 2014) have used Event Study methodology to find out the effect of announcement of compulsory CSR spending on various firms in food industry and have made a comparison of stock prices before and after such policy changes. However the null hypothesis formed that mandatory CSR affects the stock prices of food firms negatively was

rejected. According to (Zaccheaus, Oluwagbemiga, Olugbenga, Aug 2014), In their study on the effect of CSR on stock prices :empirical study of listed manufacturing companies of Nigeria, it was concluded that there was no significant relationship between CSR spending and stock prices, also no significant effect of CSR spending on stock prices was found in this study based in Nigeria. (Nag and Bhattacharya July 2015), in their research paper presented in a conference held by Asia-Pacific Economic Association, in Taiwan, in July 2015 on the topic Corporate Social Responsibility in India :Exploring linkages with firms performance and development, by taking ROA and PE ratio as measures of Financial performance concluded that there was a positive correlation between financial performance and firms CSR, but insignificant, however, environmental reporting has negative correlation with financial performance (Mehta and Chandani Feb 2015) analysed the correlation of CSR and Financial Performance of top five Pharmaceutical companies on the basis of Market capitalisation in which the null hypothesis assuming no correlation between CSR and Financial Performance was rejected and concluded a positive and strong correlation between the two variables. Manchiraju and Rajgopal (April 2015) in their study "Does Corporate Social Responsibility (CSR) create shareholder value? Exogenous shock based evidence from the Indian Companies Act 2013" have concluded that the share values are affected negatively of the firms which are forced to spend the amount as per the act.

Based on the above review of the existing literature, the researcher wants to further explore the connection of corporate social responsibility of the firms and their financial performance in Automotive Industry.

OBJECTIVES OF THE STUDY

1. To find out the relationship between Compulsory CSR Spending and Share Prices of the Auto ancillary companies.
2. To analyse the effect of Compulsory CSR Spending on Share Prices of the Auto ancillary companies.

HYPOTHESIS

1. H₀: There is no relationship between CSR Spending and Share price of the companies having net profit up to 30 crores.
2. H₀: There is no relationship between CSR Spending and Share price of the companies having net profit from 30 to 60 crore rupees.
3. H₁: There is no relationship between CSR Spending and Share price of companies having net profit between 60 and 90 crore rupees.
4. H₁: There is no relationship between CSR Spending and Share price of companies having net profit above 90 crore rupees.
5. H₂: There is no significant effect of CSR on Share Prices of the companies.

RESEARCH METHODOLOGY

A sample of top Auto Ancillary companies have been taken based on net profits. The companies having negative profits have been rejected. As per the data available on Moneycontrol.com there are 54 top auto ancillary companies on the basis of net profit. For the purpose of this study, companies earning losses have been rejected; there are few companies of which the historical price data is not available and some are those which are not eligible for compulsory CSR spending. Therefore all these companies have also been excluded from the sample. Out of the total top ancillary companies, 39 have been studied in the manner discussed.

For the analysis part, first of all month end closing prices have been taken for each company for the year 2014-15. Averages of closing prices have been calculated to find out the representative price for the year for each company selected. Data related to CSR Spending has been taken from the Annexure to the Director's report of each company. Hence we collected the data forming two variables; one the average share prices and second the CSR spending. Refer (Table 1). CSR Spending is taken as independent variable whereas Share Prices as dependent variable. Karl Pearson's coefficient of correlation is used to find out the degree of relationship between the two variables. Linear Regression has also been used to find out the effect of compulsory CSR spending on Share Prices of Auto Ancillary companies. The companies have been further categorised into various classes again on the basis of Net Profits taking each class size as 30. There are 17 companies having Net Profits between 0 and 30 Crore Rupees, 11 companies having Net Profit between 30 and 60 Crore Rupees, 3 companies having Net Profit between 60 and 90 Crore Rupees, and 8 companies having Net Profit of 90 Crore Rupees and above. Overall Correlation and Regression has been calculated and class wise Correlation and Regression has also been calculated and a further comparison has been made between various categories of companies.

The study has been carried out only for the period of one year, 2014-15, in which Companies Act, 2013 became applicable.

Table 1 : Names of the companies with their Average monthly Closing prices and CSR spending.

| CLASS SIZE on the basis of Net profit (in crores) | Name of the company | Mean monthly closing prices 2014-15 (in Rupees) | CSR Spending as 2% of average net profits of past three years.(in Rupees) |
|---|---------------------|---|---|
| 0-30 | Harita Seating | 134.5708 | 21,00,000 |
| | JMT AUTO | 25.18 | 37,000 |
| | Talbro autos | 102.3667 | 16,40,000 |
| | PPAP Automotive | 89.17083 | 11,11,957 |
| | Rane Madras | 268.8667 | 60,78,823 |
| | Lumax Inds | 359.6917 | 12,14,000 |

| | | | |
|--------------|------------------|----------|---------------|
| | Sona Koyo Stee | 45.47083 | 23,13,000 |
| | UCAL Fuels | 97.24167 | 46,29,000 |
| | Subros | 55.7416 | 57,32,000 |
| | India Nippon | 336.525 | 66,00,000 |
| | Hind Composites | 808.3333 | 40,00,000 |
| | Rane Holdings | 508.5917 | 67,45,000 |
| | Phoenix Lamps | 127.121 | 41,55,306 |
| | Shivam Auto | 29.26833 | 45,29,000 |
| | Jamna Auto | 141.7875 | 56,43,000 |
| | Autolite India | 29.16667 | 0 |
| | Wheels | 926.1042 | 1,03,68,000 |
| 30-60 | Federal-Mogul | 326.0458 | 4,00,000 |
| | Lumax Auto Tech | 241.7417 | 29,92,000 |
| | JBM Auto | 166.6575 | 45,28,000 |
| | Minda Corp. | 57.5733 | 28,78,000 |
| | Munjal Auto Ind | 89.60417 | 37,99,000 |
| | Steel Str Wheel | 285.2917 | 69,74,000 |
| | Jay BharatMarut | 118.2917 | 56,20,000 |
| | Banco Products | 129.6458 | 1,50,00,000 |
| | FIEM Ind | 657.2667 | 81,33,000 |
| | Suprajit Eng | 118.8708 | 1,35,74,000 |
| | Minda Ind | 448.5125 | 88,00,000 |
| 60-90 | Gabriel India | 71.13333 | 1,08,50,000 |
| | Sundaram-Clayto | 1462.713 | 36,00,000 |
| | Munjal Showa | 172.8167 | 28,33,032 |
| 90 and above | WABCO India | 3961.388 | 4,73,000 |
| | Rico Auto | 32.4125 | 11,00,000 |
| | Castex Tech | 81.2875 | 0 |
| | Amtech Auto | 195.0875 | 34,35,000 |
| | Amara Raja Bhatt | 643.5458 | 9,62,50,000 |
| | Motherson Sumi | 263.0308 | 15,00,000 |
| | Exide Ind | 162.2667 | 354,81,55,000 |
| | Bosch | 17340.94 | 10,34,50,000 |

Source: Author's Compilation.

After finding the necessary statistics, they were tested using T test for small samples for each class of companies falling under a particular net profit category. Test for significance of Correlation was also used using R table,

R square has also been calculated to know the level of determination of share prices by CSR spending. The tests were used at 5 percent significance level.

Findings of the Study

As far as the tests of significance of correlation are concerned, t test values are computed as per Table 2. And compared with table values of t test table at given degrees of freedom only for different categories of companies as T test is a small sample test and hence the

sample of companies falling in a particular profit category is also small (less than 30). It can be observed that only for first set of companies having net profit of up to 30 crores have significant and moderate correlation of 0.602, rest all other categories of companies have either positive or negative correlations but, insignificant.

Table 2 : T test to test the significance of correlation calculated between CSR Spending and share prices

| Category of Company as per Net Profit | Correlation | T Test Value | Table Value at 5% Significance. Level | Result , If T Test Value > Table Value then Significant else Not Significant |
|---------------------------------------|--------------|--------------|---------------------------------------|--|
| 0-30 Crore | 0.602674903 | 2.72549E-05 | 2.131 | Significant |
| 30-60 Crore | 0.021320933 | 0.00067972 | 2.262 | Not Significant |
| 60-90 Crore | -0.481522049 | 0.152801447 | 12.706 | Not Significant |
| 90 Crore and above | -0.15680491 | 0.32168476 | 2.477 | Not Significant |

Source: Author's Compilation.

Next we used R table, (Table 3) for testing the significance of correlation, in which correlation for entire set of companies was also tested with each particular category of company in which, the result was insignificant correlation for all companies, and other companies falling under categories of net profit of more than 30 crores, hence only the 17 companies having net profit up to 30 crores have significant correlation.

Table 3 : Correlation and R Test

| Category of Company as per net profit (in crore) | Correlation value | Table value as per Pearson's correlation table | Result: If correlation value > table value at 5% significance level, then significant, otherwise not significant. |
|--|-------------------|--|---|
| 0-30 | 0.602674903 | 0.482 | Significant |
| 30-60 | 0.021320933 | 0.602 | Not significant |
| 60-90 | -0.481522049 | 0.997 | Not significant |
| 90 above | -0.15680491 | 0.707 | Not significant |
| All companies | -0.010581722 | 0.325 | Not significant |

Source: Author's Compilation

R square values have also been computed in Table 4. To know the level of determination of share prices by CSR spending, hence it can be seen that for most of the companies, the share prices are very weakly determined by the CSR spending, only except companies with net profits up to 30 crores.

Table 4 : R square values (Coefficient of Determination)

| | |
|----------------------|-------------|
| All companies | 0.000111973 |
| 0-30 crore companies | 0.363217 |
| 30-60 | 0.000455 |
| 60-90 | 0.231863 |
| 90 above | 0.024588 |

Source: Author's Compilation.

Regression coefficient can only be found out if the correlation is significant, the effect of CSR spending on share prices can only be seen in case of those 17 companies having net profit up to 30 crores. For the computation of regression coefficient we used data analysis package of Microsoft excel. The following results have been derived (Table 5)

Table 5 : Regression table for companies having significant correlation

| Regression Statistics | | | | | | | |
|-----------------------|----------|--|--|--|--|--|--|
| Multiple R | 0.602675 | | | | | | |
| R Square | 0.363217 | | | | | | |
| Adjusted R Square | 0.320765 | | | | | | |
| Standard Error | 225.0202 | | | | | | |
| Observations | 17 | | | | | | |

| ANOVA | | | | | | | |
|------------|----|----------|----------|----------|----------------|--|--|
| | Df | SS | MS | F | Significance F | | |
| Regression | 1 | 433220.6 | 433220.6 | 8.555907 | 0.01045 | | |
| Residual | 15 | 759511.4 | 50634.09 | | | | |
| Total | 16 | 1192732 | | | | | |

| | Coefficients | Standard Error | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|--------------|--------------|----------------|----------|----------|-----------|-----------|-------------|-------------|
| Intercept | 8.949613 | 96.09614 | 0.093132 | 0.927031 | -195.874 | 213.7737 | -195.874 | 213.7737 |
| X Variable 1 | 5.88E-05 | 2.01E-05 | 2.925048 | 0.01045 | 1.6E-05 | 0.000102 | 1.6E-05 | 0.000102 |

Source: Author's Compilation.

The regression equation can be interpreted as

$$y = a + bx$$

Where y is the dependent variable, in this case, the share prices, as is the intercept, which is the value of y or share prices when x i.e. CSR spending is 0. Here for the first 17 companies with significant correlation, the regression equation is as follows

$$y = 8.949613 + 0.00005879x$$

This means, one Rupee increase in CSR spending increases the share prices by 0.00005879 Rupees.

For significance testing, p value also has been calculated as 0.0104. the significance level is 0.05, since p value is less than significance level, the test for regression is significant and hence only for these 17 companies having net profit up to 30 crore rupees, the share prices are affected by CSR spending. For all other companies the result is insignificant.

CONCLUSION

The main aim of the research was to find out the relationship of compulsory CSR Spending by automobile ancillary firms with their Share Prices and for which these companies were selected based on net profits and further bifurcated into different classes on the basis of net profits. As far as all the firms are concerned, it has been found that there is a very low correlation of 0.0105, that is 1.5% between share prices and CSR spending and further the relationship is also insignificant, resulting in acceptance of null hypothesis of no relationship between the two variables. Similarly correlation analysis for different categories of companies based on net profits was also carried out and all categories of companies gave insignificant results except the first 17 companies having net profit in the range of 0 to 30 Crore Rupees. For these 17 companies only the Correlation of 0.602 was significant resulting in rejection of null hypothesis H1 (1) of no relationship. For rest of the categories, the null hypothesis was accepted indicating no relationship between CSR spending and share prices.

As far as our second objective is concerned, the effect of CSR spending can only be seen if the correlation exists, but for all the companies, it has been concluded that there is no relationship, hence no effect of CSR Spending on share prices. However, this effect has been seen for seventeen companies having significant correlation between the two variables. As per the analysis it has been found out that the regression is significant, and hence CSR spending does affect share prices but only by 0.00005879 times the change in CSR Spending. Even though the share prices are slightly affected but they are significantly affected by CSR spending for only first 17 companies.

One can hence conclude that for Automobile ancillary companies, the CSR spending can affect the Share Prices when profits are less than 30 Crore Rupees, and for most of the cases and on an overall basis there is no relationship between CSR Spending and Share prices.

Limitations of the Study

Some of the limitations of the study have been:

1. The study is only restricted to auto ancillary companies
2. Sample size is small and only one criteria is taken for classifying the companies that is net profit
3. The concept of Compulsory CSR is new, hardly one year has passed, hence time period of the study is just one year, and so long term effects cannot be studied.
4. Share prices are affected by many other factors such as dividend decisions, earnings etc, and CSR is just one factor.

Future scope of the study

1. The study can be extended to other industries; the area of study can be expanded to include many other firms.
2. The effect of CSR spending can be studied with other financial measures to judge its effect on overall profitability rather than just the share prices.
3. The number of years can be further increased
4. CSR spending can be studied from accounting perspective also such as studies relating to CSR

reporting practices and its effects on overall financial performance.

REFERENCES

- 1) Aggarwal, Priyanka. (2013), "Impact of Sustainability Performance of Company on its Financial Performance: A study of Listed Indian Companies", *Global Journal of Management and Business Research Finance*, 13(11):61-70. (2013).
- 2) Fiori, Donato and Izzo. (2007), "The Relation between Corporate Social Responsibility and Firm's Performance An Analysis of Italian Listed Companies", <http://ssrn.com/abstract=1032851>. (2007)
- 3) Izzo and Donato. (2012), "Corporate Social Responsibility and Stock Prices: An Analysis of Italian Listed Companies", <http://ssrn.com/abstract=1986324>. (2012)
- 4) Makori DM and Jagongo Ambrose. (2013), "Environmental Accounting and Firm Profitability: An Empirical Analysis of Selected Firms Listed on Bombay Stock Exchange, India", *International Journal of Humanities and Social Science*, 3(18):249-256. (2013).
- 5) Manchiraju and Rajgopal. (2015), "Does corporate social responsibility create shareholder value? Exogenous shock- based evidence from Indian Companies Act 2013", <http://ssrn.com/abstract=2602960>. (2015).
- 6) Mehta and Chandani. (2015), "Where Indian Pharma Corporates Stand Study With Reference To Corporate Governance Practices and CSR", *Indian Journal of Science and Technology*, 8(S4):76-82. (2015).
- 7) Mehta Foram and Deodhar Satish. (2014), "Assessing Impact of Mandatory CSR on Food Industry", <http://EconPapers.repec.org/RePEc:iim:iimawp:13304>. (2014)
- 8) Nag Tirthankar and Bhattacharya. (2012), "Corporate Social Responsibility Reporting in India: Exploring Linkages with Firm Performance and Development", www.apeaweb.org/confer/tw15/papers/Nag_T.pdf. (2012).
- 9) Zaccheaus Oluwagbemiga and Olugbenga. (2014), "Effects of corporate social responsibility performance (CSR) on stock prices: Empirical study of listed manufacturing companies in Nigeria." *IOSR Journal of Business and Management*, 16(8):112-117.(2014).
- 10) www.moneycontrol.com
- 11) www.ministryofcorporateaffairs.com
- 12) www.mca.gov.in