

Where Indian Pharma Corporates Stand – Study With Reference To Corporate Governance Practices and CSR

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Abstract

Good governance entails responsibility and due regard to the expectations of all stakeholders (Kendall, 1999); not a single corporate can be evaluated on the basis of economic parameters only which is profit, but they are also to be judged by their social and economic contributions. CSR (Corporate Social Responsibility) has become buzz not in India but also in all over the world. After announcement of New Companies Act 2013, in most of the corporate and business debate it has become topic of discussion. No doubt that importance of CSR emerged ominously in last few years; Indian corporate sector has also witnessed the shift from philanthropic CSR to dedicated CSR activities⁵. CSR and Corporate Governance issues are now not limited to Board room but it is a tool to evaluate the strategic significance of corporate contribution towards inclusive growth. Companies have become more translucent and attentive towards their CSR goals and reporting of the same. This paper seeks to explore the trends in CSR practices among top five Indian pharma and healthcare listed companies. Here attempt has been made to draw the findings of whether companies engaging themselves in good CSR practices as per regulators guidelines are better at the performance and growth or there is no correlation between these two variables. Authors have theoretically understood the concept and trends at international and National level with the help of literature review and then researchers have made the empirical study of top Indian corporate houses by studying their CSR data of last five years. Research topic is bit exhaustive, that is why Researchers have used tables to conclude the research.

Keywords: Corporate Governance, Corporate Social Responsibility, Financial Performance, Performance, Pharma Companies

1. Introduction

Corporate Social Responsibility (CSR) has come a long way in last few years. In past few years many researchers have started writing and researching on Corporate Social Responsibility and its disclosure. The rising level of interest in CSR is also due to increasing importance of Corporate Governance to some extent⁵. In this research, researchers are trying to find the co-relation between spending in CSR and its impact on performance

of the company. From a business outlook, researchers often argue that Corporate Social Responsibility (CSR) can enhance the competitiveness of any firm (Burke & Logsdon 1996) but in the long-term this denotes an affirmative relationship between inclusion of CSR in business strategy of company and its financial achievement suggesting that there is a business item for Corporate Social Responsibility. While various researchers have tried to analyse the relationship between CSR and financial performance (Margolis & Walsh, 2003), this research will

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give generate mixed results as it is related to the top market capitalised companies may or may not be involve in efficient CSR practices. Knox and Maklan (2004) claimed in this context that the progress of CSR could well be reserved by “the lack of a systematic framework linking investment in these responsibilities to social or business outcomes” (Knox & Maklan 2004, 514pg).

A framework or approach that would allow companies to assess their business case for CSR on a company- and project specific level could facilitate the further implementation of CSR and support rational decision-making in this area (see also Epstein & Roy 2001). This paper therefore explores the question, how to measure the company specific value of CSR activities. Although the concept of CSR is widely discussed in theory and practice, there is no general agreement about its definition.

It has been observed in much literature that companies that are involved in CSR activities are not disclosing the data in detail manner and it results into poor disclosures. For example Indian regulators in the area of listed Companies have come-up with resolution to disclose all the strategies pertaining to CSR in an annual report as well as detail information related to CSR in Report of Corporate Governance, whereas researchers have seen that CSR related data – not in details- are found either in BRR (Business Responsibility Report) or Sustainability report of the company where they have given all qualitative information about CSR and not the quantitative.

1.1 Literature Review

Punit Arora and Ravi Dharwadkar¹⁰: The Moderating Roles of Attainment Discrepancy and Organization Slack where they found that effective governance has a symmetric effect on CSR and that it reduces both positive and negative CSR. Another finding was their results also suggest that greater relaxed and positive attainment discrepancy lead to higher positive and lower negative CSR. Finally, they found that the associations between effective governance and positive and negative CSR depend on the level of slack and positive attainment discrepancy.

Wright and Ferris (1997) revealed that there is no relationship between Corporate Social Responsibility and Financial Performance of the firm where as in the same year another study done by Posnikoff (1997) described a positive relationship between these two variables.

Although Welch and Wazzan (1999) drew findings from their studies that there is no relationship between

CSR and financial performance which is similar to McWilliams and Siegel (1997) who found inconsistent relationship between CSR and short run financial returns.

Another set of studies scrutinized the relationship between some measure of, Corporate Social Performance (CSP) and financial performance, which is for long term benefits. The studies that discover the relationship between social responsibility and accounting-based performance measures have also produced mixed results. Cochran and Wood (1984) located a positive relationship between CSR and accounting performance after monitoring for the age of assets. Aupperle, Carroll, and Hatfield (1985) noticed no significant relation between CSP and a firm's risk adjusted return on assets. In contrast, Waddock and Graves (1997) found significant positive relationships.

Urmila⁶ conducted study on Corporate Social Responsibility in India where researcher studied the various practices of CSR among Indian corporate and policy and governance from the part of government to understand the CSR initiatives from both the corporate as well as government side. Author concluded that corporate sustainability is recently evolved concept and amendments in company bills would benefit the government as well as majority of the stakeholders.

Mita Mehta and ArtiChandani⁵ in their paper titled: ‘An Empirical Study of CSR and CG with reference to Reliance Industries and Infosys Limited’, (2014) they have mentioned that importance as well as disclosure of CSR has been increased in Indian corporate after year 2006-2007, till that period CSR was treated as insignificant disclosure as a part of corporate governance disclosures-towards investors and general public. Findings can be drawn that importance of CSR has been increased after introduction of CG.

1.2 Importance of the Study

This study will identify the co-relation between CSR and Performance of the firm. For that researchers would like to explain the meaning and importance of the concept itself.

1.2.1 CSR-Corporate Social Responsibility

Corporate Social Responsibility as gained momentum post 1980. Earlier it was considered to be non-corporate function. For this research we would like to list few definitions to understand CSR in detail manner.

- According to Michael Hopkins¹: Corporate Social Responsibility is concerned with treating the stakeholders of a company or institution ethically or in a responsible manner. 'Ethically or responsible' means treating key stakeholders in a manner deemed acceptable according to international norms. Social includes economic and environmental responsibility. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation or the integrity of the institution, for peoples both within and outside these entities. It is a process to achieve sustainable development in societies¹.
- According to Carroll²: The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that a society has of organizations at a given point in time¹.
- EU Definition of CSR: "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis¹."

1.2.2 CG-Corporate Governance

Corporate Governance refers to the way in which corporations are directed and controlled (Shelifer and Visney). It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. CSR disclosures are more visible due to increasing importance of Corporate Governance by most of the regulators in different countries.

1.2.3 Financial Performance

Financial performance for this research means company's Net profit, EPS (Earning per share) and PE (Price Earnings Ratio) of the firm.

2. Methodology

2.1 Statement of Problem

In this research, the researchers are testing that there is significant co-relation between CSR activities of firm and its financial performance. That means companies which are engaged in more CSR activities are likely to have positively more financial performance than those which are not doing so.

2.2 Objectives of the Research

Following are the broad objectives of the research:

1. To study the CSR approach among Indian corporate sector
2. To study CSR disclosures among sample companies as a part of CG disclosures
3. To measure the impact of CSR on financial performance of corporate
4. To make suggestions for accelerating CSR initiatives.

2.3 Hypothesis

Ho- There is no correlation between CSR practices of corporate and its financial performance

H1- There is a correlation between CSR practices of corporate and its financial performance.

2.4 Research Methodology

For getting data on CSR as disclosure and financial performance of sample companies, researchers have used data which are on public domain like Annual report, BRR report/Sustainability report or website of the company.

2.5 Sample Selection

For this study five top Pharma companies are selected on the basis of their market capitalisation. Since these companies have been performing well on the financial grounds, this justifies their inclusion in the sample. Rational behind selecting top market capitalisation companies is that it represents the rest of the tendency of listed companies among the group. The inferences drawn out of this study can be applied to other listed Pharma companies.

2.6 Time Period of the Study

For this research time period from 2009 to 2014 has been selected. It means last five years' annual disclosures have been gathered, compiled and analysed for this study.

2.7 Sample Profile.

2.8 Criteria for Research

For this research, the first variable is CSR and another var-

able is performance of the company which is financial performance. Corporate Social Responsibility parameters are designed on the basis of mandatory as well as some non-mandatory guidelines issued under CSR Bill 2013. Along with Bill some clauses of Companies Act are also considered.

For CSR following criteria are taken and weightage are assigned as per their significance.

Table 1. Sample companies

Name of the Company	Market Capitalisation (as on Sept 2014) in Rs. (Cr.)	Share Price (current) in Rs
Sun Pharma	1,67,008.30	806.35
Lupin	61,650.21	1,373.35
Dr. Reddy's Lab	54,210.41	3,182.00
Cipla	49,331.49	614.40
Cadila Healthcare	26,614.24	1,299.85

2.8.1 Criteria for Research - CSR

Table 2. Criteria for research – CSR

Sr.no	Criteria	Weightage in %
1	CSR Disclosures in Annual report	10
2	CSR as Corporate Strategy	10
3	Role of Board of Director in CSR policy of company	10
4	Role of Independent Director in CSR	10
5	CSR as Board Agenda	10
6	Sustainability report and its content	10
7	CSR Committee	10
8	Financial disclosures of CSR activities	10
9	% of profit towards CSR activities	10
10	Inclusion of all stakeholders for CSR activities	10
Total		100

2.8.2 Financial Performance of the Company

Table 3. Financial Performance of the Company

Sr. no	Criteria	Weightage
1	Profit After Tax (Each Year)	50
2	Earnings Per Share	25
3	Share Price	25
Total		100

2.9 Methodology

After assigning the weightage, researchers have evaluated the disclosure on the basis of the quality of the disclosure. If disclosure is disclosed efficiently then score gets 100% of the weightage and if it is moderately disclosed then, between 50% to 75% of the assigned weightage, and if it is poorly disclosed then less than 50% of disclosure and if it is not disclosed then Zero is assigned.

- Researchers have taken the data from Annual report of last five years starting from 2009-10 to latest 2013-14 of each sample company.
- After collecting data score has been assigned on the basis of the quality of disclosure and then findings have been drawn .

3. Data Analysis

Researchers have used correlation method to understand the correlation between variables like CSR and PAT (Profit after Tax), CSR and EPS (Earning Per Share) and CSR and Share Price of the firm. Data has been collected from each year's Annual Report of the sample companies of last five years starting from Year 2009-10 to year 2013-14.

Table 4. Data analysis – cipla

Year	CSR (X)	EPS (in Rs.) (Y1)	PAT (in mil.) Y2	Share Price Y3 (in Rs.)
2009-10	12	13.5	10,826	323
2010-11	24	12.3	9,896	285
2011-12	40	14.3	11,442	371
2012-13	76	19.2	15,449	433
2013-14	90	17.3	13,884	600

Table 5. Data analysis – lupin

Year	CSR (X)	EPS (in Rs.) (Y1)	PAT (in mil.) Y2	Share Price Y3 (in Rs.)
2009-10	0	76.6	6,816	250
2010-11	20	19.3	8,626	384
2011-12	20	19.4	8,677	475
2012-13	81	29.4	13,142	910
2013-14	82	41	18,364	1387

Data are collected from the secondary sources which are Annual Reports, Website and Equity Research websites. Entire Data matrix has been presented in both tabular and Chart form. After Data collection Researchers have calculated correlation with the help of Microsoft Excel sheet. Finally Conclusion has been drawn on the basis of correlation results.

Table 6. Data analysis – sunpharama

Year	CSR (X)	EPS (in Rs.) (Y1)	PAT (in mil.) Y2	Share Price Y3 (in Rs.)
2009-10	10	65.2	13,511	134
2010-11	22	17.5	18,161	251
2011-12	20	25.7	26,567	361
2012-13	61	28.8	29,831	613
2013-14	62	15.2	31,415	818

Table 7. Data analysis – cadila

Year	CSR (X)	EPS (in Rs.) (Y1)	PAT (in mil.) Y2	Share Price Y3 (in Rs.)
2009-10	0	37	5,051	697
2010-11	22	34.7	7,110	769
2011-12	23	31.9	6,526	875
2012-13	76	31.9	6,535	678
2013-14	80	39.2	8,036	1308

4. Discussion

From Table 9 the correlation between CSR i.e. variable X with other variables Y1, Y2 and Y3 can be measured. Researchers have collected data and projected in form of table of each sample company to project the data and find the correlation between X with Y1, Y2 and Y3 to measure the impact of CSR on the performance of the company. While collecting the data from Annual Reports of the sample companies it has been observed that the importance of CSR has been increased in last three years where as data which has been collected for this study is of last five years. From year 2011 onwards most of the sample companies have started disclosing the CSR related information in their Annual Report and Business Responsibility/Sustainability Report. CSR disclosures are

Table 8. Data analysis - Dr. Reddy's lab

Year	CSR (X)	EPS (in Rs.) (Y1)	PAT (in mil.) Y2	Share Price Y3 (in Rs.)
2009-10	37	18.9	3,189	991
2010-11	52	59	9,989	1517
2011-12	56	76.7	13,009	1731
2012-13	76	89.9	15,268	2429
2013-14	80	115.4	19,632	3098

Table 9. Correlation between CSR and performance

Company	CSR and EPS	CSR and PAT	CSR and Share Price
SunPharma	-0.63956163	0.996256634	0.927103529
Lupin	-0.2809391	0.921456246	0.931906505
Dr. Reddy's Lab	0.958238	0.958494	0.975265
Cipla	0.88608886	0.885147404	0.911670924
Cadila Healthcare	0.07557581	0.702640004	0.519927794

more efficient in Cipla and Dr. Reddy's Lab as compared to other companies.

It is evident from the data collected from the sample companies that CSR disclosure and importance on CSR in corporate strategy has increased over the years and Company like Cipla and Dr. Reddy's Lab has significant score in CSR disclosure. Lupin had very poor disclosure before five years but after that it has started publishing the Business Responsibility Report data in their Annual Report¹¹.

Correlation among the sample companies and performance of the company is presented in Table 9 where researchers have projected calculated correlation of each firm presented as below.

The correlation coefficient between CSR and EPS is found to be negative in the case of Sunpharma and Lupin. Where as in all other companies, CSR has positive correlation between CSR and PAT as well as CSR and Share price.

Thus we can conclude that there is strong and positive correlation between CSR and performance

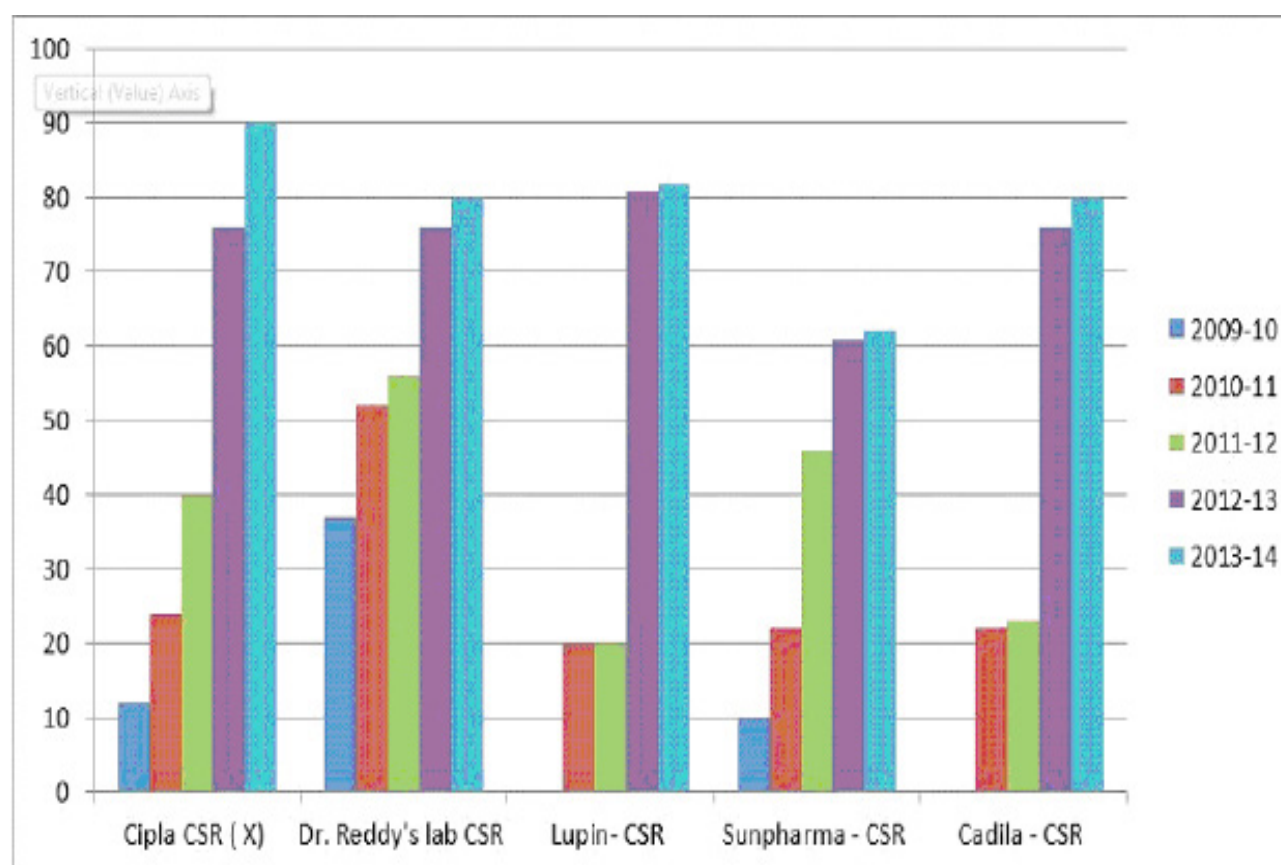


Figure 1. CSR disclosures among sample Pharma Companies of last five year.

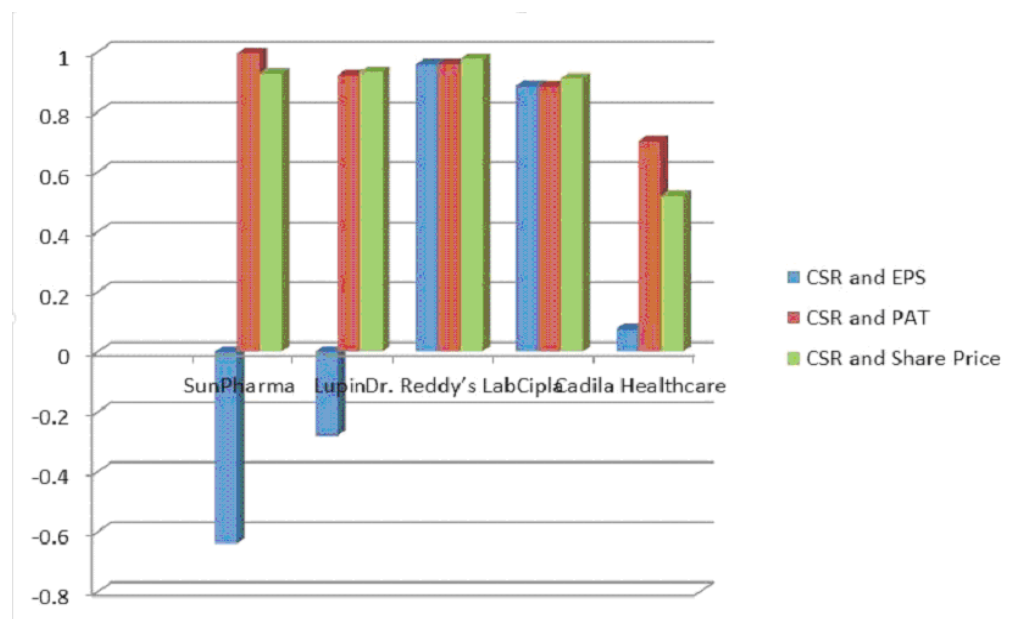


Figure 2. Correlation chart.

5. Limitations of the Study

1. This study is focused on Corporate Social Responsibility among top five Pharma companies listed on Indian Stock Exchanges hence study revolves around five companies only.
2. Study has data of last five years which can be expanded for further study.

6. Conclusion

From the research data analysis as well the statistical calculation derived from the data correlation it is proved that null hypothesis stands rejected and H1 stands accepted as there is positive correlation between CSR and performance of the company.

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