

Analysis of corporate governance at bajaj auto limited

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Bajaj Auto Limited is one of India's premier two and three wheeler automobile manufacturing companies. It was founded in the year 1945. For the financial 2009-10, the company had sales of Rs. 12152. 74 crores and net income of Rs. 1597. 22 crores. It exports its two and three wheeler vehicles to more than 50 countries. The company as of 2010 accounts for 24. 3% of the Indian motorcycle market. Corporate Governance practices of Bajaj Auto Ltd.

Here are the significant points regarding the corporate governance of Bajaj Auto followed by an analysis of their effectiveness and impact. * The company has stated that its corporate governance policy is centered on 4 concepts of transparency, fairness, disclosure and accountability. Any good governance has 8 features that characterize it. They are: participative, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follow the rule of law.

Bajaj Auto as from its statement on corporate governance, we can conclude that it follows and implements at the maximum 5 out of the 8 features necessary for good governance (the 4 features that it has explicitly stated and the 5th feature being implicitly assumed that it follows the rule of law). Thus there is more room for the company to improve its corporate governance policies. It must strive to incorporate all the 8 features that are essential to implement good governance. * The company has been following corporate governance policies even before SEBI rules and the clause 49 of the listing agreement came into force.

This is a good sign of the commitment shown by the company towards effective corporate governance and indicates that the company believes in the principles of transparency, fairness, disclosure and accountability.

* The company's chairman Rahul Bajaj is also an executive. Thus according to the rules the company's board must have at least one half of its members to be non executive, independent directors. The board consists of 16 members of which 4 are executives, 3 are non executive and 9 are non executive and independent thus conforming to the said rule. Read about Corporate Governance at Wipro

The board during the year 2009-10 met 6 times, and one of the independent directors J N Godrej was absent for all the 6 meetings. This undermines the above rule as an independent director must attend the board meetings and ensure that the company is functioning in the proper manner and it is following all the rules and upholding the interests of all the stakeholders. Only 3 out of the 9 independent directors attended all the 6 board meetings

* The company in its board meeting on January 30, 2008 laid down a code of conduct for all directors and senior management of the company.

All directors and senior management personnel have affirmed compliance with the code for 2009-10. A declaration to this effect signed by the managing director / chief executive officer is given in this annual report (2009-10). The code of conduct lays down a set of rules to ensure more honesty and integrity of the directors and senior management of the board. This is a step in the right direction to promote good governance in the company.

* Some of the board of directors such as J N Godrej (also the chairman of Godrej & Boyce Manufacturing Company Limited), Shekhar Bajaj (also director of Bajaj Electricals Ltd.

And Hind Musafir Agency Ltd.) were involved in related party transactions. All the related party transactions are maintained by the register of contracts maintained by the company under section 301 of the Companies Act, 1956.

* The board does not provide stock option plans for any of its directors be it executive or non executive. The directors are also were not paid any performance linked incentive. The company also did not advance any loans to any of the directors for 2009-10. Their remuneration is set independently by the Remuneration & Nomination committee and it is fixed.

Thus remuneration policies of the company are in compliance with policies and rules laid out.

* The company has not adopted the method of using postal ballot to adopt any resolution it seeks to pass during its AGM. This must be looked into and should be made available to the shareholders when passing important resolutions come to the fore.

* The company has set up a shareholders and investors grievance committee consisting of independent directors to specifically look into the shareholders' and investors' complaints on matters relating to transfer of shares, non-receipt of annual report, non-receipt of dividend etc.

In addition, the committee also looks into matters that can facilitate better investor services and relations.

* Some of the non mandatory requirements of clause 49 that the company has complied with include: Whistleblower policy The company has a whistle blower policy to enable employees to report to the management their concerns about unethical behavior, actual or suspected fraud or violation of company's code of conduct or ethics policy. This mechanism provides safeguards against victimisation of employees, who avail of the mechanism.

This also provides for direct access to the chairman of the audit committee in exceptional cases. The policy has been appropriately communicated to the employees within the organization.

* Some of the non mandatory requirements that the company has not complied with include:

* The Chairman of the board Rahul Bajaj is also an executive of the company.

* There are no qualifications of the financial statements of the company for the year 2009-10.

* The company has actively implemented policies to conserve energy and other resources.

Various measures have been taken to ensure that electricity, water and fuel (LPG) are conserved. Some of the measures taken include:

* Electricity: introduction of LED lights, compact fluorescent lamps for office lighting, efficient use of compressor and installation of transparent roof sheets to make better use of natural lights.

* Water: use of recycled water, drip/sprinkler system for better usage, more efficient use of water by installing timers, replacing of old pipes with new ones to prevent leakages.

* LPG: installation of heat recovery system and reducing the number of heat up occurrences from two to one for the Continuous Gas Carburising furnace. All these activities cost Rs. 81 lakhs but resulted in savings of Rs. 151 lakhs. Also this is an environmentally friendly measure that shows the company's concern for other stakeholders as well.

* The company has a well defined Corporate Social Responsibility plan. The core activities of the plan focus on ethical functioning, respect for all stakeholders, protection of human rights and care for the environment.

Some of the activities that form part of it are:

* Code of conduct and affirmative action with regard to hiring and non-discrimination of people belonging to the weaker sections of the society.

* Education: promoting and upgrading of ITIs * Health: setting up of an anti retro viral treatment centre The company also carries out further activities through various charitable trusts, NGOs. All these indicate that the company is actively trying to promote the welfare of the stakeholders of society and not just itself.

* The governance practices of the company indicate that it is following the stakeholder theory when it comes to running its business. The company believes that it has a responsibility not only to its shareholders but also to other various stakeholders such as employees, communities, customers,

suppliers, environment etc. The company has shown commitment to improving the stakeholder's welfare and not just focusing on the company profits.

* The company faces a vertical challenge in its corporate governance. The chairman of the board is also an executive.

Also the board consists of several members of the promoter family who own substantial part of the company. The promoter family members all occupy key positions in the company and on the board. This may pose significant challenges for effective corporate governance as the owners and management are the same, it may result in conflict of interest situations where the resulting action would benefit the promoter family more than the company and other company stakeholders.

* The company also faces a horizontal challenge in its corporate governance as the promoter family and group own 49.69% of the company.

Hence the promoters can significantly influence the working of the company to their own benefit.

* The financial statements that the company provides every year to its shareholders conform to all the rules and regulations required. Also the company's financial statements are comprehensive with an in depth Management discussion and analysis with results that are suitably summarized at various points of the report. The report also contains suitable charts and graphs to summarize the data and present it in a concise manner.

All these measures taken by the company go a long way in making the financial reporting more comprehensible to the investors and help them to better understand the financial position the company is in.

* The company's disclosure policies conform to the various rules and regulations. The company can take this forward by incorporating procedures to disclose information as soon as something significant (either positive or negative) happens from the current policy of disclosing as and when it is required under the various rules. The company should not hesitate to disclose negative information.