ABSTRACT

The management of public companies drew attention in the era of growing corporate crimes. Corporate governance has become the buzzword in today’s world as a remedy for effective and efficient management of companies. There has been a consistent effort from different countries, consecutively, to standardize the governance system and make it more and more transparent and fair. Ownership pattern is an element having an important role in governance system. The internal governance practices such as board of directors, different committees, their composition, CEO-Chairman role duality etc. determine the quality of governance structure.

Pharmaceutical sector is a major industry in India. The governance affairs of this industry, nevertheless, are as important as the governance affairs in any other industries. The study is taken up to evaluate the governance structure existent in pharmaceutical sector. This study serves mainly three purposes. Firstly, to assess the internal governance practices such as ownership pattern, board composition, committees’ composition, CEO-Chairman role duality etc. in pharmaceutical companies. Secondly, to score the governance disclosure practices followed by pharmaceutical companies based on the mandatory and non-mandatory provisions of Clause 49 of SEBI’s listing agreement. Thus, as a result the study evaluated item wise and segment wise disclosure practices of pharmaceutical companies. And thirdly, to evaluate the inter-relationship between internal governance variables and their relationship with firms’ performance measure such as ROA, ROE, EPS, and Tobin’s Q.

The study findings revealed that there is no cent percent compliance with disclosure practices in sample companies. There is still scope for improvement in this regard. There found no much difference between governance practices and disclosure practices among large cap, mid cap and small cap segments of pharmaceutical industry. The relationship between ownership pattern and other governance practices, and relationship between these governance variables with firm performances are mixed and only few are proved to be statistically significant.

Based on these findings the study suggests to increase the shareholdings of non-promoter groups, non-executive and independent directors, separating the roles of
CEO and board’s chairman roles, incorporating changes in board’s review activities, boosting disclosure about subsidiary companies, strengthening mandatory disclosure practices, improvising non-mandatory disclosures like whistle blower mechanism, training to directors etc. Study also suggests regulators of stock market to pay more attention to the content and quality of corporate governance disclosures made by companies, strengthening vigilance and penalizing mechanisms etc.

The study has made an attempt to contribute to the exiting literature and tried to put light on the existing governance systems in pharmaceutical companies. It is essential for public companies, in any industry, to follow the regulatory standards to stand exceptionally good. Thereby, they can reap long term reputation among stakeholders and can sustain for long.