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CSR EXPENDITURE AND ITS IMPACT ON FINANCIAL PERFORMANCE IN INDIAN PHARMACEUTICAL COMPANIES

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ABSTRACT **DOI No: 10.36713/epra18220** **Article DOI: https://doi.org/10.36713/epra18220**

This study intends to analyze the financial performance and the pattern of CSR spendings of selected pharmaceutical companies India. The study focuses on a set of seven BSE listed companies. Data has been meticulously gathered from published statements of selected companies covering a span of seven years from 2015-16 to 2021-22. The primary financial performance metric considered in the study is Return on Capital Employed (ROCE). To ascertain the association among CSR expenditure and firm performance, we applied correlation analysis. The findings of the study indicates that higher CSR expenditure is correlated to lower ROCE in Abbott India and Divi's Laboratories.

KEYWORDS: ***Corporate Social Responsibility, CSR Expenditure, Financial Performance Pharmaceutical Companies.***

INTRODUCTION

Corporate Social Responsibility (CSR) also refers to corporate citizenship, business responsibility and socially responsible business, which represents a firm's techniques to focus on the environmental, economic and social issues within its operational activities. CSR helps to build a strong connection with the stakeholders including investors, customers, employees, regulators and public at large. In today's context the business houses concerned a lot about the sustainable practices. Sustainable practices by the business organization includes the ethical practices which promotes responsible business operations advancing the economy and the society. The CSR model signifies a commitment beyond profit contributing towards the society. CSR initiative includes promotion of human rights, protection of environment, responsible behavior, equitable development etc. By giving more importance towards the CSR practices, a business become more accountable and dedicated and also strengthening its position in the society. The well-managed business organizations now-a-days establish accountable and transparent behavior not only as legal requirements but also as an ethical practicing entity. The business organizations with ethical behavior may distinguish themselves from remaining business players and they can be perceived as ethical and trustworthy leading to increase market shares and stakeholders' support. As per Companies Act, 2013 firms having net worth equal to or more than Rs. 500 crore, or turnover equal to Rs. 1000 crore or more, or net profit equal to Rs. 5 crore or more have to devote 2% of their average profit of preceding three years.

Finally, CSR signifies a paradigm shift in business roles, where profit cannot be the sole parameter for sustainable practices without considering the people and planet. Therefore, CSR promotes a harmonious relationship between business and society.

LITERATURE REVIEW

Corporate social responsibility (CSR) is recognised on the idea that businesses have a greater responsibility to society than just making profits. CSR asks business

leaders to consider the impact of their decisions on environment and society. An ample number of studies was carried out on the corporate social responsibility and financial performance.

Bhunia and Das (2015) in their paper entitled "The Impact of Corporate Social Responsibility on Firm's Profitability- a Case Study on Maharatna Companies in India" attempted to analyse the impact of CSR on profitability. The data gathered from the published statements of the seven Maharatna companies for a period from 2004 to 2013. To observe the impact of corporate social responsibility on firm's profitability, correlation, simple regression and multiple regression analysis was used. The results display that corporate sector responsibility affect the firm's profitability positively in case Gas Authority of India Ltd. and negatively in case of other companies.

Yadav and Singh (2016) in their paper "Impact of Corporate Social Responsibility on Financial Performance of Indian Commercial Banks – An Analysis" have undertaken this study to find the impact of CSR on financial performance of selected banks as well as trends of CSR spends. The Result indicates that influence of CSR on overall banking performance is significantly positive but individually it's different.

Yusoff and Adamu (2016) studied how CSR is associated with financial performance of Malaysian companies during the period from 2009 to 2013. It was revealed that CSR has greater influence on the firm's performance and it also promotes the transparency to the stakeholders of the company.

Ranjan and Tiwary (2017) observed that Corporate Social Responsibility in the period of globalization, global competitiveness has increased and the organizations are trying to minimize their cost of productions.

Bafna (2017) explored the impact of CSR on the financial performance of companies. For this Correlation and regression and analysis have been used by the researcher to achieve the relationship. The result displays that CSR has a positive significant influence on Net Profit of the company.

Maqbool and Zameer (2018) concentrated on the association between corporate social responsibility and financial performance of Indian banks and established that CSR exerts positive effect on financial performance of banks in India.

Krishana (2018) observed that the substance of CSR is that the corporate should demonstrate concern towards various issues of the society, while focusing on wealth creation of its owners. Spending by companies on CSR is increasing consistently and has crossed Rs.100 billion (10.71% growth over the previous year) in FY 2017-18. It compares the CSR initiatives in public sector and companies within private sector.

Islam, S. R., Begum, N. N., & Hassan, M. (2018) conducted study to establish the significance of corporate social responsibility on financial performance in TWC. A positive linkage was established between CSR and CFP and TWC. Additionally, the study finally observed that CSR is one of the crucial elements to improve firm's financial performance.

Rahman and Chowdhury (2020) observed that CSR is found to have a strong positive impact on firm financial performancein Bangladeshi Pharmaceuticals companies.

Sharma, Sayyed and Nigam (2020) studied the influence of Corporate Social Responsibility (CSR) on the financial performance of few Indian Commercial Banks listed on stock exchange, for 5 years period from 2015-16 to 2019-20. This study employed cross-sectional model to recognize the impact of CSR expenditure on the financial performance. Financial indicators such as ROE, PAT, ROA, EPS, Operating profit margin, have been considered for financial performance metric and on the other hand CSR score has been considered. The result showed that CSR expenditure was positively related financial performance indicators of bank. Further, the results revealed that operating profits has been affected positively by CSR**.**

Raj Bahudur Sharma, Asha Sharma et. al (2021) studied the explanatory power of CSR on financial performance of companies belonging to manufacturing and service sector in India for ten years duration. The result of manufacturing sector revealed that ROE, ROA and ROCE have negative relationship whereas CSR has strongly and positively related to ROCE in service sector. Conversely, within manufacturing sector companies CSR score has no significant association with firm performance.

Abilasha N and Tyagi (2021) aimed to inquire the impact of corporate social responsibility on the financial performance of selected FMCG (Fast moving consumer goods) sector and pharmaceutical sector in India for a period from 2008-09 to 2018-19. The study acquired that CSR and financial variables has high degree of correlation and significant differences in FMCG sector whereas low degree of correlation and no significant differences in pre-CSR and post-CSR period in pharmaceutical sector.

Ray and Shantanu (2022) in their paper, "An Analysis on Corporate Social Responsibility Initiatives in India" observed a noteworthy difference in the amount spent on different CSR activities during 5 years period from 2016-17 to 2020-21. Additionally, a large portion has been spent on Education, different abled and livelihood followed by Health, hunger eradication, poverty, malnourishment, safe drinking water & Sanitation. Further, 12 out of 28 States and 1 out of 8 Union Territories in India received benefit of CSR practices throughout the study period.

From the above literatures, it can be agreed that there are limited studies which have analysed the association between CSR spending and financial performance of pharmaceutical companies. In this backdrop our research work aims at analysing the relationship between CSR spending and financial performance of pharmaceutical companies.

OBJECTIVES OF THE STUDY

The primary objective of the present exploration is to investigate the relationship between Financial Performance and CSR Spendings in Indian Pharmaceutical Companies. Additionally, the study also inspects the influence of CSR spendings on the financial performance of selected companies.

RESEARCH METHODOLOGY

The study embodies a sincere attempt to evaluate the alliance between CSR spending and financial performance of selected BSE listed pharmaceutical companies. It consists of seven pharmaceutical companies within BSE 200 index based on convenient sampling method. The study covers a period of seven years, spanning from the financial year 2015-16 to 2021-2022. To conduct this research, annual reports and accounts have been consulted to gather the secondary data. The primary financial performance measure considered in this study is Return on Capital Employed (ROCE). In addition, the trend and form of CSR spendings was chosen to assess and analyze its relationship with performance of these pharmaceutical companies.

List of selected pharmaceutical companies:

1. Aurobindo Pharma Limited
2. Abbott India Limited
3. Alembic Pharmaceutical Limited
4. Cipla Limited
5. Divi's Laboratories Limited
6. Dr. Reddy's Laboratories Limited
7. Sun Pharmaceutical Industries Limited

To accomplish the objectives, several statistical tools have been applied such as average, correlation and regression analysis. The ensuing hypothesis has been established to inspect the correlation between CSR spendings and financial performance of selected companies:

H_{01}: There is no significant association between CSR spendings and financial performance of selected companies.

H_{02}: There is no significant impact of CSR spendings on the financial performance of selected companies.

ANALYSIS AND INTERPRETATION

Table 1: CSR Expenditures of Pharmaceutical Companies (2016-2022) (in Crores)

Year	Companies						
	Aurobindo	**Abbott**	**Alembic**	**Sun Pharma**	**Divi's**	**Cipla**	**Dr. Reddy's**
2015-16	57	16.36	22.25	19.86	42.13	52.92	35.5
2016-17	83.57	13.88	17.6	26.95	34.35	42.8	36.1
2017-18	60.11	11.64	13.29	4.371	50.68	36.31	44.7
2018-19	46.6	11.29	14.28	3.94	28.37	33.42	44.4
2019-20	20	9.12	7.14	18.26	27.19	32.2	49.4
2020-21	19.36	7.14	4.22	7.19	24.51	28.25	42.9
2021-22	18.76	6.45	6.26	11.65	20.39	20.48	42.3
Average	43.63	10.84	12.15	13.17	32.52	35.20	42.19

Source: Annual Reports

The above table represents the CSR expenditures made by the selected pharmaceutical companies for the study period. Aurobindo pharma has an average CSR expenditure of Rs. 43.63 crores during the study period which highest among the rest of the selected companies. Dr. Reddy is the second highest company in terms of CSR expenditure which stood at 42.19 crores. Divi's and Cipla have their average CSR expenditures as Rs.32.52 crores and Rs.35.20 crores respectively. Sun Pharma has an average of Rs.13.17 crores during the study period. However, Abbott and Alembic have an average of Rs. 10.84 crores and Rs.12.15 crores respectively.

Table 2: Return on Capital Employed (ROCE) of Pharmaceutical Companies (2016-2022) (in %)

Year	Companies						
	Aurobindo	**Abbott**	**Alembic**	**Sun Pharma**	**Divi's**	**Cipla**	**Dr. Reddy's**
2015-16	22.52	20.68	6.8	-4.23	24.55	14.52	10.61
2016-17	25.92	19.28	7.22	0.9	25.03	9.17	13.14
2017-18	23.86	22.95	9.02	6.68	19.79	13.78	6.13
2018-19	19.25	33.64	10.66	10.12	25.48	15.63	13.34
2019-20	19.87	30.54	19.21	13.45	23.9	16.86	18.46
2020-21	25.69	33.6	1.91	8.15	27.28	16.75	18.17
2021-22	9.92	36.37	9.05	8.2	30.29	15.72	12.25
Average	21.00	28.15	9.12	6.18	25.19	14.63	13.16

Source: Annual Reports

Table 2 above shows the Return on Capital Employed of the selected pharmaceutical companies for the period. Abbott has highest Return on Capital Employed with 28.15%. Divi's laboratories has an average ROCE of 25.19%, whereas Aurobindo has 21%. Cipla has 14.63% of ROCE followed by Dr. Reddy's (13.16%) during the study period. Alembic and Sun Pharma have an average ROCE of 9.12% and 6.18%.

Table 3: Correlation Analysis of Return on Capital Employed (ROCE) and CSR Spending of Pharmaceutical Companies

Companies	r	p-value
Aurobindo	0.533679	0.2173
Abbott	-0.86771	0.0114
Alembic	-0.11376	0.8081
Sun Pharma	-0.5139	0.2381
Divi's	-0.86458	0.012
Cipla	-0.50493	0.2478
Dr. Reddy's	0.328861	0.4714

Source: own computation using MS-Excel

The table 3 above shows the results of correlation between Return on Capital Employed and Corporate Social Responsibility spendings within pharmaceutical companies. The result revealed a positive correlation (0.533) between CSR spendings and ROCE in Aurobindo pharma and the p-value (0.2173) suggests that the relationship is not significant at 5%. In Abbott India ltd. a strong and significant negative correlation (-0.86771) is found between ROCE and CSR, which indicates that CSR spending has decreasing trend while ROCE increases. Alternatively, a weak and insignificant association (-0.113) with a p-value (0.8081) was found between ROCE and CSR spending within Alembic pharmaceutical. The correlation coefficient of -0.5139 between ROCE and CSR spending with a p-value of 0.2381 within Sun Pharmaceutical indicates a moderate negative and insignificant correlation. A strong negative correlation (-0.86458) was found in Divi's laboratories and the p-value of 0.012 suggests that the relationship is statistically significant at 5 % level of significance. In case of Cipla limited the correlation (-0.50493) between ROCE and CSR is found to be negative but moderate and the p-value (0.2478) suggests that the relationship is insignificant. There is a weak positive and insignificant correlation between ROCE and CSR spending within Dr. Reddy's Laboratories.

Table 4: Result of Regression Analysis

Companies	Coefficient	R-Square	P-value
Aurobindo	0.1170	0.28481	0.2173
Abbott	-1.7032	0.75291	0.01137
Alembic	-0.0906	0.01294	0.80813
Sun Pharma	-0.3491	0.26409	0.23806
Divi's	-0.26	0.7475	0.01203
Cipla	-0.1286	0.25496	0.24776
Dr. Reddy's	0.28588	0.10815	0.4714

Source: own computation using MS-Excel

The regression results provide understanding about the effect of CSR spendings on ROCE within the selected pharmaceutical companies. The results of Aurobindo pharma revealed that the coefficient (0.1170) indicates an increase in every unit of CSR spendings, there is an increase in ROCE by 11.7%. The R-squared value 0.28481 suggests 28.48 % variation in ROCE. The coefficient of -1.7032 indicates that for increase of every unit in CSR spendings, ROCE decreases by 1.7032 units in Abbott India Limited. The R-squared value of 75.291% indicates that the model explains a significant part of the variability in ROCE. However, in case of Alembic pharma the coefficient value -0.0906 indicates that ROCE decreases by 0.0906 units for a unit increase in CSR spending and there is a very low variability in the model as the R-squared value stands at 0.01294. The coefficient of -0.3491 within Sun pharma indicates that for each unit increase in CSR spending, there is a decrease in ROCE by 0.3491 units. 26.409% of variability in ROCE is found in the model. The coefficient (-0.26) indicates that ROCE of Divi's laboratories decreases by 0.26 units for each unit increase in CSR. The high R-squared (0.7475) indicates that a large portion of variability is found in ROCE. Cipla limited with a coefficient value of -0.1286 units suggests that an increase in one unit of CSR spendings results in a decrease of about 0.13 units or ROCE on average. There is 25.496% variability is found in ROCE as indicated by the R-squared value (0.24776). Finally, In Dr. Reddy's laboratories, ROCE increases by 0.28588 units with an increase in each unit of CSR spending. The R-squared value (0.10815) suggests only 10.81% variation in ROCE.

CONCLUSION

The research work was undertaken to judge the impact of CSR spending on the financial performance of the selected pharmaceutical companies. The outcomes states that despite dissimilarities among selected companies a significant negative correlation and regression coefficient has been detected for Abbott Indian Limited and Divi's laboratories which suggests that higher CSR spending is associated with lower ROCE. Conversely, Aurobindo pharma and Dr. Reddy's laboratories showed either a positive correlation, though statistically insignificant, which indicates that CSR spending and ROCE have positive correlation.

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