CHAPTER – VII
SUMMARY OF FINDINGS
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7.1 Introduction

This chapter presents major findings of the study resulted from data analysis discussed in previous chapter. The major findings are presented according to the internal governance practices, comparative internal governance practices, disclosure practices, and hypotheses testing.

7.2 Major Findings Relating to Internal Governance Practices

1. Promoter and promoter groups are the major shareholders who constitute more than 50% of the total shareholdings of pharmaceutical company. The variable has a mean value of 51.22%. The maximum proportion of promoter and promoter group shareholdings goes up to 79.65% of the total holdings. General public is the second largest shareholder group (mean value 24.86%) followed by body corporate, domestic companies, FIIs etc. Government shareholdings in pharmaceutical companies, is found to be meager with mean value 0.169% and maximum 4.59% (See Table 6.2, Chapter 6 for shareholdings of different shareholders, p. 142). The overall descriptive statistics show dominance of promoter and promoter groups in ownership pattern of pharmaceutical companies in India.

2. The major findings regarding board composition are that the boards in sample companies have at least fifty percent independent directors irrespective of nature of chairmanship. The mean number of independent directors in boards is 4.203, maximum 8 and minimum 2 (Table 6.2, p.142). And more than half of the sample companies are headed by executive chairman. On an average 56.78% (Table 6.3, p.144) companies have executive chairman during period of the study (Table 6.3, p.144).

3. Analysis shown that in the first three years of the study 30 (44.1%), 31 (45.6%), and 33 (48.5%) companies combined these roles and during fourth year i.e., 2013-14 exact half (34 companies) of the sample prone to CEO-Chairman role duality. In the following year the number is dropped again to 33 companies (48.5%). On the whole the mean score for role duality for five years is 47.34 (Table 6.4, p.145). It shows that a large number of pharmaceutical companies in India still prefer to combine these two roles regardless of the benefits associated with separation of the roles.
4. The analysis of audit committee composition shown that there is 100 percent compliance with the regulatory requirement of having minimum 3 members and to have at least 2/3 independent directors as members in their audit committees (Table 6.2, p.142). Audit committees in all sample companies have independent directors as chairman (Table 6.5, p.146). And on an average audit committees meet 4 times in a year (mean 4.214), maximum 6 times and minimum 0.2 times in few cases.

5. Having remuneration committees is a non-mandatory provision. Analysis shows that not all sample companies have remuneration committee. The minimum number of independent directors is 3 and the maximum number may go up to 5 directors. Thus, found that companies have voluntarily formed remuneration committees with minimum of three independent directors as members to avoid interference of executive directors. All pharmaceutical companies which disclose the details of remuneration committee (2010-11: 69.10%, 2011-12: 69.10%, 2012-13: 72.10%, 2013-14: 79.4% and 2014-15: 82.40%) (See Table- 6.6, p.147) have disclosed that an independent directors acts as the chairman of remuneration committee. It is found to be in compliance with respective non-mandatory requirement.

6. A large number of companies have independent chairman of shareholder grievance committee for all the five years of the study. They were 95.58%, 94.11%, 97.05% (each for last three years) from 1 to 5 years. In line with remuneration committee, the missing values represent non-formation of shareholders committee and also inadequate disclosure of information (Table 6.7, p.148).

**7.3 Major Findings Relating to Comparative Internal Governance Practices**

7. Table 6.8 (p.149) shows segment wise comparison of internal governance practices. Study found that promoter shareholdings dominate the ownership pattern in large cap, mid cap and small cap companies. They hold nearly half of the total shareholdings. It is more among mid cap companies (58.73) and less among small cap companies (47). Rest of the holding is constituted with different types of shareholders. General public, body corporate, and domestic companies prefer to invest in small cap companies. And Foreign Institutional
Investors, OCBs, and NRIs prefer to invest in large cap companies. There found reluctance among mutual funds, insurance companies, venture capitalists, banks and financial institutions to invest in small cap segment.

8. Large cap companies found to have big boards and more executive directors than mid cap and small cap companies. However, the no. of independent directors in large cap segment is very less. Mid cap companies and small cap companies appoint higher proportion of independent directors. And small cap company boards tend to meet more number of times in a year.

9. Small cap segment has shown to have good practice with regard to the separation of CEO and boards’ chairman positions than companies in large cap and small cap segments (Table 6.9, p.151). This is a good sign of governance practice.

10. With respect to audit committee composition, there found no much difference among three segments with respect to the total no. of directors appointed to audit committee. The proportion of independent directors is slightly more in mid cap segment than large cap. Small cap companies have less than 3 independent directors in the committee. And audit committees of large cap companies holds more meeting than mid cap and small cap companies.

11. The composition of remuneration committee among three segments is not significantly different. But, the no. of times the committee met in a year is highest for small cap segment (9.88) (Table 6.8, p.149).

12. Large companies have larger shareholders grievance committees. Mid cap companies have appointed more executive directors (1.32) which is around 0.95 for mid cap and small cap companies. And small cap companies lack proper disclosure about shareholders grievance committee.

7.4 Major Findings Relating to Disclosure Practices:

13. There is higher compliance with disclosure of ‘company’s philosophy on corporate governance’ among all other disclosure requirements. On an average, 97.93% out of 68 companies have disclosed their ‘philosophy on corporate governance’ in corporate governance section for five years of the study. In the year 2013-14 the disclosure score is 100% (Table 6.10, p.154).

14. Majority of the companies (80.395%) (Table 6.11, p.155) disclose the ‘board of directors’ composition details. Among eight sub-items under this variable,
‘disclosure of number of board meetings’ and ‘dates of board meetings held’ are disclosed by almost 98% of the companies. Whereas, the ‘disclosure about periodical review of compliance reports of all applicable laws by the board’ has scored least score (less than 51% during study period) among all other sub items. This variable has got an average score of 80.40% for five years.

15. 73.89% of sample pharmaceutical companies disclose information about ‘code of conduct’. Among four sub-items under the head, majority (83.52%) companies disclose ‘directors and senior management’s affirmation on compliance with code’. And only half (52.34%) disclose ‘the display of code of conduct on company’s website’ (Table 6.12, p.159).

16. The study found only few companies following the disclosure requirements relating to items such as ‘financial literacy of all members and financial & accounting expertise of at least one member’ (39.99%), ‘disclosure about finance head’s attendance in committee meetings’ (33.23%), ‘attendance of statutory auditor or their representative in committee meetings’ (49.77%), ‘Disclosure about internal audit head attendance in committee meetings’ (45.87%), ‘company secretary acting as secretary of audit committee’ (53.52%), ‘disclosure of committee powers’ (49.99%) (Table 6.13, p.162).

17. The disclosures about ‘subsidiary companies are found to be poor in sample companies (average disclosure percentage is below 18%) (Table 6.14, p.167).

18. All sample companies include Management Discussion and Analysis report in corporate governance section and all companies have pre-appointment disclosure by non-executive directors about shares held by them in appointing company is followed by all sample companies (100%), showing companies concern to assess the financial interest of such directors with the company before their appointment. However, found less compliance with disclosure of no. of shares and convertible instruments held by present non- executive directors, and their pecuniary relationship with company. But, very fewer companies disclose the ‘details of fixed component and performance linked incentives paid to directors along with performance criteria’ (7.35%), ‘disclosure of details of service contract, notice period and severance pay’ (8.23%), ‘disclosure of proceeds from public, right, and preferential issues (if any) and their utilization and name of monitoring
agency’ (15.87%), ‘disclosure of stock option details’ (27.05%), ‘disclosure of risk assessment and minimization procedure’ (30.29%), ‘application of different accounting treatments which are different from that of accounting standards (if any)’ (34.70%), ‘disclosure of no. of shares and convertible instruments held by non-executive directors’ (42.93%), ‘disclosure of pecuniary relationship of NED with company’ (48.81%), and ‘disclosure by senior management about significant transactions in which they have personal interest conflicting with the interest of co.’ (50.29%) (Table 6.15, p.170).

19. 96.16% of the sample companies have formulated a separate committee to look after the investors’ grievances and complaints (Table 6.16, p.177). However, the

20. There are seven disclosure requirements that come under the head ‘general body meeting’. Among all these seven sub-items, disclosure about the location and time of last three annual general meetings are disclosed by 97.34% of companies. It shows high disclosure compliance. And 69.99% of the sample companies follow the disclosure about special resolution passed in last three AGMs (Table 6.17, p.180). However, the study found inadequate disclosure about postal ballot procedure, person conducting it and details of voting pattern in postal ballot.

21. 95.28% companies disclose that they communicate the quarterly results to the stock exchanges. And there is high level disclosure about the newspapers and websites that communicate company results. But, only 19.70% companies have disclosure about presentations made to institutional investors and analysts (Table 6.18, p.182).

22. The average score for ‘general shareholders information’ is 76.36% (Table 6.19, p.185). The disclosure score for date, time and venue of AGM, financial year, date of book closure, stock exchanges where company is listed, company stock code, stock data of each month, names of registrar and share transfer agents, shareholding distribution pattern and company addresses for communication is above 90%.

23. 96.46% disclose that a certificate by auditor or practicing company secretary on the conditions of compliance are annexed to the directors’ report and are sent to shareholders and stock exchanges. Another disclosure showed that 67.93% companies have disclosure about the certificate by CEO/MD and CFO.
about review of the correctness of financial statements, intimation about changes in internal control system, and their acceptance of responsibilities for establishing and maintaining internal controls for financial reporting (Table 6.20, p.189).

24. It is found that only 43.82% (Table 6.21, p.190) of the sample companies disclose that the company has allowed its independent directors to serve tenure of nine years in aggregate. And 44.41% companies ensure the requisite qualification of a person to be appointed as independent directors prior to such appointment. This shows inadequate disclosure compliance with these two sub-items under head ‘the board’ under non-mandatory disclosure requirement.

25. 89.99% of the companies have complied with non-mandatory requirement of formulating remuneration committee to determine the remuneration of executive directors on behalf of the board. Amongst the firms who have formulated remuneration committee, only 90.52% companies met the requirement of having minimum of three non-executive directors as committee members and 93.14% companies have met the requirement of appointment of independent director as chairman of the committee. 50.28% companies disclosed that all committee members present at meetings and 69.40% companies disclosed that committee chairman attended AGM to answer shareholders queries (Table 6.22, p.192).

26. It is found that very less companies (average score 16.76%) (Table 6.23, p.194) are sending (voluntarily) half yearly declaration of financial performance and summary of significant transactions to each shareholder.

27. On an average only 17.64% of sample companies have moved towards the system of unqualified financial statements (Table 6.24, p.194).

28. Only 13.23% (Table 6.25, p.195) of the sample companies have system that provides training to board members on company’s business model, risk profile, directors’ duties, and responsibilities.

29. Only 22.35% of pharmaceutical companies have peer group evaluation mechanism and all of them determine the extension or continuation of directors terms of reference based on the peer group evaluation (Table 6.26, p.196).
30. Whistle blowing mechanism is one of the crucial non-mandatory requirements of clause 49. 33.23% of the sample companies have established whistle blowing mechanism that enable employees to report the wrong doings to superiors and designated authority. However, the disclosure shows that only 26.75% (of total sample) companies appropriately communicate the existence of the mechanism to employees (*Table 6.27, p.197*).

31. On the whole, based on the ranks assigned to the major heads of mandatory requirements each containing a number of sub-items (*see Table 6.29, p. 202*) based on the average mean values for five years (the study period) there found excellent disclosure about the company’s philosophy on corporate governance which has mean value of 97.94. The disclosure about board of directors, shareholders committee, general shareholder information, and certificates on compliance are satisfactory (mean values between 76 & 90) and the disclosure about code of conduct, audit committee, disclosures and means of communication are good (mean value between 51 & 75). And there found average (mean value between 31 & 50) disclosure about general body meetings and poor (mean value below 30) disclosure about subsidiary companies (mean value of 12.15).

The rankings of non-mandatory items based on mean values show that disclosure about remuneration committee is good (mean value 75), disclosure about ‘board’ (mean value 48.92) is moderate, and the disclosures about shareholders rights, audit qualification, training to the board members, performance evaluation of non-executive directors, and whistle blower policy are poor (mean values below 30) (*Table 6.30, p. 203*). It implies that companies are hesitant to follow non-mandatory requirements of corporate governance. And only few companies comply with these provisions voluntarily.

32. One way ANOVA is used to compare mean disclosure score among large cap, mid cap and small cap companies. The ANOVA results (*Table 6.53, p.239*) show a p value 0.224 for mandatory items and table 6.56 (*p.237*) shows one-way ANOVA results for non- mandatory items (p=0.380). The p values for both items are insignificant at 0.05 level. Hence, it implies that there is no significant difference between three segments of the sample companies with
respect to disclosure compliance with mandatory items as well as non-mandatory items.

7.5 Major Findings Relating to Hypotheses Testing:

33. Correlation analysis shows that there is statistically significant inverse relation between non-promoter shareholdings and number of independent directors in the board (p=0.029 < 0.05) (Table 6.34, p.208). Promoter and non-promoter shareholdings have significant relationship with number of times the board meets. Table 6.37 (p.211) shows a statistically significant inverse correlation between promoter shareholdings and board meetings p value 0.004 being less than 0.05 and table 6.38 (p.212) shows statistically significant positive correlation between non-promoter shareholdings and no. of board meetings (p value 0.022 < 0.05).

34. The concentration of ownership in the hands of promoters and promoter groups has negatively influenced the number of times audit committees met during the financial year. There is moderate inverse relationship (-0.423, p=0.000) between promoter shareholdings and number of audit committee meetings (Table 6.41, p.215). It is significant at 0.001 significance level.

The study found that there is no significant relationship between ownership pattern and number of executive, non-executive, and independent directors. And ownership type does not have any significant impact on role duality of CEO and board chairman.

35. Multiple regression analysis showed that shareholdings of different classes of investors have greater influence on EPS (R= 0.570) and Tobin’s Q (R=0.633). ROE, Earnings per equity share of the companies and the firm values are positively affected by shareholdings of mutual funds, UTI and insurance companies than return on assets. The shareholdings of mutual funds, UTI, and insurance companies have positive relationship with ROE (r 0.202, sig. 0.05), EPS (r 0.326, sig. 0.004) and Tobin’s Q (r=0.227, sig= 0.032) (Table 6.45, p.222).

36. While shareholdings of banks, financial institutions, and venture capitalists have weak positive relationship (r 0.236, sig. 0.027) with earnings per share, it
has moderately positive relationship ($r = 0.483$, sig. 0.000) with Tobin’s Q (Table 6.45, p.222).

37. ROE (-0.248), ROA (-0.207) and Tobin’s Q (-0.263) have weak inverse relationship with the shareholdings of body corporate and domestic companies that are significant at 0.05 level of significance. So, an increase in this groups shareholdings result in reduced ROE, ROA, and Tobin’s Q (Table 6.45, p.222).

38. NRI/ OCB/ FIIs shareholdings have moderate linear relationship with earnings per share (0.460) and Tobin’s Q (0.454). Shareholdings of Government related agencies have a moderate linear relationship (0.431) with earnings per share (Table 6.45, p.222).

39. The size (total number of directors) of the board found to have moderate impact on EPS ($r = 0.355$, p value 0.001< 0.05). The number of executive directors in the board found to have statistically significant (at 0.05) impact on ROE and ROA and number of independent directors have significant positive impact on EPS ($r=0.426$, p=0.000) (Table 6.46, p.226).

40. There is statistically significant impact of size of audit committee on EPS (p=0.001<0.01) & Tobin’s Q (P= 0.024<0.05). Executive directors in audit committee have inverse (p= 0.009<0.01) effect on Tobin’s Q. The relationship between non-executive directors in audit committee and ROA is negative (p=0.010) (Table 6.47, p.228).

Proportion of independent directors in audit committee has statistically significant influence on all performance measures. They have p values ROA (0.037), ROE (0.041), Tobin’s Q (0.025) significant at 0.05 significance level and EPS (0.001) significant at 0.01 level of significance. Number of audit committee meetings held has weak positive impact of EPS (p=0.009<0.01) and Tobin’s Q (p= 0.049<0.05) (Table 6.47, p.228).

41. The number of non-executive directors in remuneration committee has inverse relationship with ROA (p=0.006) and EPS has proven to have statistically significant influence by number of independent directors in remuneration committee (p=0.028) and by committee meetings (p=0.012) (Table 6.48, p.230).
42. The shareholder grievance committees found to have no significant influence on performance measure except committee size (positive impact on Tobin’s Q with p value 0.030) and number of non-executive directors (inverse impact on ROA with p value 0.011) (Table 6.49, p.232).

43. The regression analysis shows no statistically significant relationship between role duality and firm performance (Table 6.50, p.234). Hence, it is proved that the financial performance of pharmaceutical companies is not affected by the role duality of CEO and board’s chairman.

7.6 Summary

The descriptive analysis showed that ownership pattern in pharmaceutical companies in India is majorly dominated by promoter and promoter groups. Study also revealed that there is no cent percent compliance with disclosure practices in sample companies. Some of the mandatory disclosure practices are inadequate. 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.