

Corporate Governance Disclosure Practices: A Study of Pharmaceutical Companies in India

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Abstract: Disclosure is a medium of communicating information to users. In business world annual report is the most commonly used medium of communication. Corporate governance practices followed in business firms are communicated through corporate governance section of annual reports. Clause 49 of the listing agreement sets a detailed corporate governance provision to be followed by listed companies in India. This study aimed at evaluating the governance practices in Pharmaceutical companies as against disclosure requirements of clause 49. 35 mid cap companies and 18 large cap companies were taken as sample. The methodology includes arriving at scores for different disclosure criteria. And disclosure criteria were ranked based on those scores. There found differences between mid cap and large cap companies with respect to mandatory disclosure practices.

Key words: Corporate governance, Listing agreement, Clause 49, Disclosure practices, Pharmaceutical companies, Mandatory disclosures, Non-mandatory disclosures

Date of Submission: 26-03-2018

Date of acceptance: 09-04-2018

I. Introduction

Disclosure can be regarded as a tool for bringing transparency in an organisation's practices. Operational, financial, and all material disclosures depict the health of an organisation. Annual report is one of the mediums of disclosure mechanism wherein the material matters are communicated to various users such as shareholders (existing and prospective), creditors, suppliers, authorities, and public. One such part of annual report is corporate governance report. Section on corporate governance report is intended to include governance related disclosures of an organisation. The sequence and matters that are disclosed are based on clause 49 of the listing agreement of stock exchanges. Clause 49 of the listing agreement provides a framework for governance aspects. The provisions that are included in this clause have been broadly classified into two heads as *a. Mandatory provisions* and *b. Non-mandatory provisions*. All companies that are already listed and companies which are aspiring to get listed in stock exchanges are required to follow the listing requirements regularly. It is obligatory on part of companies to follow clause 49 provisions and to file the reports to exchanges on time.

II. Need for the study

India is witnessing instances of poor corporate governance though there exist legal and regulatory measures to have proper governance mechanism in place. SEBI has laid down a number of provisions through listing agreements that lead to a fair and transparent governance structure among organisations. Compliance with these provisions will be communicated to all shareholders, stock exchanges and other stakeholders through disclosure. Annual reports, corporate governance reports and other official releases by the companies are the prominent media of communication. The study is undertaken to look into the governance practices in pharmaceutical companies as disclosed in corporate governance reports, clause 49 being taken as the benchmark.

III. Methodology

Population: Pharmaceutical companies listed in Bombay stock exchange is the population of the study. There were 168 companies listed in Bombay Stock Exchange in pharmaceutical industry under equity segment with active status as on October, 2014. These companies have been grouped into three segment viz, small cap, mid cap and large cap considering market capitalisation criterion.

Table 1: Percentage wise classification of companies

Company segment	No.	Percentage to no. of co.s	MC (Rs in Cr.)	Percentage to total MC
1. Small Cap' (MC ≤ Rs.250 Cr.)	104	62.65	4,222.60	0.66
2. Mid Cap' (MC Rs.251Cr.- Rs.5000 Cr)	43	25.90	69,664.45	10.95
3. Large Cap' (MC more than Rs.5000 Cr.)	19	11.45	5,62,267.4	88.39
4. Data not available	02		-	-
Total	168	100	6,36,154.45	100

Source: www.bseindia.com

The number of small cap companies is 104 out of 168 companies. This segment constitutes the major part of the population in terms of numbers with 62.65%, followed by mid cap companies with 25.90 % (43 in number) and 19 large cap companies with 11.45%. However, small cap companies hold a very low proportion of total market capitalisation though they are majority in number. Conversely, large cap companies form the major portion of market capitalisation though being very less in numbers. And mid cap companies hold 10.95 % of market capitalisation.

3.1 Sample: Considering the companies' share in total market capitalisation, we include all mid cap companies and large cap companies in the sample for the study (constituting 99.34% of total market capitalisation) and exclude small cap segment on the grounds of its insignificant contribution to the overall market capitalisation.

3.2 Analysis of Disclosure Practices: Corporate governance disclosure level in selected pharmaceutical companies has been analysed based on CG score of each company separately. Corporate Governance Score is a mechanism used in the study considering the mandatory as well as non-mandatory recommendations of clause 49 of the listing agreement. Descriptive analysis is used to rank the companies based on their CG scores.

IV. Clause 49: A Rationale

Listing agreement is a contractual binding on public companies on various regulatory matters. Regular compliance with agreement gives companies a continued existence in the capital market. Deviations from the same may carry some penalties or a permanent ban on securities trading sometimes. To enjoy an uninterrupted advantage of capital market benefits a company has to ensure fairness, transparency, compliance, and disclosure of company information. Clause 49 includes a wide range of provisions to ensure better governance in public companies and there by safeguard the interest of stakeholders. The agency problems are the major challenges in governance of corporates. Independent directors on the board, strengthening the audit committees, disclosure of important matters, regular and timely compliance and certification on compliance ect., are the motives served by the clause. Following is a brief discussion on contents of the clause.

4.1 Composition of the board:

The board is required to have an optimum combination of executive and non-executive directors. Non-executive directors should constitute at least half of the total strength of the board. Considering the importance of independent directors, it has been mandated to have appropriate number of independent directors on the board. However, the proportion varies with the nature of chairmanship of the board. The board must have one third independent directors when it is headed by a non-executive director and must be half when headed by an executive director. In case of non-executive chairman is a promoter or related to any promoter or a director or an executive on level below the board, at least half of the board have independent directors.

According to Clause 49 of the listing agreement (SEBI, 2004), an independent director is defined as;

“A non-executive director who;

- a. apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;
- b. is not related to promoters or persons occupying management positions at the board level or at one level below the board;
- c. has not been an executive of the company in the immediately preceding three financial years;
- d. is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:

- e. the statutory audit firm or the internal audit firm that is associated with the company, and
- f. the legal firm(s) and consulting firm(s) that have a material association with the company.
- g. is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director;
- h. is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.
- i. is not less than 21 years of age” (Clause 49- Corporate Governance, SEBI)

4.2 Board meetings:

Regularity and timeliness of board meetings have been stressed in the clause. Boards have to meet at least four times in a year at a time gap not exceeding four months between two meetings. Regular meetings ensure communication and dissemination of information to directors and help to take timely decisions.

4.3 Directors position in other companies:

A director should not be member in more than ten committees and should not be chairman in more than five committees in all companies where he acts as a director. It is mandated that each director should declare his committee membership position in all companies every year and also as and when there is change in position.

Only public limited companies (listed or non-listed) and audit committee and shareholder grievance committees are considered to reckon limit on directors’ membership/ chairmanship in other companies committees.

4.4 Other provisions relating to board :

Board must periodically review all applicable laws, laws prepared by companies and instances of non-compliance and their rectification. And it is the responsibility of the board to fill the vacancy created by the resignation or removal of independent directors that must be replaced by independent director within 180 days from the date of such vacancy. This rule is not applicable, only if that the company fulfills the requirement of independent director.

4.5 Code of conduct:

Companies’ board members should lay down a code of conduct for all directors and management people one level below board level. Such code should be posted on the website of the company. The compliance on this code needs to be affirmed by directors and senior management and corporate governance report should contain CEO’s declaration on compliance with the code of conduct.

4.6 Composition of Audit committee:

There should be minimum of three directors acting as members of audit committee, two third of whom should be independent directors and the chairmanship compulsorily vested with an independent director. All members must be financially literate and at least one member should have accounting or financial management expertise.

4.7 Audit Committee meeting:

In line with the provision relating to board meetings, it is required to hold at least four audit committee meetings in a year and the time gap between any two meetings should not exceed four months. Here we see a provision that mandates the minimum number of members present in the meeting. The meetings must be attended by a minimum of two members or one third of total members whichever is greater and further it requires the presence of at least two independent directors.

4.8 Other provisions relating to audit committee:

The agreement requires the audit committee chairman to be present in annual general meeting in order to answer shareholders queries. The finance head must attend committee meetings and head of internal audit, representative of statutory auditor also may be invited to committee meetings. Company secretary of the organisations acts as secretary of audit committee.

Apart from the above mentioned provisions, clause also sets out power, role and the information that must be reviewed by the audit committee. All these provisions have been included to strengthen the committee.

4.9 Subsidiary Companies:

The company must place at least one independent director on the board of ‘material unlisted Indian subsidiary companies. The audit committee must periodically review such subsidiaries financial statements, in

particular the investments made by them. Further, the minutes of subsidiary company board meetings should be kept before holding company's board of directors.

4.10 Disclosure about related party transactions:

The transactions entered into with companies' related parties are considered to be very relevant and prominent aspect in company governance. Hence, the audit committee is entrusted with more authority and responsibility in overseeing the related party transactions. As defined in Companies Act, 2013 a Related Party is-

- A director or his relative
- KMP or his relative
- A firm, in which a director, manager or his relative is a partner
- A private company in which a director or manager is a member or director
- A public company in which a director or manager is a director and holds along with his relatives, more than 2% of its paid-up share capital
- A body corporate whose board, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager, except if advice/ directions/ instructions are given in the professional capacity (Companies Act, 2013)
- Any person on whose advice, directions or instructions a director or manager is accustomed to act, except if advice/ directions/ instructions are given in the professional capacity
- Any company which is:
 - A holding, subsidiary or an associate company of such company, or
 - A subsidiary of a holding company to which it is also a subsidiary
- Such other persons as may be prescribed.
- It is required by the provisions that the summary of related party transactions in ordinary course of business, details of the material individual related party transactions which are not in normal course of business and which are not on arms length basis should be placed before the board (with management justification for the same).

4.11 Disclosure of accounting treatment:

Consistency in the use of accounting treatment is preferred in order to have fair and true financial disclosure. Clause 49 too, in its disclosure part, requires consistency in accounting treatment. However, when a company follows accounting policies different from that of what used earlier, it has to disclose such changes in accounting treatment along with management's explanation.

4.12 Disclosure about risk management:

There should be a mechanism to inform board about the procedures followed to assess and minimise the risk. Such procedures must be periodically reviewed to ensure proper risk control framework.

4.13 Disclosure about proceeds from public, rights and preferential issue:

Company, on quarterly basis must disclose uses or application of funds raised through public, rights, and preferential issues to the audit committee. Further, it must also place before the board, on annual basis, a statement of fund utilisation for purposes other than that which are mentioned in offer document, prospectus, or notice. This disclosure lasts until the complete utilisation of the amount raised. And also company is required to place the monitoring report issued by the monitoring agency appointed (if any) to monitor the proceeds from public and right issues. Audit committee is bound to recommend the board in this regard for appropriate steps.

4.14 Disclosure of remuneration to directors:

Section on corporate governance in annual reports should contain the details of remuneration paid to board of directors bifurcated under different elements such as salary, bonus, pension ect., along with fixed and performance linked incentives if any. It has been made compulsory to disclose the stock option details, service contract, notice period, severance fees and shares and convertible instruments held by non-executive directors.

Criteria for directors' performance and criteria of payments made to non-executive directors should also be a part of disclosures. Further, prior to appointment, non-executive directors are required to disclose their shareholdings in listed company in which they are proposed to be appointed as director. These details should be disclosed in the notice to general meetings called for their appointment.

4.15 Disclosure about management aspect:

Annual reports should include 'Management Discussion and Analysis' report containing discussion on Industry structure and developments, Opportunities and Threats, Segment-wise or product-wise performance,

Outlook, Risks and concerns, Internal control systems and their adequacy, Discussion on financial performance with respect to operational performance, Material developments in Human Resources or Industrial Relations aspect, including number of people employed. Clause requires senior management personnel to disclose their personal interests in significant material transactions that may conflict with the organisations' interest.

4.16 Disclosure to shareholders:

Shareholders are to be given with information about directors who are proposed to be appointed or reappointed on matters such as resume of directors, their expertise in functional area, name of companies in which they hold directorship or membership and shareholding of non-executive directors, disclosure on directors' relationship with each other, notice of appointment, letter of offer and filings made to stock exchanges.

Companies should put their quarterly results and presentations made to analysts in company websites or that should be sent to stock exchanges in order to enable stock exchange to post it on its website.

A committee named 'Shareholder's/ Investors Grievance Committee' shall be formed under the chairmanship of a non-executive director for redressal of shareholders complaints. The complaints may be relating to non-receipt of dividend, non-receipt of balance sheet, share transfers ect. The share transfer process must be delegated to an officer or a committee or a registrar and share transfer agent to look after its process and such authority must attend to share transfer formalities once in every fortnight.

4.17 Certification:

The financial statements must be certified by the CEO or MD or any manager appointed in terms of companies act and CFO or finance head regarding following aspects. Firstly, they must certify that they have reviewed the financial statements and they do not contain any misleading information and are true and fair and prepared in compliance with accounting standards and applicable laws. Secondly, they must certify that there are no transactions entered into by the company which are not in compliance with the company's code of conduct and thirdly, they must certify that they have accepted the responsibility for establishing and maintaining internal control for financial reporting. And they have evaluated internal control system for financial reporting, communicated deficiencies (if any) to auditors and audit committee and disclose the steps taken to rectify those deficiencies. They should also indicate to the auditors and audit committee, the significant changes in internal controls, accounting policies, and any frauds in which management or an employee is involved.

4.18 Corporate governance report:

Annual reports of companies should have a separate section on corporate governance containing the aspects relating to governance. There should be disclosure on status of compliance. Non-compliance with any mandatory requirements with reasons thereof for non-compliance and details of compliance with non-mandatory requirements should be disclosed here.

A compliance report prepared as per annexure I B of clause 49 and signed by either compliance officer or CEO should be submitted to stock exchanges within 15 days from the end of each quarter.

4.19 Compliance:

A company shall obtain a certificate from the auditor or practicing company secretary on the condition of compliance which should be annexed to director's report and sent to all shareholders and stock exchanges annually. As stated earlier, the disclosure of adoption or non-adoption with mandatory requirements (non-compliance should be disclosed with reasons) and extent of compliance with non-mandatory requirements should be made in annual reports. However, the adoption of non-mandatory requirements (annexure I D of the clause) is left to the discretion of company.

V. Corporate governance score

Clause 49 contains mandatory and non-mandatory provisions. This study is concentrated on mandatory provisions only. And all of the mandatory requirements are grouped into ten different heads viz., company's philosophy on corporate governance, board of directors, code of conduct, audit committee, subsidiary companies, shareholders committee, general body meetings, disclosures, means of communication and general shareholders information. Different items relating to each of the classification have been identified and included under separate criterion. The scoring of these items is been made after the careful scrutiny of corporate governance reports taken from the annual reports. Three point likert scale is adopted for assessing the level of disclosure as poor, fair and excellent on scale of 1 to 5.

The total score for each observed category will be totaled to arrive at the final score. The inter-group comparison of scores can be made among the total score of poor, fair and excellent. Following table will give categorisation of items.

Table 2: Categorisation of mandatory items of Clause 49

Si. No	Broad classification	Items	Score		
			Poor	Fair	Excellent
1	Company philosophy on corporate governance		1	3	5
2	Board of directors	Composition	8	24	40
		Role duality			
		Attendance in meetings			
		Attendance in AGM			
		No. of directorship and membership			
		No. of board meetings			
		Dates of board meetings			
		Periodical review of applicable laws Total			
3	Code of conduct	CoC laid down by the board	4	12	20
		CoC posted on the website			
		CEO declaration in CG report			
		Affirmation of compliance by board members and senior management Total			
4	Audit committee	Terms of reference	13	39	65
		Composition			
		Names of members and chairman			
		Financial knowledge and expertise of members			
		No. of meetings			
		Attendance and quorum			
		Financial head invited for the meeting			
		Internal auditor invited for the meeting			
		Statutory auditor invited for the meeting			
		Co. secretary acting as secretary of the committee			
		Powers of audit committee			
		Role of the audit committee			
		Information reviewed by the audit committee Total			
5	Subsidiary companies	Independent director on board of subsidiary companies	3	9	15
		Audit committee reviews financial statements and material investments of subsidiary companies			
		Minutes of subsidiary co.s meetings are placed in board meetings			
		Total			
6	Shareholders/ investors relations committee	Name of the non-executive chairman of the committee	5	15	25
		Name and designation of the compliance officer			
		No. of complaints received			
		No. of complaints not resolved to satisfaction			
		No. of pending cases Total			
7	General body meetings	Location and time of last 3 AGMs		15	25
		Special resolution passed in last 3 AGMs			
		Special resolution passed through postal ballot last year			
		Details of voting pattern of postal ballot			
		Person who conducted postal ballot			
		Special resolution proposed to be conducted through postal ballot in ensuing AGM			
		Procedure for postal ballot Total			

			7	21	35
8	Disclosures	Material significant related party transactions	19	57	95
		Details of non- compliance with capital market matters (if any)			
		Penalties or strictures imposed by exchanges, SEBI or any statutory authority			
		Details of compliance with mandatory requirements			
		Details of adoption of non- mandatory requirements			
		Pecuniary relationship of NED with the co.			
		All elements of remuneration package to all directors			
		Details of fixed pay and performance linked pay along with performance criteria			
		Service contracts, notice period and severance pay			
		Stock option details			
		Criteria of payment to NEDs			
		No. of shares or convertible instruments held by NEDs			
		Pre-appointment disclosure by NEDs			
Management discussion and analysis report					
Industry outlook with opportunities and threats					
Internal control system and their adequacy					
Discussion on financial performance					
Human resource or industry relations development					
Disclosure of conflict of interest					
Total					
9	Means of communication	Communication of quarterly results	5	15	25
		Names of the news papers publishing the results			
		Website displaying the result			
		Display of official news releases			
		Presentation made to institutional investors and industry analysts			
Total					
10	General shareholder information	Date, time and venue of upcoming AGM	16	48	80
		Financial year			
		Date of book closure			
		Dividend payment date			
		Listing on stock exchange			
		Stock code			
		Market price date of each month			
		Comparative performance			
		Details of registrar and transfer agents			
		Share transfer system			
Distribution of shareholding					
Dematerialisation of shares and liquidity					
Outstanding GDR/ADR/ Warrants and convertible instruments					
Conversion date					
Likely impact of conversion on equity					
Address for communication					
Total					

Each of the ten criteria mentioned above comprise of a varied number of items relating to that particular practice. The status of disclosure on each of the item is scored on a scale of 1-5. The scores of all items under each category of governance practice are summed up to arrive at total score of that category. Finally, the sum of all categories of governance practices is taken as the corporate governance disclosure score for sample pharmaceutical companies. The minimum possible score (in case of poor scores for all 81 items) for a company is 81 and the maximum score being 405 (in case of excellent score for all items). The total 'fair'

score is 243. A company is ranked based on these corporate governance disclosure scores. Further, the paper gives scope for assessing the comparative corporate governance scores between large cap and mid cap companies.

VI. Analysis and Discussion

There are 43 mid cap companies and 19 large cap companies selected for this study as sample. Out of 43 mid cap companies only 35 and out of 19 large cap companies only 18 companies fall as a final sample as we could not get annual reports of nine companies. Therefore, the total number of sample companies is 53 adding all mid cap and large cap companies. Data are extracted from annual reports for the financial year 2013-14.

6.1 Ranking of the disclosure criteria:

The disclosure practices chosen for the study are ranked based on criteria wise mean score across all 53 companies. Hence, the mean values of each criterion are taken. The percentage of mean score to the maximum score of respective criteria is calculated, based on which the criteria are ranked. For example, the mean score of ‘company philosophy’ is 4.32. This score is divided by maximum score 5 for the said criteria ‘company philosophy’. The percentage of which comes to 86.40. Likewise, the percentages for all criteria are calculated. Following table shows the ranks. Column 1 contains the list of criteria, followed by column 2 showing the number of items in each of the criterion. Minimum, maximum, and mean score for respective criteria are also shown in the following columns. Scores in column six is arrived at by dividing mean score by maximum score. As shown in the table, ‘investors/shareholders grievance committee composition’ criterion is ranked first as it got 95%. ‘Code of conduct’ has secured second rank followed by ‘board composition’, ‘general shareholder information’, ‘company philosophy’, ‘means of communication’, ‘disclosure of remuneration’, ‘compliance and management aspects’, ‘audit committee composition’, ‘general body meetings’ and ‘disclosure about subsidiary companies’.

Source: SPSS data analysis

Table 3: Descriptive Statistics							
Criteria	No. of items	N	Range	Minimum	Maximum	Sum	Mean
1. Company philosophy	1	53	4	1	5	229	4.32
2. Board of directors	8	53	10	30	40	1956	36.91
3. Code of conduct	4	53	12	8	20	1004	18.94
4. Audit committee	13	53	32	29	61	2591	48.89
5. Subsidiary companies	3	53	12	3	15	237	4.47
6. Shareholders/ investors grievance committee	5	53	14	11	25	1259	23.75
7. General body meeting	7	53	24	11	35	1201	22.66
8. Disclosure of remuneration, management and compliance aspects	19	53	46	45	91	3920	73.96
9. Means of communication	5	53	12	13	25	1083	20.43
10. General shareholder information	16	53	20	60	80	3767	71.08
Valid N (list-wise)		53					

The above table presents the descriptive statistics for the disclosure scores for all ten disclosure segments. Column one names the segments of disclosures. Column two shows the number of items under each segment followed by sample size, range, minimum, maximum, and mean of the scores. In the following table the study assigns ranks to disclosure segments based on the percentage of mean of each segment to the respective maximum score for the item. This method is adopted because of variation in the number of items under each of the heads.

Table 4: Ranking of criteria on the basis of mean disclosure scores

Criteria	No. of items	Min. score (1)	Max. score (2)	Mean score (3)	Percentage (4) (3÷2×100)	Rank (5)(based on % of mean score)
1. Company philosophy	1	1	5	4.32	86.40	5
2. Board composition	8	8	40	36.91	92.28	3
3. Code of conduct	4	4	20	18.94	94.70	2
4. Audit committee composition	13	13	65	48.89	75.22	8
5. Disclosure about subsidiary companies	3	3	15	4.47	29.80	10
6. Shareholders/ investors grievance committee composition	5	5	25	23.75	95	1
7. General body meetings	7	7	35	22.66	64.74	9
8. Disclosure of remuneration, compliance and management aspects	19	19	95	73.96	77.85	7
9. Means of communication	5	5	25	20.43	81.72	6
10. General shareholder information	16	16	80	71.08	88.85	4
Total	81	81	405	325.41	80.35	

Source: SPSS data analysis

VII. Scoring of Items

Scale of 1-5:

1	2	3	4	5
Poor	b/w Poor & Fair	Fair	b/w Fair & Excellent	Excellent

Each of the criterions identified consists of varying number of items and each item is given a score of 1 for poor disclosure, score 3 for fair and score 5 for excellent disclosure. Therefore, the total score for poor, fair, and excellent disclosure practices vary from one criterion to another. Table 2 can be referred for items identified under all criteria and their scores for poor, fair, and excellent disclosure practices.

Table 5 shows the frequency distribution of companies into five different scoring groups for mid cap and large cap companies. Number 1 represents 'poor' score, number 3 represents 'fair', number 5 represents 'excellent'. And we have other two additional scoring groups as number 2 for scores 'between poor and fair' and number 4 for scores 'between fair and excellent' for grouping companies with interim scores and for better understanding.

Table 5: Frequency of disclosure score for Mid-cap and Large-cap companies

Criteria	Mid cap companies						Large cap companies						
	1	2	3	4	5	Total	1	2	3	4	5	Total	
1. Company philosophy			12			23	35	1		4		13	18
2. Board composition				28	7	35				17	1	18	
3. Code of conduct		2		6	27	35				3	15	18	
4. Audit committee composition		7		28		35		1		17		18	
5. Disclosure about subsidiary companies	31	4				35	10	2	1	3	2	18	
6. Shareholders/ investors grievance committee composition		1		7	27	35		1		1	16	18	
7. General body meetings		19	2	10	4	35		5	2	9	2	18	
8. Disclosure of remuneration, compliance and management aspects		3		32		35				18		18	
9. Means of communication		6		18	11	35		1	1	5	11	18	
10. General Shareholder Information				32	3	35				15	3	18	
Total score across all items and across the sample (%)	31 (9)	42 (12)	14 (4)	161 (46)	102 (29)	350 (100)	11 (6)	10 (6)	8 (4)	88 (49)	63 (35)	180 (100)	

Source: Data analysis

VIII. Comparative analysis of scores

- 1. Company Philosophy:** Out of 35 mid cap companies, 66% (23) companies have excellent disclosure about company philosophy and 34% (12) of total companies have fair disclosure. And 72 % (13) of large cap companies have excellent disclosure about company philosophy, 22% (4) fair and 6% (1) have poor disclosure of company philosophy in their corporate governance reports.
- 2. Board Composition:** Mid cap companies have better disclosure about board composition compared to large cap companies. 20% (7) of mid cap companies have excellent disclosure as against 6% (1) large cap companies. 94% (17) and 80% (28) of large cap and mid cap companies respectively score between fair and excellent.
- 3. Code of Conduct:** Disclosure score for code of conduct among mid cap and large cap companies is quite satisfactory. 77% (27) mid cap and 83% (15) large cap companies have excellent disclosure about code of conduct. And 17% (6) of mid cap and large cap (3) companies each have scored above fair but below excellent. Further, 6% (2) of mid cap companies have poor disclosure.
- 4. Audit Committee Composition:** Audit committee composition disclosure scores show that, 94% (17) of large cap companies have scores between fair and excellent and 80% (28) of mid cap companies score between fair and excellent. Whereas, 20% (7) of mid cap and 6% (1) of large cap companies have above poor but below fair disclosure scores.
- 5. Disclosure about Subsidiary Companies:** Disclosure about subsidiary companies is not good either in mid cap segment or in large cap segment. Out of 18 large cap companies only 11% have proved to be excellent in disclosure. 56% have poor score, 11% above poor below fair, 5% fair and 17% have above fair but below excellent scores. Whereas, 89% of mid cap companies have scored poor and remaining 11% with score above poor but below fair.
- 6. Investor or Shareholders Grievance Committee Composition:** The scores in this criterion are satisfactory. 77% and 88% of mid cap and large cap companies respectively have been proved to be excellent in this disclosure. 20% of mid cap and 6% of large cap companies are in above fair but below excellent segment. Remaining 3% and 6% mid cap and large cap companies respectively fall in above poor below fair segment.
- 7. General Body Meetings:** 54% of mid cap companies have above poor but below fair disclosure about general body meetings as against 28% large cap companies in the same segment. 6% mid cap and 11% of large cap companies have exact fair scores. Whereas, 29% 11% of mid cap companies have above fair but below excellent and excellent scores respectively.
And 50% of large cap companies have above fair but excellent score and 11% have excellent scores.
- 8. Disclosure of Remuneration, Compliance, and Management Aspects:** 9% mid cap companies scored above poor but below fair and remaining 91% fall in above fair but below excellent segment. But, all (100%) large cap companies have disclosure of above mentioned aspects which can be grouped as above fair but below excellent class.
- 9. Means of Communication:** Large cap companies stand first in disclosure of 'means of communication' criterion. 61% large cap companies have excellent scores, whereas only 31% of mid cap companies scored excellent scores. Rest of the mid cap companies fall in two categories of above poor but below fair and fair at 17% and 52% respectively. Among large cap companies, 6% have above poor but below fair scores, 6% have fair score and 27% have above fair but below excellent score.
- 10. General Shareholder Information:** 91% of mid cap companies and 83% of large cap companies have above fair but below excellent scores. And only 9% and 17% of mid cap and large cap companies respectively have excellent disclosure of general shareholder information.

IX. Major Findings

Following are the major findings of the study;

- Ranking of the disclosure segments derived from clause 49 (Table 4) shows that the disclosure about 'shareholders/ investors grievance committee composition' is very high. Hence, it has been assigned first rank.

- ‘Code of conduct’, ‘board composition’, ‘general shareholder information’, ‘company philosophy’, ‘means of communication’, ‘disclosure of remuneration, compliance and management aspects’, ‘audit committee composition’, and ‘general body meeting’ are placed next after ‘shareholders/ investors grievance committee composition’ in the ranking order.
- Finally ‘disclosure about subsidiary companies’ obtained last place in the ranking list with very low disclosure score.
- There is an excellent disclosure about company philosophy by large cap companies compared to that of mid cap companies.
- Large cap companies stand first with excellent scores in other disclosures also such as code of conduct, shareholders grievance committee composition, and means of communication.
- On the other hand, mid cap companies have shown better disclosure compliance with board composition requirement than that of large cap companies.
- Large cap companies and mid cap companies are found to have not much difference in their compliances with company philosophy, code of conduct, and shareholders/ investors grievance committee composition provisions.
- One of the major finding is the poor status of disclosure about subsidiary companies. Both mid cap and large cap companies have shown inadequate disclosure about subsidiary companies.
- Disclosure about the most important part of governance i.e. audit committee found to be inadequate because no company has scored excellent score for disclosures about audit committee information.
- There found a need to increase the adequacy of disclosure about role, power of audit committee and information reviewed by audit committee.
- Mandatory provisions are meant to be followed compulsorily by all companies. Companies are bound to comply and disclose them in their corporate governance section. However, the above analysis showed the overall disclosure score of 80.35% (table 4) for all sample companies. Hence, as it found, there is no hundred percent compliance with mandatory provisions.

X. Suggestions

The findings of the study unravel the fact that there is still a gap between what is required and what is actually followed. The disclosures about few aspects such as subsidiary companies, general body meetings, audit committee composition need to be made adequate. Further the overall score is 80.35 (Table 4) which depicts that pharmaceutical companies are not fully compliant with mandatory provisions of clause 49. Hence, pharmaceutical companies are advised to make themselves 100% compliant with disclosures on corporate governance aspects. Adequate disclosures benefit the companies. And also the regulators such as stock exchanges and SEBI should take strict penal actions to boost disclosure practices of not only pharmaceutical companies but also all listed public companies. The companies can also be motivated with the benefits associated with regulatory compliance. Investors and various users of annual reports must be made aware of the need of disclosures and its benefits

XI. Conclusion

Disclosures are means of communication. The disclosure practices followed communicates the compliance with clause 49 requirements. The study considered only mandatory requirements of the clause. Although there found disclosures about most of the things in the corporate governance section, they are not adequate and there is no hundred percent compliance. The sample companies were classified into three categories based on market capitalisation criteria. And only large cap and mid cap segments were taken as sample considering the huge share in market capitalisation. And large cap companies have higher score than that of mid cap companies. This shows the association between size of the firm and compliance with disclosure requirements. To sum up, listed companies (irrespective of the industry they belong to) must mandatorily disclose all mandatory provisions of the listing agreement and set an example for a good system of corporate governance.

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IOSR Journal of Business and Management (IOSR-JBM) is UGC approved Journal with Sl. No. 4481, Journal no. 46879.

Kalashree, "Corporate Governance Disclosure Practices: A Study of Pharmaceutical Companies in India." *IOSR Journal of Business and Management (IOSR-JBM)* 20.4 (2018): 01-12