

# *Analysis on the Problems and Countermeasures of R&D Information Disclosure in Pharmaceutical Listed Enterprises*

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**Abstract:** The research and development capabilities of the pharmaceutical industry are crucial for the development of enterprises, but the content of research and development information disclosed by enterprises to the public is uneven, and there are some problems that are not conducive to the protection of investors' interests and the effective operation of the market. Based on the theories of information asymmetry and signal transmission related to agency and information disclosure, and using literature research, text analysis, and case study methods, this paper analyzes the R&D information disclosure status of listed companies in the pharmaceutical industry. The study found that there are many problems with R&D information of enterprises in the pharmaceutical industry. For example, some companies' disclosure of R&D information is insufficient and incomplete; Some companies lack consistency in disclosure of R&D information and do not disclose specific R&D information. At the time of investment capitalization, 3. Some companies have data errors in the disclosure of R&D information, and even the final profits are calculated through false disclosure of R&D information. In response to such problems, an analysis of the reasons is conducted from both internal and external aspects of the enterprise. Based on the analysis of the current status and reasons of R&D information disclosure, optimization suggestions are put forward. This article not only hopes to help the industry improve R&D information disclosure rules, but also hopes to increase awareness of the importance of corporate R&D information disclosure and protect the interests of investors.

## **1. Problems in R&D information disclosure of pharmaceutical listed companies**

### **1.1 The names of research and development expenses are not consistent, and some data cannot be matched**

In the management expense annotation project, it is required to disclose the amount of research and development expenses in detail. Upon reviewing the annual report, it was found that the disclosure names for research and development expenses in the industry are extremely inconsistent. The names of research and development fees, technology upgrade and development fees, technology development services and testing fees, research and development fees, and technology

development expenses need to be examined to determine whether their connotations are consistent with the R&D expense items in the guidelines, and are not conducive to investors' horizontal comparison between enterprises[4].

In addition, by checking the amount of R&D expenses in the management expense details disclosed by enterprises with the total amount of R&D investment minus the capitalization amount, it was found that many enterprises disclosed unequal data between the two. Data errors can lead to a decrease in the reliability of accounting information quality and have a negative impact on the enterprise.

## **1.2 The disclosure of capitalization time points for R&D expenditures is not specific**

At present, the accounting standards for enterprises in our country stipulate that the R&D expenditure is expensed and capitalized as "phased, optional, and conditionally capitalized". The specific description is the expenditure on internal R&D projects of enterprises, and the R&D stage expenditure should be distinguished; Expenditures that belong to the development stage and meet relevant conditions can be capitalized and recognized as intangible assets. This stage differentiation enables enterprises to better match the principles of income and cost, and capitalization can be recorded as intangible assets, with related expenses incurred being amortized year by year.

After calculating and comparing more data in annual reports over the years, it was found that the capitalization amount of R&D investment by some enterprises in the pharmaceutical industry has a significant impact on profits[3]; In addition, observing the division of research and development stages and capitalization time points disclosed by enterprises with high R&D investment, it was found that the capitalization time points of each enterprise were different, and some enterprises did not even disclose this. Some companies choose to record their expenses in the development stage after obtaining relevant approvals or certificates; Enterprises that are more conservative in handling will be divided into the development phase when entering the second or third phase of clinical trials[1].

There has always been controversy over the issue of R&D expenditure capitalization and capitalization. Overly aggressive capitalization without explanation or detailed disclosure can make the market and investors believe that there may be suspicion of earnings management, and the reliability of information may also be reduced. If enterprises use the space formed by different accounting treatment methods to manage earnings from capitalization of R&D investment, it will create a bad atmosphere and damage the quality of accounting information. Therefore, it is necessary to strengthen the improvement and management of information disclosure such as the classification conditions for R&D investment expenditure or capitalization[2].

## **2. Cause Analysis**

### **2.1 There are costs associated with R&D information disclosure**

Information disclosure has costs, and the preparation of annual reports requires a lot of time. The collection and organization of relevant information, qualitative and quantitative description processing, report preparation, and dissemination will all bring a lot of costs to enterprises. The level and frequency of information disclosure are positively related to disclosure costs. For example, if a company discloses the amount and progress of R&D investment by project, it will increase various disclosure costs such as corporate data accounting. If companies do not want to increase costs, they will reduce the level and frequency of R&D information disclosure. Unfortunately, such an approach can lead to erroneous disclosures and reduced reliability of related information. In addition, when the costs incurred by enterprises in disclosing relevant information are not

proportional to the benefits they can obtain, they may tend to save costs, resulting in a decrease in the quality of information disclosure, resulting in insufficient or inaccurate disclosure, and a decrease in the willingness of enterprises to voluntarily disclose information.

## **2.2 Incomplete internal governance of listed companies**

The reasons for insufficient information disclosure and errors in listed companies may directly come from the internal management of the company, affecting the quality control of information disclosure[5]. The role of the board of directors, supervisory board, etc. has not been effectively played, and there is a conflict of interest between the owner shareholders and the hired enterprise managers. In addition, if there is a lack of effective communication between the company's relevant accounting personnel and other responsible persons regarding R&D investment, it will also lead to inconsistent information disclosure. In addition, the professional competence of the personnel responsible for issuing relevant reports, as well as their understanding of relevant standards, as well as insufficient understanding of information disclosure systems and compliance, may also lead to issues such as non-standard information disclosure by enterprises.

## **2.3 Capitalization operations are difficult to unify and regulatory efforts are insufficient**

The information disclosure and reporting rules and contents issued by the China Securities Regulatory Commission only provide general guidance for the division of research and development stages and capitalization conditions of enterprise research and development expenditures, and there are no mandatory classification standards. This provides enterprises with controllable space, such as adopting aggressive accounting policies, advancing the capitalization time, and reducing the impact of expense reduction on profits. But unfortunately, this can lead to losses for investors

At the same time, relevant regulatory agencies have not imposed mandatory controls on the issue of non-standard disclosure of research and development information, leaving loopholes for enterprises to exploit; There are a large number of listed companies, and the China Securities Regulatory Commission (CSRC) conducts a particularly detailed screening of each company's information disclosure, which requires a lot of cost, time, and effort. It is difficult to review each disclosure item in each company's various reports one by one. The insufficient supervision and review efforts have led some companies to neglect detailed disclosure, leading to a negative disclosure mentality.

## **3. Suggestions for improving the disclosure of research and development information of pharmaceutical listed enterprises**

### **3.1 Strengthen internal governance and encourage voluntary disclosure**

On the enterprise's own side, a detailed plan should be formulated for R&D investment, rising to the strategic level[6]. From the planning and actual execution of R&D investment to subsequent management and accounting, all processes should have detailed execution to improve the quality of disclosure. In addition, better disclosure content can send a positive signal to investors. Management should further improve the internal information disclosure system and procedures of the enterprise, timely identify problems, develop relevant internal control systems for special management of R&D projects and expenses, and increase attention to R&D information disclosure.

### **3.2 Improve the paradigm of R&D information disclosure**

The China Securities Regulatory Commission (CSRC) can establish a framework for the disclosure of R&D information for enterprises by providing paradigms. There are many measures that the Securities and Futures Commission can take. It can publish exemplary presentations of R&D projects. This introduction can include the purpose of key research and development, current progress, future plans, and impact on corporate development. At the same time, the introduction of R&D results can separately list the introduction of intellectual property patent authorization and the introduction of R&D personnel. These measures can facilitate companies to disclose relevant R&D information in accordance with the paradigm.

### **3.3 Strengthen the supervision of research and development information disclosure**

In terms of the China Securities Regulatory Commission, as the supervisory and regulatory agency for information disclosure of listed enterprises, it should increase the efforts of supervision and spot checks on information disclosure, and create pressure on enterprises to disclose information. On the basis of the existing evaluation mechanism for information disclosure of listed enterprises, the China Securities Regulatory Commission can add quantitative evaluation, comparative ranking, and other methods to increase the publicity of insufficient information disclosure of enterprises, so that enterprises can clarify the shortcomings of their research and development information disclosure, promote enterprises to achieve authenticity, accuracy, and clarity in their initial disclosure, and ensure the fairness of market information exchange.

### **3.4 Increase the severity of punishment**

For violations and false disclosure of research and development information, while increasing regulatory efforts, it is also necessary to increase efforts to punish violations and illegal events. To enhance the deterrent power of regulation, it is necessary to increase punishment, make enterprises pay higher costs than illegally obtaining profits, reduce and eliminate the impure mentality and motivation of medical companies to manipulate stock prices through false positive information disclosure and profit.

In addition, in order to ensure the orderly operation of the market, relevant institutions should also introduce corresponding policies, improve legal protection mechanisms, help investors who have suffered losses maintain their rights, reduce and recover losses, and prevent major shareholders from using improper means to infringe on small and medium-sized shareholders and investors' illegal operations. At the same time, investors should also be guided to strengthen their awareness of safeguarding their rights, learn professional knowledge in securities and other markets, correctly judge and evaluate the value of stocks, and avoid blindly following the trend of investment by some intermediary institutions.

## **4. Authors' contributions**

This article aims to explore the disclosure of research and development information in the pharmaceutical industry with multiple research and development activities and obvious characteristics, and to illustrate the common problems in the industry. This article evaluates the current situation of R&D information disclosure, analyzes existing problems in R&D information disclosure, reveals the importance and impact of R&D information disclosure on enterprises, and then attempts to analyze the reasons for insufficient or even false R&D information disclosure, and proposes suggestions from internal and external aspects. This article hopes to help companies

enhance their awareness of the quality of information disclosure.

## 5. Conclusion

The research and development information disclosed by enterprises serves as an important source of information for external acquisition and evaluation of the innovation and future development capabilities of enterprises. Good disclosure of research and development information can enable the market and investors to fully understand the progress of the enterprise's research and development activities and capabilities, thereby providing a more accurate evaluation and judgment of the future performance and development potential of the enterprise. On this basis, the quality of research and development information disclosure also affects the response that enterprises receive from the market and investors. This article is based on the analysis of the disclosure of research and development information in the pharmaceutical industry. It identifies the problems and reasons for the disclosure of research and development information in the pharmaceutical industry, and proposes improvement suggestions for information disclosure such as research and development in the pharmaceutical industry. The China Securities Regulatory Commission can increase regulatory efforts such as spot checks on information disclosure, causing disclosure pressure on enterprises, and it can strengthen punishment efforts to form a deterrent force for enterprises. Also, the China Securities Regulatory Commission encourages voluntary disclosure by enterprises and clarifies the benefits of improving the quality of information disclosure. And the organization not only reduces the increased disclosure costs caused by inquiries, investigations, etc; but also provides relevant information disclosure paradigms for enterprises, to some extent reduce the cost of information organization for enterprises.

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