

A STUDY ON COMPARATIVE ANALYSIS OF RETURN ON INVESTMENT (ROI) BETWEEN FDI AND NON-FDI PHARMACEUTICAL COMPANIES IN INDIA

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Abstract

The Indian pharmaceutical industry has emerged as one of the most significant contributors to economic growth, attracting substantial foreign direct investment (FDI) while simultaneously supporting a large number of domestically owned firms. This study examines the Return on Investment (ROI) performance of FDI-based and non-FDI-based pharmaceutical companies operating in India. Using panel data techniques, including Fixed Effects and Random Effects models, the research investigates the influence of profitability, liquidity, leverage, and efficiency indicators on ROI. The findings reveal that the determinants of ROI differ across the two categories of firms. For FDI-based companies, efficient receivables management, represented by the debtor's turnover ratio, significantly improves ROI, whereas traditional financial indicators show limited influence. In contrast, Return on Equity (ROE) emerges as the most important determinant of ROI among non-FDI companies. The comparative analysis further indicates that non-FDI firms report a higher average ROI than FDI firms. The study highlights the importance of firm-specific characteristics and demonstrates that the factors driving investment returns vary according to ownership structure. The findings provide valuable insights for investors, policymakers, and corporate managers seeking to enhance financial performance and investment efficiency in the Indian pharmaceutical sector.

Keywords: Foreign Direct Investment, Return on Investment, Pharmaceutical Industry, Financial Performance, Panel Data Analysis, Return on Equity.

INTRODUCTION

The pharmaceutical industry is one of the most significant contributors to economic development, healthcare advancement, and industrial growth in India. Over the past few decades, the sector has witnessed substantial transformation due to technological innovation, globalization, and increased participation of foreign investors. Foreign Direct Investment (FDI) has emerged as an important source of capital, advanced technology, managerial expertise, and international market access, enabling pharmaceutical companies to enhance their competitiveness and operational efficiency. Simultaneously, several domestic pharmaceutical companies have continued to expand without significant foreign investment, relying on internal resources, local market knowledge, and indigenous capabilities.

LITERATURE REVIEWS

John H. Dunning (1993) argued that foreign direct investment enables firms to access advanced technology, managerial expertise, and international markets, which can improve organizational performance and competitiveness. The study emphasized that multinational corporations often transfer knowledge and best practices to their subsidiaries, leading to enhanced operational efficiency. However, the extent of performance improvement depends on the firm's ability to effectively absorb and utilize these foreign resources.

Beata Smarzyska Javorcik (2004) examined the influence of foreign ownership on firm performance in emerging economies. The findings revealed that firms with foreign participation generally exhibit higher productivity and better financial outcomes due to technological spillovers and improved management practices. The study further noted that foreign investment contributes to stronger resource utilization, which can positively affect profitability indicators such as ROI and ROE.

Eugene F. Brigham and Joel F. Houston (2019) highlighted that ROI is influenced by several financial factors, including profitability, asset utilization, liquidity management, and capital structure. Their work suggests that firms capable of efficiently managing receivables, inventories, and assets are more likely to generate superior returns on investments. The authors also emphasized that operational efficiency often plays a crucial role in enhancing shareholder value.

K. S. Chalapati Rao (2015) investigated the financial performance of Indian pharmaceutical firms and found that profitability and efficiency indicators significantly influence long-term growth. The study reported that firms maintaining effective working capital management and higher operational efficiency tend to achieve better financial performance. The research also highlighted the increasing importance of foreign investment in strengthening the competitiveness of pharmaceutical companies in India.

RESEARCH OBJECTIVE

To compare the Return on Investment (ROI) of FDI-based and non-FDI-based pharmaceutical companies operating in India.

RESEARCH METHODOLOGY

The data for this study has been sourced from the Capital Line database, covering a ten-year period from 2016 to 2025. Based on insights from the existing literature, only those companies that have remained consistently listed on the BSE throughout this period have been included in the analysis. This study relies entirely on secondary data, with all the necessary information sourced from the Capital Line database. The sample has been classified using the definition of foreign direct investment provided by the International Monetary Fund (IMF). Companies with foreign shareholding of 10% or more are treated as FDI firms, as this level of investment typically reflects a significant degree of influence or control. In contrast, companies with foreign ownership below 10% are categorized as non-FDI firms.

ANALYSIS AND INTERPRETATION

Compare the Return on Investment of FDI Based Companies and Non FDI Based Companies in Indian Pharmaceutical Sectors

Return on investment (ROI) plays a very different role in FDI and non-FDI companies. In FDI firms, ROI does not appear to significantly influence overall profitability, suggesting that these companies rely more on external advantages such as global expertise, technology, and strategic support rather than

internal return measures. On the other hand, in non-FDI companies, ROI tends to have a more meaningful connection with performance, reflecting the importance of efficient resource utilization. These firms depend heavily on how well investments are managed to generate returns. Overall, ROI is a stronger driver of profitability in non-FDI firms compared to FDI firms.

Return on Investment of FDI Based Companies

This model examines how firm-level financial factors influence FDI company ROI, while controlling for differences across individual firms. Overall, the model is statistically significant, meaning that the variables included do help explain variations in ROI. However, the explanatory power within firms over time is quite low (within $R^2 \approx 8.5\%$), suggesting that most changes in ROI are driven by factors not captured in the model

Table 1: Model 1: Fixed-effects, using 307 observation

Dependent variable: FDI Company ROI				
	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>
const	-2337.22	2283.24	-1.024	0.307
FDI Company ROE	0.974591	0.67759	1.438	0.1516
FDI Company ROA	-0.345249	1.16474	-0.2964	0.7672
FDI Company Current Ratio	817.061	535.893	1.525	0.1286
FDI Company Debt Equity	52.2129	65.9447	0.7918	0.4292
FDI Company Fixed Assets	1.3034	6.52416	0.1998	0.8418
FDI Company Inventory	0.25643	4.01393	0.06389	0.9491
FDI Company Debtors	390.401	141.376	2.761	0.0062***
FDI Company Total Asset	-672.196	362.671	-1.853	0.065
dt_2	459.33	2483.99	0.1849	0.8534
dt_3	-1074.64	2453.53	-0.4380	0.6618
dt_4	-276.652	2464.42	-0.1123	0.9107
dt_5	2355.67	2497.33	0.9433	0.3464
dt_6	313.588	2481.26	0.1264	0.8995
dt_7	1781.25	2467.4	0.7219	0.471
dt_8	541.773	2512.89	0.2156	0.8295
dt_9	2180.33	2497.07	0.8732	0.3834
dt_10	-278.315	2478.45	-0.1123	0.9107

Source: Author Compilation

Looking at individual variables: **Debtors Turnover Ratio** stands out as the only strongly significant variable. Its positive coefficient indicates that firms that collect receivables more efficiently tend to achieve higher ROI. **Total Asset Turnover** shows a weak negative relationship with ROI (significant at the 10% level), implying that higher asset utilization does not necessarily translate into better returns and may reflect inefficiencies or overutilization. Other variables such as ROE, ROA, liquidity (current ratio), leverage (debt-equity), and turnover ratios (inventory, fixed assets) are not statistically significant. This suggests they do not have a clear independent impact on ROI within firms over time. The test for group effects confirms that firms differ significantly from one another, justifying the use of a fixed-effects model. However, time effects are not significant, meaning that changes across years do not systematically affect ROI

Table 2: Model 2: Random-effects (GLS), using 307 observations

Dependent variable: FDI Company ROI				
	<i>Coefficient</i>	<i>Std. Error</i>	<i>z</i>	<i>p-value</i>
const	-512.749	2485.98	-0.2063	0.8366
FDI Company ROE	0.722911	0.51113	1.414	0.1573

FDI Company ROA	-0.0826609	1.12186	-0.07368	0.9413
FDI Company Current Ratio	483.286	427.879	1.129	0.2587
FDI Company Debt Equity Ratio	52.9279	67.7417	0.7813	0.4346
FDI Company Fixed Assets	0.793439	6.75603	0.1174	0.9065
FDI Company Inventory Turnover	0.056698	4.08452	0.01388	0.9889
FDI Company Debtors	271.379	124.384	2.182	0.0291**
FDI Company Total Asset	-611.812	358.227	-1.708	0.0877*
dt_2	530.021	2620.23	0.2023	0.8397
dt_3	-1014.89	2587.55	-0.3922	0.6949
dt_4	-19.5676	2592.84	-0.007547	0.994
dt_5	2726.35	2618.9	1.041	0.2979
dt_6	391.83	2605.3	0.1504	0.8805
dt_7	1845.52	2591.58	0.7121	0.4764
dt_8	-31.4125	2632.34	-0.01193	0.9905
dt_9	1647.25	2623.85	0.6278	0.5301
dt_10	-808.085	2607.46	-0.3099	0.7566

Source: Author Compilation

The random-effects model assumes that differences across firms are random rather than fixed. Here, the results are broadly similar. **Debtors Turnover Ratio** remains positively significant, reinforcing its importance in improving ROI. **Total Asset Turnover** again shows a weak negative effect. All other variables remain statistically insignificant. However, the overall joint significance of the explanatory variables is weaker in this model, indicating that, collectively, they do not strongly explain ROI variation under the random-effects assumption.

The Breusch-Pagan test confirms that panel effects exist (i.e., firm-level differences matter), so a panel model is appropriate instead of a simple pooled regression.

Table 3: Hausman test

Null hypothesis: GLS estimates are consistent
Asymptotic test statistic: Chi-square(8) = 7.11413 with p-value = 0.52437

Source: Author Compilation

The Hausman test result is not significant, meaning there is no strong evidence that the random-effects model is inconsistent. In simpler terms: Both fixed and random effects models are acceptable. Random effects may be preferred for efficiency, but fixed effects remain safer if you suspect firm-specific characteristics are correlated with the predictors. The results of the panel data analysis reveal that, in the fixed-effects model, firm-specific characteristics play a significant role in explaining variations in the return on investment (ROI) of FDI companies, although the overall explanatory power within firms over time remains relatively low. Among the explanatory variables, the debtors turnover ratio emerges as the only statistically significant determinant, exhibiting a positive relationship with ROI, which suggests that efficient management of receivables contributes to improved firm performance. Total asset turnover shows a weak negative association with ROI at the 10% significance level, indicating that higher asset utilisation may not necessarily translate into higher returns and could reflect underlying inefficiencies. Other financial indicators, including return on equity, return on assets, liquidity, leverage, and other turnover ratios, do not demonstrate statistically significant effects. The test for group effects confirms the presence of heterogeneity across firms, justifying the use of the fixed-effects approach, while time effects are found to be insignificant. In the random-effects model, the findings remain largely consistent, with debtors turnover ratio retaining its positive and significant influence on ROI and total asset turnover showing a marginal negative effect. However,

the joint significance of the regressors is weaker under this specification. The Breusch–Pagan test supports the presence of panel effects, validating the use of panel estimation techniques, while the Hausman test indicates no significant difference between fixed and random effects estimators, suggesting that the random-effects model is consistent and efficient. Overall, the findings highlight the importance of receivables management in enhancing ROI, while suggesting that other commonly used financial indicators may not have a direct and significant impact in this context.

Return on Investment of FDI Based Companies

The fixed effects model examines how changes within firms over time influence Return on Investment (ROI).

The joint test of regressors is highly significant ($p < 0.001$), indicating that the independent variables, when considered together, have a meaningful impact on ROI. Among all variables, **Return on Equity (ROE)** stands out as the only factor with a strong and statistically significant positive effect on ROI. This suggests that improvements in ROE are closely associated with increases in ROI. In contrast, variables such as Return on Assets (ROA), Current Ratio, Debt-Equity Ratio, and Asset Turnover do not show a significant influence on ROI in this model. The analysis finds no strong evidence of time-based effects on ROI. Most time dummy variables are insignificant, implying that ROI remains relatively stable across years. Only one period shows weak significance, suggesting a minor time-specific variation. The model explains a relatively small portion of the variation in ROI (Within $R^2 = 0.092$), meaning that about 9.2% of ROI changes are captured by the included variables. Despite this, the model as a whole is statistically significant. The test for group intercepts is significant ($p < 0.001$), indicating that individual firms have unique characteristics that affect ROI. This supports the use of a fixed effects model, as it accounts for these firm-specific differences.

Table 4: Model 3: Fixed-effects, using 969 observations
Dependent variable: Non FDI Company ROI

	Coefficient	Std. Error	t-ratio	p-value
const	-1930.84	65520.1	-0.02947	0.9765
Non FDI Company ROE	5075.89	988.308	5.136	<0.0001***
Non FDI Company ROA	608.725	1563.97	0.3892	0.6972
Non FDI Company Current Ratio	-1219.23	12611.3	-0.09668	0.9230
Non FDI Company Debt Equity	15.9060	185.093	0.08594	0.9315
Non FDI Company Fixed Assets	-47.3547	152.765	-0.3100	0.7566
Non FDI Company Inventory	-37.6437	163.233	-0.2306	0.8177
Non FDI Company Debtors	-6227.25	6625.98	-0.9398	0.3476
Non FDI Company Total Asset	-9351.01	27063.5	-0.3455	0.7298
dt_2	107499	57471.0	1.870	0.0618*
dt_3	-1865.09	57639.3	-0.03236	0.9742
dt_4	-4750.22	57664.3	-0.08238	0.9344
dt_5	9614.82	57863.0	0.1662	0.8681
dt_6	-7698.50	57956.5	-0.1328	0.8944
dt_7	-21105.4	58544.3	-0.3605	0.7186
dt_8	-7807.51	58384.1	-0.1337	0.8937
dt_9	9893.82	58213.1	0.1700	0.8651
dt_10	2055.35	58768.6	0.03497	0.9721

Source: Author Compilation

The random effects model assumes that differences across companies are random and not correlated with the predictors. ROE remains positive and highly significant, confirming its strong influence on

ROI. Debtors Turnover Ratio shows weak significance (at ~10% level). This suggests that better receivables management may slightly improve ROI. All other variables remain insignificant, similar to the fixed effects model.

Table 5: Model 4: Random-effects (GLS), using 969 observations
Dependent variable: NON FDI Company ROI

	Coefficient	Std. Error	z	p-value
const	38360.6	55733.3	0.6883	0.4913
Non FDI Company ROE	3993.08	879.276	4.541	<0.0001***
Non FDI Company ROA	186.649	1335.36	0.1398	0.8888
Non FDI Company Current Ratio	-2170.49	9068.56	-0.2393	0.8108
Non FDI Company Debt Equity	12.5362	180.831	0.06933	0.9447
Non FDI Company Fixed Assets	-43.1981	147.146	-0.2936	0.7691
Non FDI Company Inventory	-4.60270	151.266	-0.03043	0.9757
Non FDI Company Debtors	-8964.42	4787.01	-1.873	0.0611*
Non FDI Company Total Asset	-14152.4	19951.6	-0.7093	0.4781
dt_2	112032	57872.4	1.936	0.0529*
dt_3	-1465.87	57934.3	-0.02530	0.9798
dt_4	-7393.25	57979.5	-0.1275	0.8985
dt_5	1432.31	58100.9	0.02465	0.9803
dt_6	-12057.1	58137.7	-0.2074	0.8357
dt_7	-21275.0	58557.8	-0.3633	0.7164
dt_8	-14535.3	58413.4	-0.2488	0.8035
dt_9	4375.66	58291.4	0.07507	0.9402
dt_10	-3945.13	58641.4	-0.06728	0.9464

Source: Author Compilation

The joint test shows that all variables together significantly explain ROI. The Breusch-Pagan test is significant, indicating that random effects are present and the model is preferable over pooled OLS.

Table 6: Hausman test

Null hypothesis: GLS estimates are consistent
Asymptotic test statistic: Chi-square(8) = 17.6354
with p-value = 0.0241321

Source: Author Compilation

The Hausman test is significant ($p = 0.024$). This means the random effects assumption is violated. The estimators in the random effects model are not fully reliable. The Fixed Effects Model is more appropriate for this data. The most important determinant of ROI for non-FDI companies is Return on Equity (ROE). Other financial indicators (liquidity, leverage, efficiency ratios) do not show a significant direct impact on ROI in this analysis. Company-specific characteristics play a major role, which justifies the use of the fixed effects model. There is no strong evidence of time-based changes affecting ROI. The panel data analysis was conducted using both fixed effects and random effects models to examine the determinants of Return on Investment (ROI) for non-FDI companies. The results from the fixed effects model indicate that Return on Equity (ROE) has a positive and highly significant impact on ROI, suggesting that improvements in shareholders' returns are strongly associated with higher investment returns. In contrast, other financial variables such as Return on Assets (ROA), current ratio, debt-equity ratio, and various turnover ratios were found to be statistically insignificant, implying that they do not exert a meaningful influence on ROI within firms over time. The relatively low within R-squared value suggests that only a limited proportion of variation in ROI is explained by the included variables,

although the overall model is statistically significant. Furthermore, the significant test for differing group intercepts confirms the presence of firm-specific effects, justifying the use of the fixed effects approach. The random effects model produces broadly similar results, with ROE remaining a strong and significant predictor of ROI, while most other variables remain insignificant, except for a weak effect of the debtors turnover ratio. However, the Hausman test indicates that the random effects estimates are inconsistent, thereby favoring the fixed effects model as the more appropriate specification. Additionally, the insignificance of time dummy variables in both models suggests that there are no substantial time-specific effects influencing ROI. Overall, the findings highlight that firm-level characteristics play a crucial role in determining ROI, with ROE emerging as the most influential factor among the variables considered.

Comparative Analysis: FDI vs Non-FDI Based Companies

A comparison of the panel data results for FDI-based and non-FDI-based companies reveals notable differences in the determinants of Return on Investment (ROI), as well as similarities in overall model behavior. For FDI-based companies, the analysis suggests that operational efficiency particularly in managing receivables plays a crucial role in determining profitability. The debtors turnover ratio consistently emerges as a significant and positive factor in both fixed and random effects models, indicating that firms that collect receivables more efficiently tend to achieve higher ROI. In contrast, most other financial indicators, including profitability ratios (ROE and ROA), liquidity, leverage, and other turnover measures, do not show statistically significant effects. This implies that traditional accounting ratios may not be the primary drivers of performance in FDI firms. Additionally, the weak negative association of total asset turnover with ROI suggests that higher asset utilization does not necessarily lead to better returns, possibly reflecting inefficiencies or overinvestment. The presence of firm-specific heterogeneity and the insignificance of time effects further highlight that cross-sectional differences, rather than temporal changes, are more important in explaining ROI variations among FDI firms. The Hausman test indicates that the random effects model is appropriate, suggesting that unobserved firm-specific effects are not strongly correlated with the regressors.

In contrast, non-FDI-based companies exhibit a different pattern, where profitability specifically Return on Equity (ROE) is the dominant determinant of ROI. The strong and statistically significant positive relationship between ROE and ROI indicates that firms generating higher returns for shareholders are also more effective in translating investments into profits. Unlike FDI firms, operational efficiency indicators such as turnover ratios generally do not show significant effects, except for a weak influence of the debtors turnover ratio in the random effects model. This suggests that internal financial performance, rather than operational metrics, is more critical for non-FDI firms. The fixed effects model is preferred in this case, as indicated by the Hausman test, highlighting the importance of firm-specific characteristics that are correlated with the explanatory variables. Similar to FDI firms, time effects are found to be insignificant, indicating that macroeconomic or period-specific factors do not play a major role in influencing ROI.

Comparatively, the key distinction between the two groups lies in the nature of performance drivers. FDI-based companies appear to rely more on operational efficiency particularly receivables management while non-FDI companies depend more heavily on profitability indicators such as ROE. This difference may reflect variations in management practices, capital structure, and strategic focus between the two groups. FDI firms, often influenced by global practices, may emphasize efficiency in working capital management, whereas non-FDI firms may focus more on maximizing shareholder returns. Another important difference is the model preference and underlying assumptions. The suitability of the random effects model for FDI firms suggests relatively less correlation between firm-specific effects and explanatory variables, whereas the preference for fixed effects in non-FDI firms indicates stronger firm-level heterogeneity that directly influences ROI. Despite these differences,

both groups share certain similarities, such as the limited explanatory power of the included variables and the lack of significant time effects, implying that other unobserved factors may also be influencing firm performance.

Overall, the comparative analysis highlights that while both FDI and non-FDI companies are influenced by firm-specific characteristics, the channels through which these characteristics affect ROI differ substantially. FDI firms benefit more from efficient operational practices, whereas non-FDI firms derive performance primarily from profitability-related factors.

Hypothesis Testing Summary

H0: Return on Investment of FDI based companies is not superior than Non FDI based companies in Indian Pharmaceutical sector.

H1: Return on Investment of FDI based companies is superior than Non FDI based companies in Indian Pharmaceutical sector.

Table 7: t- test

<i>Comparison of Return on Investment (ROI) Between FDI and Non-FDI Companies</i>						
Group	N	Mean ROI	Std.Deviation	T-value	p-value	Decision
FDI Companies	307	1965.15	12508.16	-1.99	0.047	H ₀ Accepted
Non-FDI Companies	970	29228.33	426121.63			

Source: Author Compilation

The independent samples t-test results indicate a statistically significant difference in return on investment (ROI) between FDI and non-FDI pharmaceutical companies ($t = -1.99, p = 0.047$). The mean ROI of non-FDI companies ($M = 29228.33, SD = 426121.63$) is considerably higher than that of FDI companies ($M = 1965.15, SD = 12508.16$). However, the negative t-value suggests that FDI companies do not outperform non-FDI companies. Therefore, the null hypothesis is accepted, indicating that FDI-based companies do not have superior ROI in the Indian pharmaceutical sector.

CONCLUSION

The study investigated the determinants of Return on Investment (ROI) among FDI-based and Non-FDI pharmaceutical companies in India using panel data techniques. The findings reveal that the factors influencing ROI differ considerably between the two groups. For FDI companies, efficient receivables management emerged as the most important contributor to ROI, indicating that operational efficiency plays a critical role in enhancing investment returns. Most traditional financial indicators, including profitability, liquidity, and leverage measures, did not exhibit a significant influence on ROI.

In contrast, Non-FDI companies demonstrated a strong positive relationship between Return on Equity (ROE) and ROI, highlighting the importance of shareholder value creation and profitability in driving investment performance. The results also indicate that firm-specific characteristics significantly influence ROI in both groups, while time-related effects remain largely insignificant.

The comparative analysis further shows that Non-FDI companies recorded a higher average ROI than FDI companies. The independent sample t-test confirmed a statistically significant difference between the two groups, with Non-FDI firms outperforming their FDI counterparts. Consequently, the hypothesis that FDI-based pharmaceutical companies possess superior ROI was not supported.

Overall, the study concludes that operational efficiency is the key driver of ROI in FDI firms, whereas profitability remains the primary determinant in Non-FDI firms. These findings provide valuable

insights for managers, investors, and policymakers seeking to improve financial performance and investment outcomes in the Indian pharmaceutical industry.

RECOMMENDATIONS

Based on the findings of the study, several recommendations can be proposed for improving the Return on Investment (ROI) of pharmaceutical companies in India.

- 1) Pharmaceutical firms should strengthen their receivables management systems, as efficient collection of outstanding dues was found to positively influence ROI, particularly among FDI-based companies. Effective credit policies and monitoring mechanisms can improve cash flow and profitability.
- 2) Non-FDI companies should continue focusing on enhancing Return on Equity (ROE), as it emerged as the most significant determinant of
- 3) ROI. Efficient utilization of shareholder funds and prudent financial management can contribute to improved investment returns.
- 4) Both FDI and non-FDI companies should periodically review their asset utilization strategies. The weak negative relationship between total asset turnover and ROI in some cases suggests that higher asset deployment does not automatically translate into superior performance. Firms should ensure that investments in assets generate adequate returns.

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