

## The Impact of Corporate Social Responsibility on The Company's Financial Performance A Study of Pharmaceuticals Firms of Peshawar Pakistan.

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### ABSTRACT

*The research is conducted about the impact of corporate social responsibility on the company's financial performance. Corporate social responsibility means to operate business in favor of society, to understand the actual needs of the society, to provide work place safety environment for the employees and create relationship among the firm employees and management, then the company can achieve its objectives in a competitive environment. The research gives information of pharmaceutical companies in Peshawar Khyber Pakhtunkhwa, concerning corporate social responsibility and its important positive impact on their productivity, reputation, customer loyalty and so on. The data was collected about corporate social responsibility and firms financial performance such as return on equity, return on sale and on primary resource. Respondents were the managers of the pharmaceutical companies in Peshawar. It has been analyzed that there is a strong correlation between dependent and independent variables, Which means that there is significant relationship between corporate social responsibility and firms financial performance.*

**Key Words:** Pharmaceutical firms, Social Responsibility, Company's Financial Performance.

### INTRODUCTION

Corporate social responsibility has been defined by Cochran & Wood (1984) that for sustainability and development this should be the commitment of good business to continue and sustain the behave of ethics and to improve economic development along with this improving the quality and standard of life style of work force and their families as well as community and society.

Roshima (2009) defines the corporate social responsibility as a concept where companies integrate environmental and social concern with business operation. It is divided by four major components, such as work place, market place environment, and community. Market place means when a company make relationship with customer, supplier and competitor. With having social policy, the employees' trust and retention will increase, customer attraction will increase, and community support as well. As a result of rising profit level, productivity also goes up.

The term corporate social responsibility arises in the academic level as well as in business level that captures the operation of the company and engages in the stake holder and ranging across large kinds of input, process of action and output (Waddock, 1997).

Many studies have found in form of theoretical and empirical literature. In this paper we are going to discuss whether the corporate social responsibility strategies result in the value creation or not. Number of companies that qualify social responsibility is moderate and the amount of

fund is large, the investor will put pressure on the stock price of these companies because under such condition the demand curve will go downward sloping instead of perfectly elastic (Ullmann, 1985).

In past, scholars inside the neoclassical economic tradition, proved theoretically that corporate social responsibility unnecessarily raises a firm's cost thus creating a competitive disadvantage vis-a-vis competitor (Juanita Oeyono, 2011).

urging from an agency theory perspective Chih Hung Chen, (2011) other researcher and professor says that with corporate social responsibility a company can obtain better resourcing, high skillful employees, better marketing products and services, and this may give you unforeseen opportunities, along with this positive social performance may reduce the level of waste within productive process (Juan-Gabriel, 2009).

Another theory tells that it may raise the level of reputation of the company. Another effective management of stakeholder relationship theory emphasizes that corporate social responsibility may also result in better financial performance Paul Dunn, (2009). According to Aupperle, (1985) corporate social responsibility has an impact on firm's financial performance.

### METHODOLOGY

As this research focused on the pharmaceutical companies of Peshawar, so from pharmaceuticals companies of Peshawar a sample of 10 companies was selected randomly for data analysis.

The Likert scale questionnaire was designed for collecting the data from the organizations i.e. pharmaceuticals, Peshawar Pakistan. Furthermore, the questionnaires were distributed among the managers of pharmaceuticals firms.

The number of participants who responded was 40. For data collection among 40 respondents of pharmaceuticals firms a research instrument was distributed. The response from respondents was 100% and regression and correlation analysis was conducted based on mentioned sample size.

### Theoretical Frame work of the study

There are two variables discussed in this study, i.e. independent and dependent variables. The below figure shows the variables that Financial performance is dependent upon Corporate social responsibility.



The theoretical frame work of the study includes all those variables that are identified along with co-relation, after applying the statistical tools. The strategic contribution, Personal credibility, Human Resource delivery and business knowledge are the independent variables and organization performance depends upon these four variables in study. Study identified the relationship among the above variables. On the basis of these variables a conclusion and recommendations are provided.

### Reliability of Scale (Pharmaceuticals Firms):

The below table shows the reliability of the data collected from two firms. The following scales show that the data collected from the pharmaceuticals firms is reliable and that the respondents answered accurately. Because the variables are exceeding from 70% which is the standard of acceptance for reliability.

This is the reliability statistic no. 1 which shows that there are six items to measure the financial performance. The value of Cronbach's Alpha is 0.813 which shows that scale is reliable

Table 1. Cronbach's Alpha

Pharmaceuticals Companies, Peshawar			
S.No	Variables	Cronbach's Alpha	No. of Items
1	Financial Performance	0.813	6
2	Corporate social Responsibility	0.718	19

The above reliability statistic table shows that there are 19 items to measure the corporate social responsibility, the value of Alpha is 0.718 which is reliable.

### Hypotheses of the study and Regression Analysis

An overview of the hypothesis related to the relationship between corporate social responsibility and financial performance was formulated. In order to test the hypothesis of the study regression equation was developed along with hypothesis. Study shows that there is significant relationship between the corporate social responsibility and financial performance.

#### Hypothesis 1:

H0. Corporate social responsibility has positive/ negative impact on financial performance and financial development

H1: corporate social responsibility has relation with financial performance growth and development.

Table 2. Regression Results For Variables of The Study.

Pharmaceuticals Companies Peshawar								
S.No	Dependent Variable	Independent variable	Adjusted R square	F	B	St. Error	t	P. Value
1	Financial performance	Corporate social responsibility	.658	122.442	.727	.066	11.065	0.000

Table 1 above shows significant relationship between the dependent and independent variables. It explains that the RG Pharmaceuticals financial performance has significant relationship with corporate social responsibility.

Table 2 shows that the overall model is highly significant for RG, Pharmaceutical Companies. Significant relationship exists between RG Pharmaceutical's financial

performance with corporate social responsibility (t-statistic = 11.065 and P-value= 0.000) which means corporate social responsibility has an impact on RG Pharmaceutical's financial performance.

### CORRELATION ANALYSIS

To check the presence of relationship amongst the explanatory variables and to explore the strength of associations between the variables, different guidelines have been suggested by statisticians and they classify the strength of association between variables.

Table 2. Correlation Analysis For Variables of The Study.

Pharmaceuticals Companies Peshawar				
S.No	Dependent Variable	Independent variable	r	R-Square
1	Financial performance	Corporate social responsibility	0.815	0.664

As shown in table 3, there is strong association between RG Pharmaceutical's performance and strategic contribution with correlation coefficient ( $r = 0.815$ ). For RG Pharmaceutical's performance and Human Resource delivery correlation coefficient is ( $r = 0.822$ ) which is high, which means that Human Resource delivery has a greater influence on RG Pharmaceutical's performance.

### CONCLUSION

Research finds that there is a significant relationship between the dependent and independent variables of pharmaceutical firms of Peshawar Pakistan. It means that the independent variables i.e. Corporate Social Responsibility has an impact on pharmaceutical firms financial performance. Furthermore, on the basis of research calculation, it has been found that the variable which is contributing for pharmaceuticals financial performance is Corporate Social Responsibility with correlation ( $r = 0.822$ ).

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