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CORPORATE GOVERNANCE IN HEALTH CARE SECTOR IN INDIA

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Corporate Governance in Health Care Sector in India

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Abstract – When we think of Corporate Governance the first thought which strikes our mind is that corporate governance is only confined to business houses but in reality the very concept of governance is present in every sector. It is seen that companies which follow good governance performs better as compared to non-followers. The simple reason behind this edge is that governance gives confidence to all the stakeholders of the company. The recent growth of Healthcare sector in India has made Corporate Governance apparent in this sector as well. This paper aims at presenting the governance scenario in various health care institutions in India which will assess overall picture of corporate governance in health care industry.

Keywords – Clinical Audit, Healthcare System Structure, Medical Tourism, Clinical Establishments Act, Good Clinical Practice Guidelines, Health Code of Conduct.

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INTRODUCTION

When we talk about the *healthcare sector in India* we cannot ignore the fact that this particular sector is one of the fastest growing sectors in India. Deloitte published Healthcare outlook 2015 which mentions that Health spending in India in 2013 has been 5% of GDP. It is expected to increase further in the near future. Health care spending are estimated to increase from \$96.3 billion to \$195.7 billion during the period from 2013 to 2018, which means that the annual growth rate of healthcare services will be 12%p.a.¹

Even the medical tourism sector has seen boom during recent years which has attracted many foreign patients to India. As per an estimate of Industry Chamber ASSOCHAM, between 2011 and 2015, medical tourism will increase nearly two times This boom in healthcare sector has acted as a catalyst to the concept of governance in healthcare sector.

Now the question arises what does Corporate Governance in Healthcare sector mean? It simply means emphasising on transparency, accountability, strict costing measures and quality healthcare, patient care, bringing in latest technology to benefit patients and being self-sufficient.¹ Corporate Governance plays an important role in healthcare sector in India in the following ways:

1. Classifies the role and responsibilities of different players and stakeholders in healthcare system.
2. The position of each organization has to be clearly defined according to its function and ownership structure.
3. Accountability should be created through segregation of duties as well as securing transparency and free flow of information.(Healthcare Governance and Transparency Association)

In any developed or developing country people spent almost 10 of the GDPⁱⁱ India's healthcare sector is also aligned with same trend and is one of the fastest growing sectors in India.

HEALTHCARE SECTOR IN INDIA

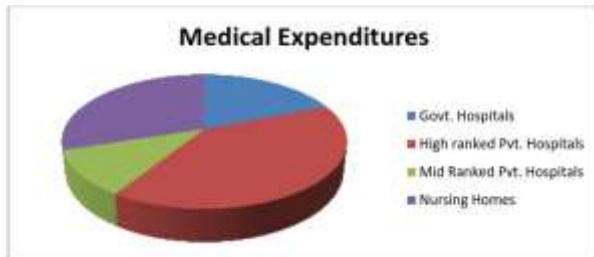
Along with other industries, healthcare industry is also growing very fast in India. It seems that between 2011 and 2015 it will grow at a rate of about 17% per annum and to reach \$280 billion. Of total healthcare revenues in the country, hospitals account for 71 per cent, pharmaceuticals for 13 per cent and medical equipment for 9 per cent. Health services market has emerged very fast in India, Both government and non-government institutions have made significant progress in the field of health, due to which India is respected in the health world. Private sector participation is around 72% of total health expenditure in India. With the advancement in telecommunication services, there has also been

¹
<http://archivehealthcare.financialexpress.com/200802/coverstory01.shtml>

progress in Telemedicine services. Major government and private hospitals of India are now promoting Telemedicine services. Government of India also wants to make India a global medical hub. National Health Mission (NHM) is a step in this direction

Shares in healthcare spending in India, 2015

Private sector's share in healthcare delivery is expected to increase from 66 per cent in 2005 to 81 per cent by 2015.



Today, Indian healthcare is experiencing a new wave of opportunity. Providers are reinventing existing delivery models to bring healthcare closer to the patient. The following emerging trends are changing the course of the industry:

1. The change in the government's role from provider to payer has expanded the financial risk protection coverage to the marginalised.
2. Private sector partnerships through health PPPs are gradually gaining acceptance, thereby improving access to care.
3. The significant demand-supply mismatch has led healthcare to emerge as an attractive sector for PE investments.²

Currently the Indian healthcare industry is growing at an annual rate of 13%. Indian middle class is driving the demand for quality healthcare services higher. The consequent expansion of private hospitals and increased public spending on health could lift the growth rate further. Other factors that could drive the overall growth include ageing population, growing urbanisation, improving physical infrastructure, higher awareness, skilled professionals, low-cost treatments, health insurance, bank funding, telemedicine, business process outsourcing and health tourism.

To ensure that all Government Health care programs reach the needy on time, a proper Public Healthcare Structure is developed:

HEALTHCARE SYSTEM STRUCTURE IN INDIA

Super speciality Tertiary Care Hospitals (AIMS, Fortis, Apollo etc.)



1. **ASHA at Village level-** ASHA (Accredited Social Health Activist) complement the work of ANM & is appointed one per 1000 population. ASHA is the first port of call for any health related demands of deprived sections of the population, especially women and children and acts as a facilitator & promoter of the various Health Programmes of the Government.
2. **Sub-Centres-** Peripheral most physical healthcare unit at the Village level. Covers a population of 5000 in plain areas and 3000 in Hilly and difficult terrains manned by a pair of Health Workers (Male & Female).
3. **Primary Health Centres -** A referral unit of six sub-centres, 4-6 bedded which covers a population of 30000 in plain areas and 20000 in Hilly and difficult terrains manned with a Medical officer incharge and 14 subordinate paramedical staff.
4. **Community Health Centres-** A 30-bedded hospital/referral unit for 4 PHCs with specialized services, which covers a population of 120000 in plain areas and 80000 in Hilly and difficult terrains manned by 4 specialists and 21 subordinate staff.
5. **District & Sub divisional Hospitals-** First Referral Unit for the Tehsil/Taluk/block population which caters to about 5-6 lakhs people. It provides effective, affordable health care services (curative including specialist services, preventive and promotive) for both rural and urban population.

GOVERNANCE IN HEALTH CARE SECTOR

Governance is important task. How well or unwell it is done has significant consequences for health care organizations, the communities they serve, and their patients, medical staffs, and employees.

As said earlier that Although there has been lot of increase in the span of medical services in India for the last two decades, but it is still seen that the poor people of India are still deprived of the benefits of the healthcare facilities. Now, the question arises as to why in spite of various health programs by Government, addition of human resources in healthcare sector etc there is no significant improvement in health care sector? The probable

² <http://www.pwc.in/industries/healthcare.jhtml>

reason behind this can be ill governance in this sector. Now, there are certain elements of Governance which may ensure improvement in Healthcare sector & they are:

1. Existence of Appropriate standards that are transparent and publicly known criteria or benchmarks used to assess and inform health policy, provision, and performance.
2. Information: Ordinary people should be able to get clear information, combined with accurate data on performance and results collected at regular intervals and are able to challenge the government and ensure that services meet their needs.
3. Incentives financial or non-financial that motivate a specific type of behaviour or action, and can be positive or negative.
4. Accountability is the act of holding public officials/service providers answerable for processes and outcomes and imposing sanctions if specified outputs and outcomes are not delivered.³

Good governance in health systems promotes effective delivery of health services. The health sector was the 2nd most corrupt sector in India. This Corruption in health services is serious obstacle to the achievement of good health outcomes. Corruption can be curbed by systematic changes in governance through introducing participation, transparency, accountability and honesty in administration. In India this is a critical issue as even the best-laid plans can become ineffective due to corruption which may lead to leakages and produce sub-optimal results. To ensure this the healthcare structure was developed which was seen in the diagram above.

Thus, to ensure that the healthcare sector booms as it is expected, the Governance in this sector is integral. There are many recent developments in the field of Governance in Healthcare sector which is gradually improving the state of healthcare sector or we can say improving the positive impact of growth of healthcare sector on people and most of it is because of participation of Private parties in healthcare developments with proper Governance policies.

CORPORATE GOVERNANCE IN HEALTH CARE SECTOR

In today's world of changing health risks and opportunities, the capacity to influence health determinants, status and outcomes cannot be assured through national actions alone because of the intensification of cross border and trans-border flows of people, goods and services, and ideas. The need

for more effective collective action by governments, business and civil society to better manage these risks and opportunities is leading us to reassess the rules and institutions that govern health policy and practice at the sub-national, national, regional and global levels.⁴

In modern society it is believed that it is very important for any organisation to be sensitive to human rights, especially when this right are related to the life and death of human being. The International Bioethics Committee of UNESCO, In a report titled 'Social Responsibility and Health' has also considered it important that all health institutions should carry out responsibility towards human right with honesty.

The governance in healthcare sector also has same fundamental pillars of good corporate governance like-

1. Accountability- Where it is expected that all hospital staffs should be accountable for their job done. The accountability can be divided under two heads-
 - (a) Public accountability: Explicit, public detailed procedures for evaluating hospital performance, global budgeting, fair grievance procedures (legal, non-legal), and adequate privacy protection.
 - (b) Stakeholders accountability: External mechanisms of reporting, public disclosure of the processes and rationale adopted in management, external audit, financial account and annual report.
2. Fairness- The good governance in hospitals also talks about fairness where it is believed that Hospital management should treat its shareholders (owners) & stakeholders (hospital staffs, patients, pharmaceuticals staffs etc) equally.
3. Transparency- Public disclosure regarding board members composition, full details of their functioning etc. Effective boards operate openly and transparently. This is especially important where society places the trusteeship for its healthcare in such an entity.
4. Responsibility- Healthcare sector is one of the most crucial sectors as it deals with human life. The management of health care sectors are expected to be responsible enough to understand their role. For Example- BOD should endorse policies and clarify expectations regarding the desired

³ http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2506764

⁴ <http://link.springer.com/article/10.1007/s10728-012-0206-3>

outcomes for the management team with respect to patient safety and quality and receive, review and react to regular reports on clinical performance from the management team.

REGULATORY AND LEGAL FRAMEWORK FOR HEALTH CARE SECTOR IN INDIA

Following framework has been established to regulate, control and Manage health sector in India

1. The regulatory role of the Ministry of Health and Family Welfare
2. Clinical Establishments Act 2010
3. The Indian Council Medical Research (ICMR)
4. Food Safety and Standards (FSS) Act, 2006
5. Global Good Clinical Practice Guidelines
6. The Drugs and Cosmetics Amendment Act, 1940

The healthcare governance in India is not yet proactive. In fact, Indian healthcare sector is the second most corrupt sector in India⁵ which makes governance of healthcare sector a vital issue. Now, the question arises as to why in spite of the presence of proper regulatory framework for Indian health Industry, it is the second most corrupt Industry? The probable reason can be non-compliance of these frameworks by the hospitals, pharmaceutical companies, laboratories and other medical institutions. The concept of healthcare governance is not yet pervasive in India. The governance in hospitals is at infant stage except for few hospitals.

Primarily or minimum these measures of governance are assumed in healthcare sectors:

1. There should be ethics based study and practice among the medical professionals
2. Clinical Audit System should be adopted, in which periodical evaluation of medical practice must be established and should bring required changes in the practice with the changes of developing clinical environment
3. Assessment of clinical practice must be measured to know its effectiveness by evaluating clinical practice and associated expenditure with it.
4. Research and development
6. Risk management components.

7. Attracting investors.
8. Ability to Attract and Retain Quality Employees.
9. Getting license to operate— from key stakeholders not just shareholders.
10. Enhanced Patient loyalty etc.

It is to be kept in mind that the regulatory framework for health care sector and regulatory framework for functioning of hospitals, pharmaceutical companies, laboratories etc are two different concepts. The governance of hospitals, pharmaceutical companies, laboratories etc can be measured with the help of the corporate governance report they produce. These Institutions are expected to produce their corporate governance reports annually. *It is believed that if the health care sector institutions are governed properly then the overall governance of healthcare industry will be in place.* There are more than 50 reputed hospitals in India but it is very difficult to find their corporate governance report in public domain. To assess the status of corporate governance in health care sector in India, we have taken the corporate governance report of some of the reputed hospitals, pharmaceutical companies & laboratories. But before proceeding with that let us know in brief about the history of these medical institutions-

1. Apollo Hospital
2. Fortis Hospital
3. Max Health care
4. Dr.Reddy's Laboratories Ltd.
5. Glaxo Smith Kline (GSK) India.

I. APOLLO HOSPITAL

Apollo Hospital founded in 1983 by Dr. Prathap C. Reddy in Chennai. Since its inception, this health institution has been operating its hospitals chain in Ghana, Sri Lanka, Bangladesh, Nigeria, Oman, Kuwait, Qatar and Mauritius. It has also received International Healthcare accreditation by Joint Commission International (JCI) of America. To show its transparency it presents, every year, its annual financial statements and annual reports to its shareholders

II. FORTIS HOSPITAL

Fortis Healthcare Limited commenced hospital operations in 2001 with the flagship Mohali Hospital. In 2005, Fortis acquired 90% stake in Escorts Heart Institute and Research Centre Limited, a major healthcare service provider owning and operating majority owned hospitals in north India.

⁵ <http://www.livemint.com/Politics/ryfCYbvT6wZfrape4Nq1AJ/Report-highlights-malpractice-in-Indian-healthcare-sector.html>

III. MAX HEALTHCARE

Max Health care was formed in 2001 and is privately owned health care network. Max Healthcare achieved a fair number of accomplishments in FY2013-14. While it was a period of consolidation for the established hospitals in the Max Healthcare network, the new hospitals, especially those launched in the last two years, saw a significant growth. Max Healthcare network now comprises of 12 hospitals located in five northern Indian states with nearly 2,000 installed beds.

IV. DR. REDDY'S LABORATORIES LTD.

Dr. Reddy's Laboratories founded by Anji Reddy, in Hyderabad, Telangana, India. This a very big pharmaceutical producer which makes wide ranges of medicines in India and abroad. It has over 60 active pharmaceutical ingredients and over 190 medications.

V. GLAXO SMITH KLINE (GSK) INDIA.

Established in the year 1924 in India GlaxoSmithKline Pharmaceuticals Ltd. (GSK Rx India) is one of the oldest pharmaceuticals company and employs over 4500 people. The GSK India product portfolio includes prescription medicines and vaccines. Our prescription medicines range across therapeutic areas such as anti-infective, dermatology, gynaecology, diabetes, oncology, cardiovascular disease and respiratory diseases.⁶

The regulatory framework and legal framework is provided for Corporate Governance in India. The same regulatory and legal frameworks are applicable for Hospitals, Pharmaceutical companies etc. like Revised clause 49 of listing agreement, Companies Act, 2013, Narayana Murthy Report, Voluntary guidelines 2009 which can help us to take some of the vital elements required to be present in the annual report of hospitals, pharmaceutical companies etc. like-

1. Board of Director Composition.
2. Audit Committee
3. Shareholder grievance committee/ Stakeholder relationship committee.
4. Remuneration Committee.
5. CEO/CFO Certification.
6. Management Discussion and Analysis Report (MDAR)
7. Auditors report
8. Compliance report.

9. Corporate Governance report.

10. Various disclosures

Now, the annual reports presented by various hospitals, pharmaceuticals companies and laboratories help us to assess their disclosure level and compliance with corporate governance norms:

COMPANIES VARIABLES	APOLLO HOSPITAL	FORTIS HOSPITAL	MAX HEALTH CARE	DR.REDDY'S LABORATORIES LTD.	GLAXO SMITH KLINE (GSK) INDIA
Board of Director	✓	✓	✓	✓	✓
Audit Committee	✓	✓	✓	✓	✓
Stakeholder Relationship Committee	✓	✓	✓	✓	✓
Remuneration Committee	✓	✓	✓	✓	✓
CEO/CFO Certification	✓		✗	✓	✓

COMPANIES VARIABLES	APOLLO HOSPITAL	FORTIS HOSPITAL	MAX HEALTH CARE	DR.REDDY'S LABORATORIES LTD.	GLAXO SMITH KLINE (GSK) INDIA
Management Discussion and Analysis Report (MDAR)	✓	✓	⇔	✓	✓
Auditor's Report	✓	✓	✓	✓	✓
Compliance Report	✓	✓	✗	✓	✓
Corporate Governance Report	✓	⇔	✗	✗	✓
Disclosures	✓	✓	✓	✓	✓

✓ = YES IT IS CLEARLY AVAILABLE.

✗ = NO, IT IS NOT MENTIONED

⇔ ⇔ = NOT CLEARLY MENTIONED.

Thus, above we saw that these top notch medical institutions are adhering to the corporate governance but these are handful. In India there are many medical institutions and only few have disclosed the corporate governance policies followed by them. In fact, there are many medical identities that have nowhere disclosed whether they are following Corporate Governance guidelines or not.

The best way to improve this scenario is by following the 12th year plan for health care sector which has given due importance to governance for this sector.

CONCLUSION

The healthcare sector in India is developing rapidly. This sector has been the area of concern for Indian Government. The interesting point is that in 2011, there was projection that *Indian healthcare industry comprises of hospitals and allied sectors which are expected to grow 23 % per annum to touch US\$ 77 billion within a year(2012).*⁷

⁶ <http://www.gsk-india.com/about-company.html>

⁷ <http://www.indianmirror.com/indian-industries/health.html>

Today, in 2015 the projections are positive and Healthcare sector is likely to hit \$155 billion revenue.⁸ While the government allocated a customary fund towards the healthcare sector, there was absence of a clear roadmap for the industry at large, especially the pharmaceutical industry. With India spending a meagre 4.2% of its total GDP on healthcare, the Budget was a big opportunity for the government to set priorities straight and underline the significance of preventive healthcare.

Indian government has a positive approach towards health care, which reflects in government spending in healthcare sector. Budget allocation in healthcare sector has been increased from 33,150 crore to 30,645 crore^{xiii}, which will boost the National Rural Health Mission (NHRM) and other healthcare projects. Healthcare facilities will be more accessible to general people of India.^{ix}

With so much developments taking place in the healthcare Industry the area of governance in this industry becomes the major concern. There are many renowned hospitals, laboratories, pharmaceuticals companies in India but their governance policies are still at infant stage. As we saw in the last chapter that there are only handful medical institutions that have properly disclosed their corporate governance guidelines and their vision and mission. This gives us the hint that some of the initiatives need to be taken in order to strengthen the Corporate Governance in India. *Some of the measures can be summarised as under-*

1. A comprehensive governance system must be developed
2. Accountability/ Responsibility must be clear and well communicated among the all decision makers.
3. Clarity of the strategic code of direction for the organisation
4. High power committee to control and manage performances
5. Set high standards of professional code and ethical conduct
6. Participation of stakeholders
7. Establishment of internal audit and check mechanism.
8. Medical formalities, procedures and policies should be so transparent that everyone can have easy access of all these things.

1. A comprehensive governance system must be developed

A comprehensive governance model should be established in such a way to ensure a well-defined operating structure, clarity of roles, responsibilities and hierarchy of the organisation.

2. Accountability/ Responsibility must be clear and well communicated among the all decision makers

The responsibilities of the decision-makers within the organization should be issued in such a way that there is no doubt about their rights and duties so that there is no hindrance in each other's work. Information regarding such mechanism must be available to all stakeholder and general public.

3. Clarity of the strategic code of direction for the organisation

It is necessary for all health organisations that they have a strategic plan, only under an articulated plan, an organisation can achieve its long term objectives. All these strategic plans must be clearly defined and what code of directions is to be followed it must be clear to everyone in the organisation.

4. High power committee to control and manage performances.

A committee should be formulated for the institution to have a check over ethical and financial performance of the organization and to suggest required changes to be made to positively merged with the changing working environment.

This committee must ensure that all government policy, directions and suggestions are followed by the institution.

5. Set high standards of professional code and ethical conduct.

Every health organisation must set its Health code of Conduct and must be communicated to every member of the organisation. Each and every member must be aware and abide by these codes of conduct.

A mechanism should be developed to resolve efficiently and effectively the breaches of the code of conducts

6. Participation of stakeholders

There should be an appropriate opportunity to stakeholders to involve and to contribute themselves in formation of plans for the organisation. They should have access of relevant information which affects their interest in the organisation.

⁸ http://articles.economictimes.indiatimes.com/2012-12-10/news/35726565_1_healthcare-sector-healthcare-infrastructure-rural-areas

7. Establishment of internal audit and check mechanism.

To check the effectiveness of organisation's policies and procedures, an internal audit mechanism must be established in such a way that responsibilities of the conduct can be determined.

8. Medical formalities, procedures and policies should be so transparent that everyone can have easy access of all these things.

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