"A STUDY ON IMPACT OF FINANCIAL PERFORMANCE ON CSR OF SELECTED PHARMACEUTICAL COMPANIES IN INDIA: AN EMPIRICAL STUDY"

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Abstract:

Today, the period of awareness about corporate social responsibility (CSR) is at the growing trend. CSR Activities are one of the important parts of the organization now-a-days. Most organizations have contained corporate social responsibility without substantial increase in industries performance so the researcher want to find out the influence of financial performance on CSR of Pharmaceutical Companies. Almost all the prominent organization performs CSR activities for the sake of society or as a part of their responsibility. The main purpose of study is to shed light on the impact of financial performance on CSR of Selected Pharmaceutical Companies in India using a sample of four pharmaceutical companies on the basis of market capitalization listed in BSE for the period of 5 years from 2015 to 2020. As per the requirement of the study statistical tools have been used by the researcher. Data was collected from secondary sources such as annual reports and websites of selected pharma units were tabulated and analyzed with the help of different statistical tools. Various statistical tests have been employed using in MS Excel such as correlation, regression, ANOVA, t-test etc. To evaluate CSR items simple average and percentage has also been used. The findings presented exposed that return on equity (ROE), return on assets (ROA) & earnings per share (EPS) has impact on CSR of selected pharmaceutical companies. Some recommendations were provided for future use to any researcher in this hypothetical work. This study includes examination of CSR practices by four pharma companies listed in BSE. The findings of this study greatly contribute in body of knowledge as well as offer pivotal implications for policy makers and governance of financial sector.

Key Words: Corporate Social Responsibility, Financial Performance, return on equity, Return on assets, Earnings per share

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[1] Introduction:

The pharmaceutical company discovers, develops, produces and market drugs for use as medications to be administered to patients with the aim to cure them, vaccinate them. The pharma companies are generally dealing in generic or brand medications and medical devices. India has a great heritage of different types of medical treatment. The medical treatment includes Ayurveda, Siddha, Homeopathy, Yoga, Naturopathy, Unani etc. Indian Pharmaceutical Industry has been at highest level in the recent years and it shows that in upcoming growth opportunities to expand the sector. India has become suitable manufacturing location for multinational drug manufacturers. The pharmaceutical products mainly consist of two components i.e., Active Pharmaceutical Ingredients (API) or Bulk Drug and Formulations[1].

Corporate social responsibility, or CSR, refers to the belief that businesses have an obligation to society beyond their promises to their stockholders or investors. Corporate Social Responsibility is nothing but how the business takes responsibility for social, economic and environmental impacts. It may produce from its operations or products. It also includes the evolution of Corporate Social Responsibility as old as trade and business for any of corporation, Industrialization and Impact of business on the society led to completely new vision. Corporate Social Responsibility (CSR) is also known by a number of other names. These include corporate responsibility, corporate accountability, corporate ethics, corporate citizenship or stewardship, responsible entrepreneurship, and "triple bottom line," to name just a few. As CSR issues become increasingly united into modern business practices, there is a trend towards referring to it as "responsible competitiveness" or "corporate sustainability. "The World Business Council for Sustainable Development has described CSR as the business contribution to sustainable economic development. Building on a base of compliance with legislation and regulations.[2]

Corporate Social Responsibility (CSR) refers to the obligations of businessmen to pursue those policies, to make those decisions or to follow those lines of action, which are desirable in terms of the objectives and values of our society (Bowen). Thus, CSR may be defined as the obligation of companies to protect and enhance the

norms and values held by the society within which it operates. The World Business Council for sustainable development in its publication, "Making Good Business Sense" by Lord Home and Richard Watts, says: "CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the community and society at large. "The United Nations has also acknowledged the global imperative of direct intervention by body corporate in the social sector[2].

Concept of Corporate Social Responsibility

CSR has been described in a number of various ways. Below are given different definitions of CSR:

- Corporate Social Responsibility is a commitment to improve community well-being through discretionary business practices and corporate resources. (Philip Kotler and Nancy Lee, "Corporate Social Responsibility," Wiley, 2007)
- The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time. (Archie B. Carroll, 1979)
- Shell: "We all need to assess the impact our business makes on society and ensure that we balance the economic, environmental and social aspects of everything we do" (Moody-Stuart, 1999).
- According to Lance Moir (2001), 'The area defined by advocates of CSR increasingly covers a wide range of issues such as plant closures, employee relations, human rights, corporate ethics, community relations and the environment'[3].

Uses & features of Corporate social responsibility:

- **Uses:**

1. To give the clear picture of the whole business entity on the social responsibility aspect
2. To make better understanding of social activities of entity on various segment such as employees, management, stock-holders, consumers, suppliers, investors, tax collecting, authorities, law makers, government, public & Community.
3. To protect environment
4. To make optimum use of national resources
5. To make welfare of employees
6. To protect assets of the business
7. To see welfare of community
8. To respect lows of the land
9. Prosperity of community
10. Development of economy of a nation
11. Improves standard of living of people
12. Fair price of goods to consumers
13. Fair & healthy competition
14. Social justice, protection of rights of workers
15. Quality control

- **Features:**

1. Welfare of society
2. Values of society

3. Aspiration of society
4. It goes beyond the loan of the country
5. Social responsibility has significant influence on the social system
6. Obligations & duties that a business aware to society
7. Business is no longer considered a tripartite venture i.e., owners, workers, & consumers, but it has become a multiparty system.
8. Business is part of soc.[4]

[2] Literature Review:

1. Khanifaret al. (2012) under the title Impacts "Corporate Social Responsibility on Company Financial Performance" proposed the two connections. 1) Concurrent and consequent financial execution with connection to CSR. 2) Past monetary execution. They considered that there is negative relationship in the middle of CSR and CFP regarding a few pointers, for example, stock value progressions and EPS gauges. They distinguished the positive relationship between corporate social execution and corporate fiscal relationship as far as expense sparing, expand the corporate picture and help in seeking after the administrative bodies which can brought about bigger expense to associations. They likewise talked about that there is no critical relationship in the middle of CSR and CFP. At the end, they abridged that there is sure relationship between corporate social obligation and budgetary execution. In spite of the fact that it acquired expense to firm yet it gave high benefit in future results of firm.[5]
2. Wankhade (2014) studied CSR spending of 50 Indian companies. The study also includes comparison of how much percentage of PAT spent for CSR activities and the transparency score of both public and private sector companies. The study is undertaken with the help of secondary data. Findings of the study have shown that in Indian companies CSR spending is less than 2 % of PAT and also there is no significant difference in the CSR spending & transparency score of the public sector and private sector companies. Talking about CSR transparency score of public sector companies & private sector companies, no significance difference has been found. Concluding remarks put weight on increasing CSR spending and add more transparency in disclosure practices.[6]
3. Sawant (2014) in his article throws light on CSR practices of five leading Pharma companies namely Ranbaxy, Dr. Reddy's Laboratories, Cipla, Lupin Labs and GlaxoSmithKline Pharma. The main objective of the study is to understand the CSR initiatives by five selected Pharma companies in the areas like education, health and rural development. The study also focuses on expenditure/spending made towards CSR activities by Select Pharma Companies. The outcome of the research shows that spending of Dr. Reddy's Laboratories is higher for CSR activities as compared to other companies. It is near to 2% of average profit of the last 3 years as compared to other companies. Its focus area for CSR activities includes livelihoods, education, health, rural development, disaster relief and bringing dropouts and working children into the education system[7].
4. Yadav and Singh (2016) have studied impact of CSR on financial performance of four commercial (two public and two private) banks of India. They study impact of CSR on financial performance of banks by using regression model and considering net profit as key financial indicator. It was found from the study that the quantum of CSR expenditure in all selected banks is increasing but in public sector banks impact of CSR on net profit is insignificantly positive while in private sector banks impact of CSR on profit is significantly positive. Impact of CSR on overall banking performance differs individually[8].
5. Susruth (2017) examined the relationship between corporate social responsibility and firm's financial performance in India. The study is based on secondary data, collected from ten randomly selected Indian companies annual report and financial results for the period of four years. Researcher made an attempt to study the level of CSR initiatives taken by the Indian companies and its influence on the performance of the companies. The outcome of the study shows that there is a considerable positive relationship between the CSR and Financial performance of the firm, and firms spending on CSR not only benefits from continuous long

6. term sustainable development but also enjoy enhanced financial performance. Indian companies aware and spending more for society well-being, environmental protection, and health and education facilities and employees' betterment that operate effective CSR programmes[9].
7. Gupta et al. (2017) in their paper "Corporate social responsibility practices in India: A review of literature" reviewed the study done in a decade regarding implementation of corporate social responsibility practices in Indian organizations and its impact on their overall success in market as well as society. They studied variety of research articles from different journals, periodicals, newspaper and web and reviewed thoroughly at national and international level. The outcome of the study indicates that though there is lot of reporting and information available on CSR spending and CSR policy, but all the information of CSR has been demonstrated qualitatively till date. The amount contribution and its allocation among different activities have not been discussed in previous researches. There is a scope for future research to compare the financial performance before and after implementation of mandatory guidelines as per the section 135 of company's act, 2013[10].

[3] Research Methodology:

i. **RESEARCH STATEMENT**:
"A Study on Impact of Financial Performance on CSR of Selected Pharmaceutical Companies in India: An Empirical Study"

ii. **ABOUT THE RESEARCH PROBLEM:**
The idea of CSR is well explored, well known.The Indian pharma companies faces lack of research components and real time good manufacturing practices. This has always been a difficulty for the pharma industry. Pharma companies should build in such a way that they are equipped with better operational facilities and abilities. Indian pharma companies are not getting proper profits, their earnings are basically very low as compared to their counterparts in other countries such as the US. Their income is not sufficient enough to invest money on research component. The pharma industry is dependent on China for the supply of raw material for generic medicines production. India needs user friendly government policy for the common man to establish small scale, raw material manufacturing units/ incubators in all states of the country to improve availability of raw materials to manufacture generic drugs at affordable rates. The major problem for pharmaceutical company is public health like lack of adequate infrastructure, medical supplies and human resources by considering this thing, developing nations need to have some instruments for the sake of survival especially when they are doing business worldwide. The notion of CSR and FP are authoritative for the organization long run success and its good will. On these grounds, there is a matter of attention and there is knowledge gap so we believe that there is a need to study impact of Financial Performance on CSR among selected Indian pharmaceutical companies during 2017-2020.

iii. **RESEARCH DESIGN:**
Research design states the overall strategy adopted by the researcher where by overall components of the study are set out in the logical way. That effectively presents the problem of the study moreover it constitutes the collection, measurement and analysis of the data in the systematic way. For the study of analysis of CSR performance, researcher had used Descriptive research method for an empirical study. Motive behind choosing this tool is that this method is useful in describing the data that analyzed through study. Moreover, descriptive study can provide you the overall knowledge about the specific sector in an analytical way.

iv. **OBJECTIVES OF THE STUDY:**
- To identify CSR influences on Pharmaceutical Companies performance in terms of profitability.
- To examine CSR practices of pharmaceutical companies in India.
- To study the relationship between financial performance indicators like ROA, ROE, EPS and CSR Score of the Pharmaceutical Companies in India.

v. **HYPOTHESIS:**
H_1: There is no significant impact of ROA, ROE, EPS on CSR activities of selected

pharmaceutical company of India.

vi. **NATURE AND SOURCES OF DATA:**

The present study is based on data collected from secondary sources like the data obtained from the annual reports relating to the various financial performances of pharmaceutical sector firms, the data has also been augmented from websites, various books and journals.

vii. **SAMPLE SIZE:**

The research has been focused on top four companies on the basis of market capital.

Following companies were selected

Rank	Company	Market Capitalization June 2020 (INR crores)
1	Sun Pharmaceutical Industries Limited	1,164,151
2	Dr. Reddy's Laboratories	66,596
3	Divi's Laboratories Limited	61,282
4	Cipla Limited	51,645

viii. **TOOLS AND TECHNIQUES:**

This research is mainly based on secondary data and availability of data is very important for carried out this research. Data collection design consists of planning for collecting required data from adequate source. For this study, Researcher has used Secondary source of data Such as Companies websites, Journals and Annual Reports etc. Different scales will be used for data analysis like various financial ratios, Data tabulation and various technique in statistics like Co-relationship, regression are used.

ix. **PERIOD OF STUDY:**

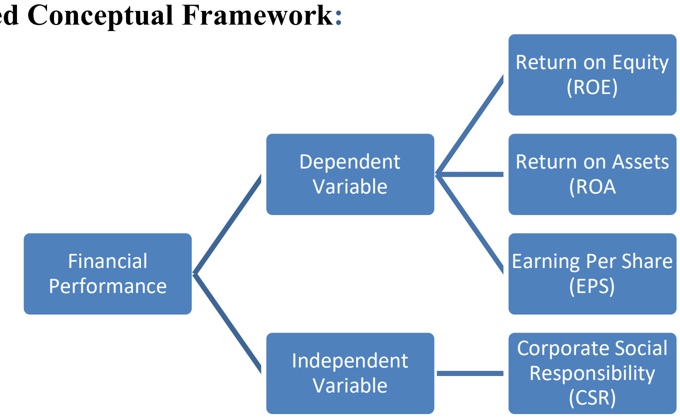
Present study is taken for the period of five year commencing from 2017 to 2020.

x. **RESEARCH VARIABLES:**

The main variable used in the study is CSR spent by selected pharmaceutical companies during the period of the study. Along with CSR spent also examined. To measure impact of CSR activities and spending on financial performance and profitability below mentioned variables have been used.

- ROE (Return on Equity)
- ROA (Return in Assets)
- EPS (Earning Per Share)

❖ **Proposed Conceptual Framework:**



[4] Data Analysis & Findings:

According to the nature of study and research objective, following model is applied to test the hypothesis:

a. $ROA=\beta0+\beta1CSR+\varepsilon$

b. $ROE=\beta0+\beta1CSR+\varepsilon$

c. $EPS=\beta0+\beta1CSR+\varepsilon$

Where, ROA symbolizes return on assets, ROE designates return on equity and EPS denote earnings per share have been taken as dependent variable whereas CSR symbols CSR treated as independent variable and **ε** is serving as an error term in the equation of the study. A statistical measure that attempts to determine the strength of the relationship between one dependent variable and independent variables. Regression analysis was used to calculate how much the percent change occurred by the independent variables on the financial performance in the Pharmaceutical Companies.

❖ **Regression Analysis:**

(1) Sun Pharma Company Ltd.:

Table:1 Summary Output:

Model	Multiple R	R Square	Adjusted R Square	Standard Error	Observations
1	0.997165461	0.994338956	0.977355826	0.57208787	5

The Multiple R indicates a strong correlation amongst CSR and ROA, ROE, EPS. Multiple R- Squared indicates how well the model or regression line "fits" the data. It indicates the proportion of variance in the dependent variable (CSR) explained by the independent variables (ROA, ROE, EPS). In this model of Sun Pharma Ltd, Multiple R is 99%. R-Squared indicates 99% of variation in the dependent variable explained by the independent variables. Adjusted R-Squared is 97%.

Table:2 ANOVA Analysis:

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	57.48617827	19.16205942	58.54862548	0.095707961
Residual	1	0.327284531	0.327284531		
Total	4	57.8134628			

From Table 2, it can be seen that the relation between CSR and ROA, ROE, EPS. However, considering 5% level of significance, p-value of multiple regression model is greater than 0.05 i.e., 0.09. It indicates that multiple regression model does not hold good. Alternative hypothesis is rejected. Null hypothesis is failed to rejected that there is no significant relationship between dependent & independent variables. P-values of T-statistics are also greater than 0.05 which indicates there is no relationship between CSR and ROE, ROA and EPS.

(2) Dr. Reddy's Laboratories:

Table:3 Summary Output:

Model	Multiple R	R Square	Adjusted R Square	Standard Error	Observations
1	0.986029509	0.972254194	0.889016774	2.863718863	5

The Multiple R indicates a strong correlation amongst CSR and ROA, ROE, EPS. Multiple R- Squared indicates how well the model or regression line "fits" the data. It indicates the proportion of variance in the dependent variable (CSR) explained by the independent variables (ROA, ROE, EPS). In this model of Dr. Reddy Laboratories Ltd, Multiple R is 98%. R-Squared indicates 97% of variation in the dependent variable explained by the independent variables. Adjusted R-Squared is 88%.

Table:4 ANOVA Analysis:

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	287.3711943	95.79039809	11.68049419	0.211099569
Residual	1	8.200885728	8.200885728		
Total	4	295.57208			

From Table 4, it can be seen that the relation between CSR and ROA, ROE, EPS. However, considering 5% level of significance, p-value of multiple regression model is greater than 0.05 i.e., 0.2111. It indicates that multiple regression model does not hold good. Alternative hypothesis is rejected. Null hypothesis is failed to rejected that there is no significant relationship between dependent & independent variables. P-values of T-statistics are also greater than 0.05 which indicates there is no relationship between CSR and ROE, ROA and EPS.

(3) Divi's Laboratories Limited:

Table:5 Summary Output:

Model	Multiple R	R Square	Adjusted R Square	Standard Error	Observations
1	0.996305245	0.992624142	0.970496569	2.286992887	5

The Multiple R indicates a strong correlation amongst CSR and ROA, ROE, EPS. Multiple R- Squared indicates how well the model or regression line “fits” the data. It indicates the proportion of variance in the dependent variable (CSR) explained by the independent variables (ROA, ROE, EPS). In this model of Divi Laboratories Ltd, Multiple R is 99%. R-Squared indicates 99% of variation in the dependent variable explained by the independent variables. Adjusted R-Squared is 97%.

Table:6 ANOVA Analysis:

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	703.8853435	234.6284478	44.85914995	0.109214823
Residual	1	5.230336467	5.230336467		
Total	4	709.11568			

From Table 6, it can be seen that the relation between CSR and ROA, ROE, EPS. However, considering 5% level of significance, p-value of multiple regression model is greater than 0.05 i.e., 0.109. It indicates that multiple regression model does not hold good. Alternative hypothesis is rejected. Null hypothesis is failed to rejected that there is no significant relationship between dependent & independent variables. P-values of T-statistics are also greater than 0.05 which indicates there is no relationship between CSR and ROE, ROA and EPS.

(4) Cipla Limited:

Table:7 Summary Output

Model	Multiple R	R Square	Adjusted R Square	Standard Error	Observations
1	0.899120471	0.808417622	0.233670488	3.747588737	5

The Multiple R indicates a strong correlation amongst CSR and ROA, ROE, EPS. Multiple R- Squared indicates how well the model or regression line “fits” the data. It indicates the proportion of variance in the dependent variable (CSR) explained by the independent variables (ROA, ROE, EPS). In this model of Cipla Ltd., Multiple R is 89%. R-Squared indicates 80% of variation in the dependent variable explained by the independent variables. Adjusted R-Squared is 23%.

Table:8 ANOVA Analysis:

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	59.26305866	19.75435289	1.40656225	0.538953738
Residual	1	14.04442134	14.04442134		
Total	4	73.30748			

Source: Calculated from Secondary Data.

From Table 8, it can be seen that the relation between CSR and ROA, ROE, EPS. However, considering 5% level of significance, p-value of multiple regression model is greater than 0.05 i.e., 0.538. It indicates that multiple regression model does not hold good. Alternative hypothesis is rejected. Null hypothesis is failed to rejected that there is no significant relationship between dependent & independent variables. P-values of T-statistics are also greater than 0.05 which indicates there is no relationship between CSR and ROE, ROA and EPS.

❖ **Correlation Analysis:**

	CSR	ROA	ROE	EPS
CSR	1			
ROA	0.553777	1		
ROE	0.64639	0.959326	1	
EPS	0.73249	0.751267	0.889206	1

Earnings Per Share of Pharma companies has highest positive correlation with CSR activities.i.e.,73% Meanwhile, when pharmaceutical companies give more attention to CSR activities, then automatically their earning per share is increase. ROE of pharma companies also has positive correlation with CSR activities and at 54% correlation between Return on Assets and CSR activities.

[5] Conclusion and Finding:

Development of the industrial sector is equally essential to the satisfied the need of the society. Nowadays, the concept of CSR has become more and more common in business practices and customers who expect companies to be socially responsible. Due to the increasing importance of CSR, a professionalization of CSR seems necessary. In the medium term, a certification of CSR could be a way to provide companies with the opportunity to demonstrate their engagement more clearly and reliably. During the research work the Correlation and regression models have been run. Correlation analysis is applied in quantifying the association between two continuous variables as a dependent and independent variable or among two independent variables and Regression analysis refers to assessing the relationship between the outcome variable(dependent) and one or more variables. With Similar results of studies exist regarding the impact of financial performance on CSR and therefore, Alternative hypothesis is rejected. Null hypothesis is failed to rejected and conclude that there is no significant relation of CSR reported and firm performance in terms of profitability (ROE, ROA, EPS).

Meanwhile P-values of T-statistics are also greater than 0.05 which indicates there is no relationship between CSR and ROE, ROA and EPS. From multiple regression analysis, finding shows about different co-efficient like ROA, ROE, EPS relationship with CSR. In Sun Pharmaceutical Industries Limited has positive relation between ROE and CSR (6.08%) and EPS and CSR (21.56%) and ROA has negative relation with 43.35%. In Dr. Reddy's Laboratories. has positive relation between ROE and CSR (4.42%) and EPS and CSR (1.07%) and ROA has negative relation with 14.60%. In Divi's Laboratories Limited has positive relation between ROA and CSR (27.83%) and EPS and CSR (2.12%) and ROE has negative relation with 26.55%. In Cipla Limited has positive relation between ROE and CSR (2.29%) and EPS and CSR (2.28%) and ROA has negative relation with 6.37%.

The findings suggest that, Returns on Assets has negative impact on Corporate Social Responsibility whereas, Returns on Equity and Earning Per Share has positive impact on Corporate Social Responsibility. CSR activity is still considered new dimension as a growth factor. Companies spent major portion of CSR in education and health care, followed by environmental and community development-oriented CSR activities. One more finding suggest that pharmaceutical companies spent their CSR fund in hospital infrastructure development, to provide ventilators, testing kits and PPE for frontline healthcare workers and in leadership program.

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