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Abstract

Corporate governance is concerned with the establishment of system whereby the directors are entrusted with the responsibility and duties in relation to direction of company affairs. It is concerned with the morals, ethics, values, parameters and its management. It is voluntary ethical code of business of companies. Corporate Governance and Profitability of organization are always having some sort of relationship. Organization may maximize profit element in short run by ignoring Corporate Governance in short run but consistent profit maximization is possible only with the help of optimum Corporate Governance. The said research study has tried to establish some correlation between Corporate Governance Practices and Profitability by considering selected Pharmaceutical Companies in India. Researcher found low negative correlation between Corporate Governance Practices and Profitability in selected five pharmaceutical companies in India. It may turn positive in the long run.

Keywords: Corporate Governance, CG Score, Profitability, Earnings Per Share.

INTRODUCTION

A Corporation is a congregation of various stakeholders namely customers, employees, investors, vendors, partners, government and society. In today's period of globalisation, the corporate world requires a fair governance system. Corporate governance is about enhancing corporate ethics, fairness, transparency and accountability. In recent years, the area of corporate governance has been in discussion and has attracted increased attention of academicians and researchers worldwide due to high-profile scandals and corporate collapses like Enron, Satyam etc. Does good corporate governance leads to good profitability for any organization? This is the most important aspect which every stakeholder is interested to know.

RATIONALE OF STUDY

Corporate governance is concerned with the establishment of system whereby the directors are entrusted with the responsibility and duties in relation to direction of company affairs. It is concerned with the morals, ethics, values, parameters and its management. It is voluntary ethical code of business of companies. It deals with exercise of powers over the directions of the enterprise, the supervision of the execution action, acceptance of duty is accountable and regulation of the affairs of the company.

Due to above philosophy several researchers had tried to correlate corporate governance with profitability with an attempt to know if corporate governance and profitability are correlated? If yes, to what extent? Present research paper is also an effort in similar direction considering five pharmaceutical companies selected in the top ten on the basis of market capitalization as on present situation.

LITERATURE REVIEW

Mita Mehta and Arti Chandani had conducted study on "Where Indian Pharma Corporate Stand – Study With Reference To Corporate Governance Practices and CSR" The study identified the co-relation between CSR and Performance of the firm. The broad objectives of the research were to Study the CSR approach among Indian corporate sector, to study CSR disclosures among sample companies as a part of CG disclosures, to measure the impact of CSR on financial performance of corporate and to make suggestions for accelerating CSR initiatives. Five Top Pharmaceutical companies were selected on the basis of their market capitalization during the time period from 2009 to 2014. The researcher identified two variables namely CSR and performance of the company being financial performance. They used correlation method to understand

the correlation between variables like CSR and PAT (Profit after Tax), CSR and EPS (Earning Per Share) and CSR and share price of the firm. From the research data analysis as well the statistical calculation derived from the data correlation the researchers proved that there is positive correlation between CSR and performance of the company. (Mehta & Chandani, 2015)

Priyanka Aggarwal conducted a study on “Corporate Governance and Corporate profitability are the Related? – A study in Indian Context: Are they related? The objectives of this study was to provide an overview of the concept of corporate governance, to present a brief review of literature through survey of important previous researches, establishing a relationship between Corporate Governance and corporate financial performance, to empirically study the relationship between Corporate Governance and corporate profitability over short term in an Indian context and to determine direction of causality in the given relationship. They used initial sample of 50 Indian companies listed on S&P CNX Nifty 50 Index. They considered two sets of secondary data (governance ratings and corporate profitability variables) over a period of three years from FY 2010-11 to FY 2012-13 in analysis, The governance and sustainability ratings data has been obtained from “CSR Hub database”, while the financial data has been taken from companies websites, annual reports, financial statements and ‘moneycontrol.com’. They applied a series of statistical tools like descriptive statistics, multiple regression, correlation and tests of significance (t-test and F-test). They found that governance rating has a positive but insignificant impact on corporate profitability of firm. Further, we find that corporate profitability also has an insignificant positive impact on governance rating of firm. (Priyanka, 2013)

Mahommed Azim had studied “Corporate Governance mechanisms and their impact on company performance: A structural equation model analysis.” The purpose of the study was to use structural equation modeling (SEM) to investigate the extent to which different monitoring mechanisms – the board and its committees, shareholders and independent auditors were complement (i.e. a positive covariance) or substitutes (a negative covariance) for each other. The lack of consistent results in previous Corporate Governance research may be attributable to attention not being paid to monitoring mechanisms’ substitution or complementary relationships. By using SEM, this study concludes that complementary and substitution relationships among monitoring mechanisms are present. Using data from the pre and post global financial crisis period, the study explained where such corporate government impacts occurred, the inconsistencies that were evident in previous studies and provides insights into corporate governance practices (Azim, 2012)

RESEARCH METHODOLOGY

Statement of Problem

To examine correlation between Corporate Governance and financial performance of selected companies.

Objective of study

- a) To measure Corporate Governance Score
- b) To Correlate Corporate Governance Score with Profitability as measured in terms of EPS of companies

Selection of sample

For the purpose of the study the top pharmaceutical companies on the basis of their market capitalization as on 3rd March 2016 has been selected. The sample companies selected are listed is mentioned in the table as follows:

Table No. 1 Sample Companies

Name of Company	Market capitalization value in Rs (Crores)
Cadila Healthcare Ltd. (CHL)	32442
GlaxoSmithKline Pharmaceuticals Ltd. (GSPL)	32,192.65
Divi’s Laboratories Ltd. (DLL)	26208.38
Torrent Pharma (TP)	22670.77
Glenmark Pharmaceuticals Ltd. (GPL)	22411.82

(Source – www.moneycontrol.com)

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Selection of Parameters for measuring corporate governance:

For the purpose of the study the corporate governance parameters are designed on the basis of mandatory as well as non-mandatory requirements issued under Clause 49 along with requisites of Companies act 2013.

Selection of Indicators of Profitability:

For measuring financial performance of given 5 companies, Earning per Share (EPS) is considered of the year 2015-16. EPS indicates earning per share available to equity shareholders. It does not show how much is paid as dividend or how much is retained in business but provides information on how much earning is available to equity shareholders on each share.

ANALYSIS AND INTERPRETATION

The table 2 shows the corporate governance score chart calculated for the sample companies. The various corporate governance parameters designed on the basis of mandatory and non-mandatory requirements issued under Clause 49 along with requisites of Companies act 2013 are shown in column no.2. The “YES” mentioned indicates fulfillment of disclosure norms while “NO” indicates that the disclosure is not made by the sample company in its annual report. The table also shows the corporate governance score of each of the sample companies on the basis of which the ranks are allotted. The table also shows the Total Corporate Governance Score obtained by each of the sample companies on the basis of which the ranks are allotted.

**Table 2
Corporate Governance Score Chart for the year 2015-16**

No	PARAMETERS	CHL	GSPL	DLL	TP	GPL
1	Composition of Board of Directors	YES	YES	YES	YES	YES
2	Board meeting	YES	YES	YES	YES	YES
3	Meeting of Independent directors	YES	NO	YES	NO	YES
4	Audit committee	YES	YES	YES	YES	YES
5	Audit committee Meetings	YES	YES	YES	YES	YES
6	Code of Conduct	YES	YES	YES	YES	YES
7	Nomination and remuneration committee	YES	YES	YES	YES	YES
8	Risk management committee	YES	YES	YES	YES	YES
9	CSR committee	YES	YES	YES	YES	YES
10	Stakeholders relationship committee	YES	YES	YES	YES	YES
11	Boards report and responsibility statement	NO	NO	NO	NO	YES
12	Related party transaction disclosures	YES	YES	YES	YES	YES
13	Subsidiary companies	YES	NO	YES	NO	YES
14	Whistle blower policy	YES	YES	YES	YES	YES
15	Prohibition of Insider trading	YES	NO	NO	NO	YES
16	Non Mandatory requirements	YES	YES	NO	NO	NO
Score:		15/16	12/16	13/16	11/16	15/16
Ranks:		1.5	4	3	5	1.5

(Source – Annual reports of Sample companies for the year 2015-16)

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The major observations are as follows:

Table 3
Ranking of Sample Companies on Corporate Governance Score and EPS

Sample Companies	CG score	Ranking based on CG score	EPS (in Rs.)	Ranking based on EPS
Cadila Healthcare Ltd. (CHL)	14	1.5	19.31	5
GlaxoSmithKline Pharmaceuticals Ltd. (GSPL)	12	4	44.3	3
Divi's Laboratories Ltd. (DLL)	13	3	41.73	4
Torrent Pharma (TP)	11	5	104.20	1
Glenmark Pharmaceuticals Ltd. (GPL)	15	1.5	52.31	2
Rank correlation coefficient				-0.40

(Source - CG score - Table 2 and EPS - Annual reports of companies)

Further an attempt is also made to measure the spearman's Rank Correlation Coefficient between the Corporate Governance rank and the EPS rank of the sample companies as shown in Table No. 3. The Rank Correlation Coefficient between ranking based on CG score and EPS is found to be -0.40. It can be interpreted that there is a Negative correlation between corporate governance and profitability of the sample companies measured in terms of EPS. This exhibits that the companies following better governance practices has higher profitability and provides an handsome appreciation in form of increase in market value. It is also observed that even though CHL had lowest EPS, it has highest market capitalization value among all the sample companies. It seems that the better governance practices adopted by the company as well as the better opportunities grabbed by the company during the year 2015-16 has led to appreciation in its market value.

CONCLUSION

Corporate governance is basically concern with good governance of any company. Following requirements which are laid down in clause 49 and companies act 2013 it could be achieved. Profitability is essential element for any business which is a basis motive for any organization except Non-trading concerns. Now company has to maintain good governance which is a key to success and one of the parameters of success is profitability.

In the present paper, Researcher had established correlation between corporate governance and profitability in terms of Earning per share by considering sample of five pharmaceutical companies and it is found that low negative correlation is observed between them for sample companies.

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