CHAPTER – VIII
SUGGESTIONS AND CONCLUSION
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8.1 Introduction

The governance reforms aim to improve corporate governance among listed companies. There has been a surge of organized efforts in the form of committees’ recommendations and codes in India. Clause 49, in India, is one such regulatory measure of corporate governance in listed companies. Researcher made an attempt to evaluate corporate governance in pharmaceutical sector. The findings of the study show scope for further improvement in some aspects of companies’ governance in pharmaceutical sector. Following section gives few necessary suggestions in this regard. These can be applied to pharmaceutical companies in particular and all listed companies in general.

8.2 Suggestions in Particular

- Suggestions to improve internal governance practices and disclosure practices

1. Increasing the shareholdings of non-promoter groups

The ownership of selected pharmaceutical companies is found to be dominated by promoters and promoter group. General shareholders and institutional shareholders have fewer holdings. The concentration of holdings gives promoters controlling rights over others, which proved to have influence on board activities such as board meetings. On the other hand, non-promoter groups have influence on financial performances and institutional shareholders activism is beneficial for companies’ better performance as observed. Thus, pharmaceutical companies are advised to increase the proportionate shareholdings of institutional shareholders and general public.

Based on the comparative analysis of ownership pattern among three segments we can suggest the companies in small cap segment to analyze the reasons for institutional shareholders (mutual funds, insurance companies, venture capital companies etc.) reluctance to invest in those companies. As the governance practices are low among them, it may be one of the reasons for less shareholding of institutional investors in small cap companies. Further, NRIs, OCBs and FIIs have not shown interest in mid cap (5.33) and small cap segments (3.17). Their holding is nearly four times more in large cap companies. Companies in mid cap and small cap segments
should consider the importance of these shareholders and take necessary actions to boost up their holdings.

2. Increasing the proportion of non-executive and independent directors

Cadbury committee recommends having sufficient number of non-executive directors with good caliber which brings significant power to board decisions. However, it is found that most of the pharmaceutical companies maintain only the minimum required ratio of non-executive directors and independent directors in their boards and audit committees. This implies that companies have given importance just to meet the regulatory requirement. Companies should realize the benefits of having more non-executive and independent directors that are beyond just complying with regulation.

Large cap segment companies are suggested to infuse more independent directors to their boards as it is comparatively less than other two segments of the companies. The audit committees of large cap companies are found to have all non-executive directors. But, it is more among mid cap companies. Hence, they are suggested to decrease executives appointment to audit committees. Though there is no much difference between three segments with respect to remuneration committee, shareholders grievance committee composition, companies are suggested to make these practices more effective to reap its long term benefit.

3. Separation of CEO/ MD and BOD chairman’s roles

A larger proportion (47%) of selected companies appointed their CEO or Managing Director as chairman of their boards. So, companies should separate these roles and independent directors should chair boards that add up to the independence of the boards.

Comparative analysis of three segments showed inadequate practice with respect to role duality aspect among large cap and mid cap companies than small cap companies. Thus, it can be suggested to companies to improvise the practice of separating the two roles and reap its benefits.

4. Posting the code of conduct in websites

Pharmaceutical companies are suggested to communicate the code of conduct in their websites. These are imperative guidelines for directors, management, and
employees. But, the availability of codes in companies websites have not been adequately disclosed in corporate governance reports though majority companies have codes. Hence, it becomes necessary disclosure to reach many.

5. Improvise the audit committee disclosures

Pharmaceutical companies should improve disclosures about financial literacy and financial and accounting expertise of committee members. Because, the proficiency of audit committee members is an essential factor influencing the committee functions, quality of financial and auditing work. The disclosure of role and the powers vested with audit committee in corporate governance section is lacking that necessarily be improved as an effective means of investors communication. Further, companies are advised to adequately disclose attendance of finance head, internal audit head, and statutory auditor in committee meetings (though meetings can be held in their absence also). Their presence is essential for discussion and decision making and for checking and ratification of financial statements.

6. Improving the disclosure about subsidiary companies

The state of disclosure about subsidiary companies is very poor in pharmaceutical companies. Disclosure about this calls for a greater concern. On the basis of observation companies are suggested to adequately disclose about independent director of holding companies placed in the boards of material non-listed Indian subsidiaries. They must also have proper disclosure of review of subsidiary companies’ financial statements and putting them in front of holding companies board.

7. Strengthening the adequacy of disclosures

Pharmaceutical companies should fully disclose information about any changes in accounting techniques from previous years. Such new accounting treatments should be justified with suitable reasons for adoption. In case of no changes, companies should disclose about non-adoption of changes in accounting treatment. As the disclosure of risk assessment and minimization procedure is poor, companies are advised to have transparent disclosure about board’s risk assessment and minimization procedures and its periodical review. Companies should give clear indication of senior managements and non-executive directors conflicting interests and pecuniary relationships with companies which can be potential causes of
conflicts. The disclosure about proceeds from public, right, and preferential issues and their utilization need to be improved. It lacks clarity. Other important items of disclosure part that are advised to be improved are details of directors’ remuneration, shares and convertible instruments held by non-executive directors and the extent of adoption and non-adoption of mandatory and non-mandatory requirements.

8. Enhancing disclosure about the system of postal ballot

Postal ballot system gives shareholders an opportunity to exercise their voting rights. There is a need for clear information disclosure about postal ballot system adopted in pharmaceutical companies. Companies need to give an elaborate disclosure about any special resolution passed through postal ballot in the last year, its procedure, person who conducted it and the details of voting pattern. Companies are suggested to disclose non-existence of postal ballot system even if they have not passed resolution through postal ballot or their non-applicability.

9. Effective utilization of communication channels

The pharmaceutical companies should make optimum utilization of new communication media such as internet and websites to reach out large number of shareholder and users. They are advised to use websites to display official news releases and presentations made to institutional investors and analysts. The same should be displayed in corporate governance section.

10. Strengthening whistle blowing mechanism

Whistle blowing has become a crucial aspect of corporate governance. Whistle blowing is an effective control method for regulating employees’ organizational and personal conduct. The existence of the whistle blowing mechanism develops a sense of protection among employees and curbs unethical behavior. Pharmaceutical companies are suggested to make sufficient disclosures about establishment of whistle blowing mechanism in the company and communication of the same to employees.

11. Suggestion to improve non-mandatory practices and their disclosures

As per the study results, not all sample pharmaceutical companies adopt non-mandatory provision of clause 49. It is advisable to companies to improve those practices like instituting a training mechanism for directors which ensures the knowledge about companies’ business model, duties, responsibilities and the effective
ways of discharging them. And peer group evaluation is an effective technique that evaluates the performance of each non-executive director as the group knows each director’s contribution to the effectiveness of the board. Evaluation is done by all directors excluding the director being evaluated. Companies are advised to adopt peer group performance evaluation mechanism since it enables constant evaluation of their performance and ensures continuation of skilled and highly performing directors in companies. Ultimately that will lead to increased firm performance.

Further, all companies can send half yearly declaration of financial performance with significant events of last six months to each shareholder’s household as it is an effective tool to gain shareholders trust and increase the sense of belongingness.

12. Enhancement of financial performance

The independence of audit committees (i.e. no. of independent directors in committee) has a far reaching impact on all four financial performance measures. Thus, companies are advised to take proper care to infuse more independent directors into audit committees. Further, the size of the committee and number of committee meetings have increased EPS and Tobin’s Q.

Mutual funds, UTI, and insurance companies, banks, financial institutions and venture capitalists, NRI/ OCB/ Foreign institutional investors and Government shareholdings contribute to higher Earnings per Share and Tobin’s Q. These kinds of investors give more weightage to EPS and firm value rather than Return on Assets and Return on Equity. On the other hand, body corporate and domestic companies and general public have negative relationship with firm performance. Firms can be suggested to have higher proportion of Mutual funds, UTI and insurance companies, banks, financial institutions and venture capitalists, NRI/ OCB/ Foreign Institutional Investors and Government shareholdings in order to have higher financial performance of the companies. Government should invest more in these firms and thereby can be a representative of other minority shareholders in view of the fact that, minority shareholders have less incentive in exercising their control rights.
8.3 Suggestions in General

Following suggestions are general in nature, which are resulted from the overall observation made by the researcher. These are addressed to SEBI, Stock Exchanges, and Government.

➢ Suggestions to SEBI and Stock Exchanges

13. Paying attention to the contents of corporate governance report

SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 specify the imposition of penalties in case of non-submission of corporate governance report within the specified time. As observed, not only the timely submission of the reports but also the quality of disclosures in reports is more crucial. Hence, the concerned stock exchanges and depositories must scrutinize the disclosure quality.

14. Strengthening the vigilance and penalizing system

Securities and Exchange Board of India is the apex body in the regulation of Indian capital markets. All recognized stock exchanges and depositories come under its purview of authority. Stock exchanges monitor effective adherence of companies to the listing requirements. Violation of listing rules by companies faces penalties and strictures. The current amount of fines imposed on companies can be increased and those companies which have consecutively failed to comply for long term (more than two quarters) can be permanently expelled from trading without further notices and delay. It cautions companies and avoids the chances defrauds. And also this helps SEBI to realize its aims to protect investors and to promote the Indian stock market efficiently. As there are short falls in compliance with listing requirements, SEBI, and stock exchanges can strengthen its vigilance over the companies’ governance practices.

15. Awareness building among investors

General shareholders, generally, possess less information about the regulatory requirements and the quality of compliance with the requirements by their companies. Further, they may not be aware of the consequences of poor corporate governance. Thus, SEBI can take initiatives to educate such shareholders and prospective shareholders about the benefits of good corporate governance practices and how to understand the disclosures made by companies in corporate governance section.
16. Changing the regulation on directors expertise

Although large number of companies discloses the qualification and expertise of directors, still many small cap companies take no proper care to disclose the qualification details of directors. Especially, the financial expertise of audit committee members. There is a need to make this disclosure stringent by SEBI and recognized stock exchanges.

8.4 Limitations of the Study

1. Time factor is a major constraint for a longitudinal study like this that requires more time for data gathering, coding, data entry, and analysis.
2. This study is entirely based on secondary sources of data like annual reports as it considers clause 49 provisions as benchmark for disclosures.
3. The study is limited only to pharmaceutical sector companies listed in the Bombay stock exchange and the National stock exchange.

8.5 Scope for Further Research

1. Survey of directors, executives, and employees’ views on corporate governance practices followed in their firms can be a potential area for further research.
2. A study of comparative corporate governance practices among different sectors can be taken up.
3. Study of corporate governance practices after enactment of the Companies Act, 2013 and revision of clause 49 would be a prospective scope for further research.
4. A comparative study of corporate governance practices between pre-revision and post-revision periods to clause 49 can be taken up.

8.6 Conclusion

Corporate governance practices of a listed company are crucial. The study of corporate governance practices in pharmaceutical sector, one of the growing industries in India and the world, adds to the existing works on evaluation of corporate governance in Indian industries. The outcome of the study shows that there is no cent percent compliance with disclosure practices of Pharmaceutical companies in India. The ownership pattern in pharmaceutical companies is dominated by
promoter and promoter groups. The disclosure of corporate governance practices as per clause 49 is analyzed. As observed, sample companies must improve mandatory disclosures. Further, very less number of them follows non-mandatory disclosures. Hence, there is noticeable need for improvement in disclosure practices followed by pharmaceutical companies. On one hand, promotors are in dominant position and on the other hand, majority of companies still combine Chief Executive Officer and board’s chairman roles. However, role duality found to have no effect on firm performance. One of the major observations is the positive relationship between independence of audit committee and performance measures (ROA, ROE, EPS, and Tobin’s Q). The relationships between ownership pattern, board composition, committee composition, and firm performance are mixed.

To sum up, it can be concluded that, though the corporate governance practices followed in pharmaceutical industry in India is good, there is still scope for further improvement to match up to the clause provisions. And also to match up to international governance standards.