

A Study on Financial Practices and Accounting Standards of CRO Industry in India with Special Reference to Hyderabad Based Companies

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Abstract-Based on the author's PhD thesis, this paper is carved out to bring out the financial practices followed by CRO industry. A 25% sample was selected out of employees, owners and experts of this industry and data collected using a structured questionnaire to elicit the responses on financial aspects of running a CRO. The need to identify the "right business practices" has been a far cry in this segment. This paper, therefore, examines this broader evidence on right business practice in other sectors and examines some of the underlying issues related to "good" business practice in the health sector and makes useful recommendations.

Keywords-CRO business practices; financial planning; financial technology; financial paradigm

I. INTRODUCTION

Contract Research Organizations (CROs) cater to the research needs testing and analysis for the healthcare and allied industries. Traditionally they are seen as testing laboratories but with globalization this industry has witnessed intense competition and . However, in recent years it has been increasingly recognized that getting the "right" CRO business policy has to be at the core of any sustainable solution to health system performance. This is partly a result of the need to upscale capacity in many country health systems to meet the Millennium Development Goals. A well-motivated and appropriately skilled and deployed workforce is crucial to the success of health system delivery. The actual methods used to manage human resources in health care may in themselves be a major constraint or facilitator in achieving the objectives of health sector.

In comparison to the evidence base on health care reform-related issues of health system finance and appropriate purchaser/provider incentive structures, there is very limited information on the policy dimension or its impact. There is a limited, but growing, evidence base on the impact of policy on organizational performance in other sectors, but there have been relatively few attempts to assess the implications of this evidence for the health sector.

This paper, therefore, examines this broader evidence base on right business practice in other sectors and examines some of the underlying issues related to "good" business practice in the health sector and makes useful recommendations.

II. OBJECTIVES

1. To study financial practices and find any differences between the target groups of companies (ex: cash flows).
2. To assess the significant factor of external and internal environment of the selected companies.
3. To study the differences in auditing practices adopted by the selected companies.
4. To assess the "cumulative performance indices" adopted by the selected companies.
5. To recommend overall business strategy based on financial practices.

III. HYPOTHESIS

1. There may be significant differences between the selected companies on financial performance measured by cash flows.
2. There will be factors that impact the company working in the external and internal environment.
3. There will be differences in auditing practices adopted by the selected companies
4. "Cumulative performance indices" adopted by the selected companies will help to develop business strategy
5. Each company have their own business strategy but there will be some common practices across the industry.

IV. REVIEW OF LITERATURE

Literature on the particular topic of accounting and finance is scant. But the real data is archived in the company reports, balance sheets, meetings minutes and association reports . We have gone to several companies to fathom such records and collate the information for the first time in this research paper which makes it so special . Of this, Vimta Labs Ltd is one company which has contributed

enormously to the growth of this industry for 3 decades or more. Hospitals such as Apollo, CARE and NIMS at Hyderabad have taken clinical trials to the new level during the last 25 years.

The cost controls, budgeting, financial planning in this industry has been not so uniform as in other industries due to its special nature of research orientation. Each company is following its own norms but the accounts departments of all these companies seem to follow standards of “institute of company secretaries of India”- ICAI. The financial and accounting standards of ICAI (Institute of Chartered Accounts of India) are followed by all the CRO companies though they customize to an extent to their specific needs.

V. DATA ANALYSIS

Secondary data and abstracts of the previous research works on the same area of research were thoroughly studied to analyze fundamental issues in the topic.

A. Primary data collected through questionnaire analyzed using

- Tabulation,
- Graphs,
- Pie charts,
- Percentages,
- Bar charts,
- Software package

B. Conclusion cross before finalization under

The CRO industry is on one side and technology on the other side which seem to be developing. The organizations normally grow into larger ones over time with investments. The return is lower compared to other sectors in the healthcare sector. For example, a Pharma company is different from a CRO Company. The rest of how aforesaid financial issues can be addressed by the CRO industry, as explained hereunder:

The CROs of all types do not seem to have any common opinion about investments because each unit is driven by its own situations. The investments for the large organizations come from either bank debt or equity from the financial markets. For medium size CROs, the investments come from Venture Capitalist, Angel Investors and banks beside personal finance. The small CRO mainly invest through personal finances apart from preferred investors from close groups or family networks. However,

the ROI is relatively poor because cost of funds is still high in India compared to world average (India – 12% vs. World Average 2.5%). Therefore it is recommended to bring policy measures to allow CROs for international funding at cheaper cost instead of Indian Banks or capital markets by which CROs are not viable.

The opinions of CROs differed widely on this parameter because the line of credit is unpredictable and CROs follow their own methods of funding where the question of turning down a loan or credit does not arise.

The following graphs & tables explain financial factors in all the three sectors (large, medium and small) of CRO industries taken for study.

Data analysis graphs & Figures : Uniform feedback from large and small CROs saying they have sufficient working capital whereas the medium size CROs reported mixed reaction of yes and no for working capital and therefore it is recommended that medium CROs must focus on securing adequate working capital for the yearly running of company. The following graphs explain the percentage of respondents who indicated how the company is following the financial and accounting standards in day to day working of the company, starting from the cash flow projections.

Figure no 1 How CROs use written Cash flow projections, in financial planning:

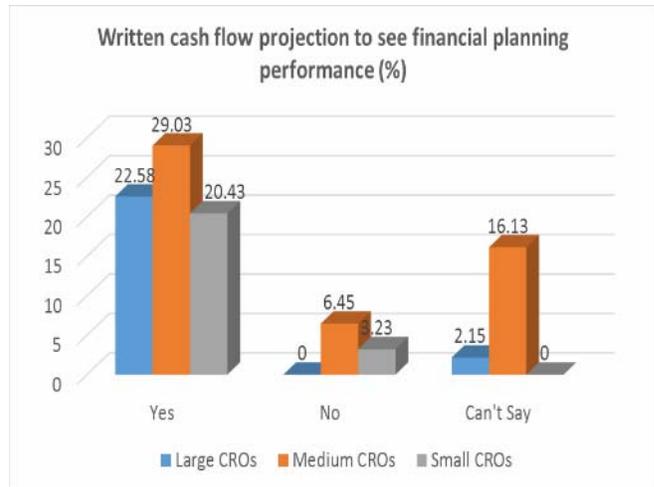


Figure 2 How CROs use audit systems, in financial planning:

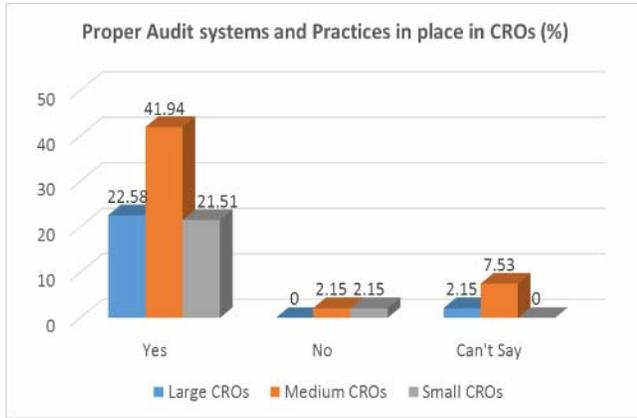
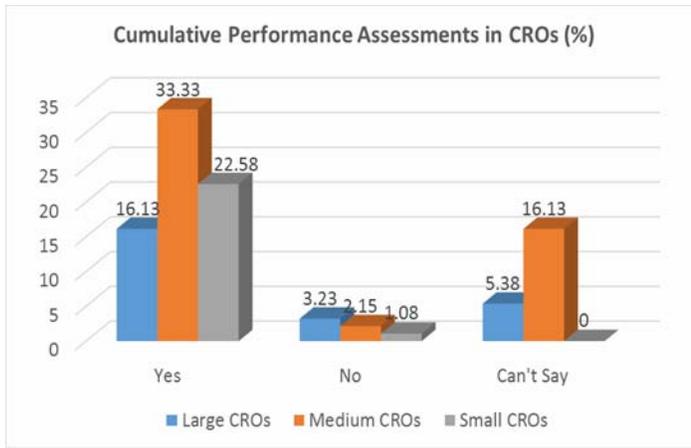


Figure 3 How CROs use cumulative performance assessments in financial planning:



Based on the aforesaid analysis of financial and accounting parameters, the following conclusions are made:

VI. CONCLUSIONS

A. The businesses strategy for large organizations with turn-over above Rs. 50 cr. And above p.a., should be focused on large scale continuous investments, international customer acquisition and long term customer retention and management of attrition in the organization and technology up-gradation, branding with quality while meeting the ever increasing regulatory norms and rating agency requirements. Acquisition of capital from external sources is recommended due to high cost of funds in India @ 12% p.a. Compared to global 2.5% p.a. This requires policy changes at Govt. level and the industry force or lobby should be strong enough to divert Govt.'s attention to solving the problems of this industry.

B. The medium size CROs (Rs. 10 to 50 cr. p.a.) should focus on growth with investments while competing with large CROs on one side and smaller CROs on the other, on price, quality and service. They would not be able to have everything in-house and therefore may strategize

for linkages with large CROs locally and globally which will help in improving their business viability. The organizations ACRO (Association of Contract Research Organizations) should play vital role in this. They also should have strategies to attract Govt.'s attention to solve their problems of capital, duties and technology transfer avenues.

C. The Small CROs (below Rs. 10 cr p.a. Turnover) should operate in small segment by networking with small customers using their special skills and just in time supply capabilities which cannot be serviced by large or medium organizations. Their long term strategies should be to grow with calculated risk of investments and returns by carefully selecting markets and niche pockets which they can effectively service.

D. For all the three types of CROs namely large, medium and small, the following parameters serve as guideline for strategy making in each category as per the factor analysis we carried out on various parameters classified as external and internal factors which help in strategy making particularly in financial and accounting matters of the company.

External Factors (factor analysis summary):

1. Regulatory issues (0.99985) preferred by Small scale CROs
2. Key Financial Ratios (0.99985) preferred by Small scale CROs
3. Financial foundation (0.99743) preferred by small scale CROs
4. Legal structures (0.99743) preferred by small scale CROs
5. Operational risk (0.99328) preferred by Large scale CROs
6. Opportunities (0.99044) preferred by Large scale CROs.
7. Operational risk (0.98851) preferred by Medium scale CROs

The importance given to each parameter in strategy making depends on the factor loadings indicated in the above table.

Internal factors (factor analysis summary):

Focus Area	Large	Medium	Small
Technology sophistication	0.99699	0.97108	0.08478
Customer focus	0.99143	0.87482	0.97324
Branding	0.97939	0.93701	-0.00053
Return on investment	0.97675	0.99804	0.57739
Legal compliance	0.97399	0.85432	0.99316
Marketing	0.95012	0.98797	0.99854

Accuracy (Precision)	0.91721	0.94191	0.99157
Quality (Adherence to Standards)	0.80883	0.91502	0.98422
HR	0.77569	0.49932	-0.29789
Creation of social value (CSR)	0.6669	0.55483	0.00606

The importance given to each parameter in strategy making depends on the factor loadings indicated in the above table.

VII. RECOMMENDATIONS

Based on the aforesaid interpretations of the tables in each hypothesis relating to each objective of the study, the following recommendations are made.

A. CRO industry suffers from the vicious circle of need for continuous investments to modernize the equipment to catch up with the technology revolutions and customer preferences as no customer would go for a CRO using old equipment. The returns however are not commensurate even to cover the interest costs. The only solution thus is to manage costs well by Audits, Austerity measures, budgeting amidst several operational risk factors highlighted in this study. This calls for a specific “Financial Strategy” for specific CROs depending on their own SWOT parameters (strengths, weaknesses, opportunities, threats).

B. Investments, the study recommends, should be made based on technology forecast well in advance to cope with the obsolescence. The equipment should be bought at a time when it is available cheap before the costs go up and when the technology can survive for reasonable period instead of at the declining stage of the equipment. This “Financial Technology” should be designed by each firm suiting to its own situation, so that investments are made after through study of technology lifecycles, forecast and in-house research and development.

C. The study suggest a unique financial strategy to be adopted by each company since there is no, there cannot be, any single solutions for all the problems which are diverse and special for each situation and each company. Such financial strategy should encompass its own scope and limitations of resources and opportunities. Vimta Labs Hyderabad is a case in point which crafted its own “Financial Paradigm” without following text books or any other competitors.

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