

Chapter 3

Assets Management of the Indian Pharma Sector in the Changing Socio–Cultural and Business Environment of Post–Liberalization Era: A Comparative Study on Select Multinational and Domestic Companies

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ABSTRACT

Efficiency of assets management is an absolutely unavoidable issue in accomplishing the wealth maximization objective of business. In India, the changing scenario in the front of demographic, social and cultural made a prominent impact on the growth of pharmaceutical industry. In fact, during the last two decades the changing socio-cultural and business environment of India witnessed a rapid change in various managerial as well as financial applications of the Indian pharma sector. Assets management is no doubt a vital part of the overall strategy for achieving financial objectives of any industry. In this backdrop, the present study empirically investigates the relationship between the efficiency of assets management and profitability of the Indian pharmaceutical industry during the period 1998-99 to 2012-13 and also examines whether its findings conform to the theoretical arguments. Besides this, the paper also tries to make a comparison, in respect of the efficiency of assets management, between multinational and domestic companies in the Indian pharmaceutical industry during the same period to know whether changing socio-cultural and business environment gives an edge to domestic companies in respect of assets management or not. The sample size of the study consists of ten pharmaceutical companies by taking five multinational and five domestic companies from the Indian pharmaceutical industry. The issues analyzed in this study have been tackled using relevant statistical tools and techniques.

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1. INTRODUCTION

Assets management is essential for the day-to-day and long-term operations of a company. With the opening up of Indian economy since the year 1991, noticeable changes occurred in the practice of assets management. In fact, as a result of the socio-cultural and business environment in Indian corporate sector has failed to maintain its conventional practices of assets management during the post-liberalization era. So, it is high time to analyze the efficiency of assets management of the Indian corporate sector in the post-liberalization period. In this backdrop, the present study seeks to analyze the efficiency of assets management in the Indian pharmaceutical industry during the period 1998-99 to 2012-13 and also to examine whether its findings conform to the theoretical arguments. Besides this, the paper has also made a modest effort to compare the aspect of the efficiency of assets management practices of multinational companies with that of the domestic companies of the Indian pharmaceutical industry during the same period to know whether the changing socio-cultural and business environment gives any advantage to domestic companies in respect of assets management or not.

The remainder of this paper is organized as follows. Section 2 deals with the review of the existing literature relating to the assessment of efficiency of assets management. Section 3 narrates the objectives of the study. In Section 4 the methodology adopted in the study is explained. Section 5 presents the findings of the study. In Section 6 concluding remarks are given.

2. REVIEW OF EXISTING LITERATURE

Before entering into the empirical work, a quick look through the existing literature on the analysis of efficiency of assets management seems desirable. A considerable number of empirical studies on assets management have been carried out by different researchers in India during the last four decades. But a very few studies relating to the assessment of efficiency of assets management have been conducted in India during the post-liberalisation era. The following paragraphs provide very brief explanation of some significant studies so far carried out in India on the issue.

Khatick and Singh (2003) in their work on Eircher Ltd. during the period 1994-95 to 1998-99 showed that there was a positive impact of inventory management of the company towards improving the efficiency of its liquidity management.

Ghosh and Maji (2004) conducted a study on the evaluation of the efficiency of the working capital management of Indian cement industry during the period 1992-93 to 2001-02. This study identified no consistency regarding betterment of efficiency in working capital management of the selected cement companies during the study period.

Sur et al. (2007), made a comparative study of the efficiency of asset management of Colgate-Palmolive (India) Ltd. in the pre-liberalisation period (1980-81 to 1991-92) and in the post-liberalisation era (1992-93 to 2003-04). The study observed a significant negative influence of the company's inventory management on its profitability during the post-liberalisation period.

The study conducted by Azhagaiah and Gejalakshmi (2007) for examining the efficiency of working capital management of thirty selected companies in Indian textile industry during the period 1995-96 to 2005-06 concluded that the efficiency of managing current assets of the companies under study was one of the contributory factors towards improving their profitability.

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