

# Analysis of corporate governance practices in two selected pharmaceutical companies in Gujarat.

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**Abstract:** *In this research paper an attempt has been made to analysis of corporate governance practices in two selected pharmaceutical companies in Gujarat. Secondary data with the sample size of two have been used. Selected companies are major contributors in the field of Pharmaceutical. Researcher has also tested hypotheses with the help of t-test. The result of the research says that Ambalal Sarabhai Enterprise ltd. and Cadila Health Care Ltd. are good companies which are validated by the result of t- test because the result is significant which means that all companies practices in corporate governance are very good.*

**Key Words:** *Corporate Governance, t-test, financial disclosures, non-financial disclosures*

## 1. INTRODUCTION:

In the current scenario, pure Indian pharmaceutical companies are quite low as most of the Indian companies are majorly maintained as well as controlled by prominent foreign 90 companies. They have arranged subsidiaries because cheap labour is available in India at lowest rate. It also had a direct influence on disciplines such as botany, biochemistry and microbiology, as well as the technological development of the time. From an industrial perspective, pharmaceutical companies arose mainly from two sources: pharmacies and the chemical industry.

### 1.1 Corporate governance

Corporate governance aims to achieve balance between all the interests present in corporation: management, shareholders and other stakeholders. The corporate governance structure guarantees that punctual and precise disclosure is made on all materialistic approaches regarding the company, including the financial situation, performance and dedication which ensure that corporate managers run their business successfully and take care of long-term interests of their stakeholders. It improves competence of companies' assets and tries to deploy their finance in productive areas of the economy. For the good governance practices, the government formed the various committees for the studied of governance practices the key committees which are known by the individuals who are chairing them are mentioned below: (A) Cadbury committee on Corporate Governance – 1992. (B) The Paul Ruth man Committee (C) The Greenbury committee (D) The Hampel Committee (E) The Combined Code (F) The Turnbull Committee

## 2. REVIEW OF LITERATURE:

**K. Sundar (2005)**, mentioned in article published in the Indian journal of Accounting, emphasized the role of the auditor and audit reforms, which would value add the style of corporate governance. He also pointed out board mechanism, status of auditors, auditor's independence and audit committee.

**Morck Et al. (2005)** reviews the large literature that explores the connection between country level rules affecting corporate governance and firm behaviours and the strength of security markets.

**Panchasara B. M. (2012)**, Research Report, Saurashtra University, Rajkot. "An empirical study on Corporate Governance in Indian Banking" According to his study major findings are followed: Among the 18 surveyed banks, the study revealed that 15 bank board consist of 10 to 15 members and only 3 banks has board Comprising of 8 to 10 members.

## 3. RESEARCH METHODOLOGY:

### Title of problem

Analysis of corporate governance practices in two selected pharmaceutical companies in Gujarat.

### Types of Research

Researcher has determined to investigate into the problem on empirical base therefore this research work based on secondary data. It is an empirical study, so researcher has followed scientific approach to design the research methodology for investigation.

#### Collection of Data

For this study researcher has used secondary data as a source of information for this research e.g. The annual reports, websites, newspaper, periodicals, journals, magazines, Government circulars, books, article etc....

#### Sample size:

The universe of the study is all pharmaceutical companies in Gujarat and the Sample size for the study is selected two companies out of all pharmaceutical companies in Gujarat on the basis of availability of relevant data on website, the list of selected companies are Ambalal Sarabhai Enterprise Ltd. And Cadila Health Care Limited.

#### Period of study

Study period of the study researcher has selected is of five financial years from 2008 to 2012

#### Research tools

Researcher has used Descriptive Statistics i.e. mean and standard deviation, Maximum, t-test, Correlation Matrix, Pearson's Correlation.

### 4. ANALYSIS AND DISCUSSION:

**Table 1: Analysis of Financial Disclosures of Ambalal Sarabhai Enterprises Ltd**

Sr. No.	Disclosure Item	Ambalal Sarabhai Enterprises					Score
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	Directors' Report	1	1	1	1	1	5
2	Auditors' Report	1	1	1	1	1	5
3	P & L Account & Balance Sheet & Cash Flow Statement	1	1	1	1	1	5
4	Schedules forming part of B/s & P & L Account	1	1	1	1	1	5
5	Statement pursuant to Sec. 212 of Co. Act 1956	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes to account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Transactions	1	1	1	1	1	5
10	Corporate Reporting Framework	1	1	1	1	1	5
11	Risk & Estimates in preparing & Presenting Financial Statements	1	1	1	1	1	5
12	Investment / Performance in Subsidiary Companies	1	1	1	1	1	5
13	Dividend [Dividend History/ Details]	0	1	0	0	0	1
14	Other Financial Performances [Ratios/Charts/Graphs]	1	1	1	1	1	5
<b>Total</b>		<b>13</b>	<b>14</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>66</b>

Computed by Researcher from Annual Reports

Table: 1 Indicates the financial disclosures of Ambalal Sarabhai Enterprises Limited. The company has obtained total score of 66 out of 70. So the percentage of compliance of financial disclosures of the company is 94.29%. The Company lacking only in details of Dividend.

**Table 2: Analysis of Financial Disclosures of Cadila Healthcare Limited**

Sr. No.	Disclosure Item	Cadila Healthcare Limited					Score
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	Directors' Report	1	1	1	1	1	5

2	Auditors' Report	1	1	1	1	1	5
3	P & L Account & Balance Sheet & Cash Flow Statement	1	1	1	1	1	5
4	Schedules forming part of B/s & P & L Account	1	1	1	1	1	5
5	Statement pursuant to Sec. 212 of Co. Act 1956	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes to account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Transactions	1	1	1	1	1	5
10	Corporate Reporting Framework	1	1	1	1	1	5
11	Risk & Estimates in preparing & Presenting Financial Statements	1	1	1	1	1	5
12	Investment / Performance in Subsidiary Companies	1	1	1	1	1	5
13	Dividend [Dividend History/ Details]	1	1	1	1	1	5
14	Other Financial Performances [Ratios/Charts/Graphs]	1	1	1	1	1	5
<b>Total</b>		<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>70</b>

Computed by Researcher from Annual Reports

Table: 2 show the financial disclosures of the Cadila Healthcare Limited. The Company got the total score of 70 out of 70. So the percentage of compliance of financial disclosures of the company is 100%. It shows the sound practice of financial disclosures by the Company.

**Table 3: Analysis of Non Financial Disclosures of Ambalal Sarabhai Enterprises Ltd.**

Sr. No.	Disclosure Item	Ambalal Sarabhai Enterprises					Score
		2007 -08	2008 -09	2009 -10	2010 -11	2011 -12	
1	Message from the Chairman	0	0	1	1	0	2
2	Letter from MD & CEO	0	0	0	0	0	0
3	Vision & Mission statement	0	0	0	0	0	0
4	Ownership/Shareholding Structure/Pattern	1	1	1	1	1	5
5	Shareholders' Rights	1	1	1	1	1	5
6	Statutory Details of the company	0	0	0	0	0	0
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	1	1
10	Information about independent Directors	1	1	1	1	1	5
11	Role & functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	0	0	1	1	0	2
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	0	1	0	0	1	2
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meeting	1	1	1	1	1	5
24	Directors' Stock Ownership	0	1	0	0	1	2

25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation / industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	1	1	1	1	1	5
32	Auditor Fees	1	1	1	1	1	5
33	Notice & Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement / Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices	0	0	0	0	0	0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition / Award for CG	0	0	0	0	0	0
40	Shareholders informations	1	1	1	1	1	5
41	General body meeting	1	1	1	1	1	5
<b>Total</b>		<b>30</b>	<b>32</b>	<b>32</b>	<b>32</b>	<b>33</b>	<b>159</b>

Computed by Researcher from Annual Reports

Table 3 shows the analysis of non financial disclosures of Ambalal Sarabhai Enterprises Ltd. The company has got the score of 159 from total score of 205. So the level of compliance of non financial disclosures of the company is 77.56%. The non financial disclosures where the Ambalal Sarabhai Enterprises Ltd. is lacking are many. Like the company did not disclose its vision and mission statement anywhere. Company had not shown the Statutory Details also. There was a duality of chairman and CEO, so the company also loses its score. Further, the company had not disclosed the organizational code of ethics, stock ownership by directors, and green initiative practices. Even company had not got any awards or recognitions for corporate governance, so also lose that score. Thus out of total 41 criteria, the Ambalal Sarabhai Enterprises Ltd. had fulfilled the 35 and remaining was incomplete.

**Table 4: Analysis of Non Financial Disclosures of Cadila Healthcare Limited**

Sr. No.	Disclosure Item	Cadila Healthcare Limited					Score
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	0	0	0	0	0	0
3	Vision & Mission statement	0	0	0	0	0	0
4	Ownership/Shareholding Structure/Pattern	1	1	1	1	1	5
5	Shareholders' Rights	1	1	1	1	1	5
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	0	0	1	0	1	2
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	0	0	0	0	0	0
21	Number of Directorship hold by each Member	1	1	1	1	1	5

22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meeting	1	1	1	1	1	5
24	Directors' Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation / industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	1	1	1	1	1	5
32	Auditor Fees	1	1	1	1	1	5
33	Notice & Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement / Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices	0	0	0	0	0	0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition / Award for CG	0	0	0	0	0	0
40	Shareholders in formations	1	1	1	1	1	5
41	General body meeting	1	1	1	1	1	5
<b>Total</b>		<b>33</b>	<b>33</b>	<b>34</b>	<b>33</b>	<b>34</b>	<b>167</b>

Computed by Researcher from Annual Reports

Table 4 shows the analysis of non financial disclosures of Cadila Healthcare Limited. The company has got the score of 167 from total score of 205. So the level of compliance of non financial disclosures of the company is 81.46%. The non financial disclosures where the Cadila Healthcare Limited is lacking are many. Like the company did not disclose its vision and mission statement anywhere. Company had not shown the Letter from MD & CEO also. There was a duality of chairman and CEO, so company also loses its score. Further, the Company had not disclosed the organizational code of ethics, Biography of the board members, and green initiative practices. Even company had not get any awards or recognitions for corporate governance so also lose that score. Thus out of total 41 criteria, the Cadila Healthcare Limited had fulfilled the 33 and remaining was incomplete.

**H0:** There is no significant difference in corporate governance disclosure of the financial information and nonfinancial information of Ambalal Sarabhai Enterprise Ltd.

**H1:** There is significant difference in corporate governance disclosure of the financial information and nonfinancial information of Ambalal Sarabhai Enterprise Ltd.

For this researcher has analyzed the data with the help of the t-test

Level of significance: 5%, Sample size: 2 companies

**Table 5 Comparative analysis of Financial and nonfinancial Disclosure of Ambalal Sarabhai Enterprise Ltd. and their significant difference**

Variables	Mean	Std. Div.	t-test(Two Tail)
<b>Financial</b>	4.71	1.06	1.52
<b>Nonfinancial</b>	3.87	1.07	

tc ( 1.52) < tt (2) Computed by Researcher from SPSS

It is seen from the observation of the table: 5 that the Ambalal Sarabhai Enterprise Ltd. financial disclosure mean score was 4.71 and nonfinancial disclosure mean score was 3.87. Score of standard deviation for financial disclosure and nonfinancial disclosure were 1.06 and 1.07 respectively. To test the significance of correlated mean difference, t-value was calculated.

**H0:** There is no significant difference in corporate governance disclosure of the financial information and nonfinancial information of Cadila Health care Ltd.

**H1:** There is significant difference in corporate governance disclosure of the financial information and nonfinancial information of Cadila Health care Ltd.

For this researcher has analyzed the data with the help of the t-test

Level of significance: 5%, Sample size: 2 companies

**Table: 6 Comparative analysis of Financial and nonfinancial Disclosure of Cadila Health Care Limited and their significant difference**

Variables	Mean	Std. Div.	t-test(Two Tail)
Financial	5	0	1.79
Nonfinancial	4.07	1.92	

tc (1.79) < tt (2) Computed by Researcher from SPSS

It is seen from the observation of the table: 6 that the Cadila Health Care Limited financial disclosure mean score was 5 and nonfinancial disclosure mean score was 4.07. Score of standard deviation for financial disclosure and nonfinancial disclosure were 0 and 1.92 respectively. To test the significance of correlated mean difference, t-value was calculated.

## 5. FINDINGS AND SUGGESTIONS:

From the analysis of Ambalal Sarabhai Enterprise Ltd. make clear that the disclosure of financial information was not affected for practice of good corporate governance of above company and Cadila Healthcare Limited make clear that the disclosure of financial information was not affected to nonfinancial information for practice of good corporate governance of above company.

Each company should have monitory committee to monitor corporate governance practices. All listed companies must follows the guidelines for the corporate governance, if not followed there should be heavy amount of the penalty on such companies should initiate massive awareness comparing like seminar, conference, workshop, symposium etc. highlighting the meaning and the business case of good corporate governance. Board should develop succession plan to ensure the smooth operations to the pharmaceutical companies.

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