

## **An Insight into the Governance Disclosures of Hindustan Unilever Limited**

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### **ABSTRACT**

*The objective of the study is to examine the disclosures regarding the governance practices of HUL. The series of corporate scandals that took place in India, raised the concerns about the need of implementation of corporate governance reforms by adopting international standards of governance. Sound governance practices adopted by a firm ensure better board functioning and effectiveness. The Clause 49 of the SEBI (LODR) Regulations, 2015 and The Indian Companies Act, 2013 lay down mandatory governance practices to be complied by the listed entities. The study proposes to overview the governance structure of the company, as in the context of compulsory governance laws and regulations and give appropriate suggestions for further improvement in its governance practices.*

**Keywords:** corporate governance, board functioning, effectiveness.

### **INTRODUCTION:**

Ever since the series of corporate scandals that took place in India, it has listed corporate governance on its development agenda. These misdemeanors, owing to poor financial reporting and lack of proper accountability standards, raised the concerns about the need of implementation of corporate governance reforms by adopting international standards of governance. Mande et al (2013) quote the examples of corporate scandals, namely, Enron, Tyco and World Com and claimed that such scandals could even result despite the strict compliance to the formal regulations of governance and may bring misfortunes for the several stakeholders. The high-profile scandals such as WorldCom and Enron which were found guilty in accounting frauds also focused their attention on the formulation of more stringent governance reforms (Uzun et al, 2004).

The companies are directed and controlled by a system or a set of codes and regulations commonly known as corporate governance. According to Cadbury Report, 1992 “*Corporate governance is the system by which companies are directed*”.

Realizing the significance of independent boards, vigilant enforcement of governance laws and strict actions to be taken on those found guilty for misconduct, fraud or mismanagement can be one of the ways to ensure a sound corporate environment in India. Sarkar (2009) stated that corporate governance in Indian context unleashed its importance after the corporate scandal of Satyam computer services in 2008, and led to emergence of overall new corporate governance reforms to deal with better boards, in terms of their composition and functioning. Pintea & Phillip (2014) assert that a sound corporate governance framework helps in enhancing of firms’ performance, helps to boost the confidence of investors and increase the firms’ competitiveness.

The Indian Companies Act and Clause 49 of the SEBI Regulations provide broad guidelines on the board evaluation aspects such as evaluation of the directors on board as well as the several committees of the board. However, the revised clause 49 in 2017 contained elaborated notes to cover the body evaluation more effectively, such as the evaluation process, the feedback and action plan, frequency of evaluation and its periodical review.

Board of directors has been identified as one of the most important internal governance mechanisms. Board independence has also been identified as an important variable of corporate governance (Castro et al, 2013). Clause 49 of the Listing agreement, provides that, the board composition of listed entities should be an optimal mix of non-executive as well as executive directors of a company.

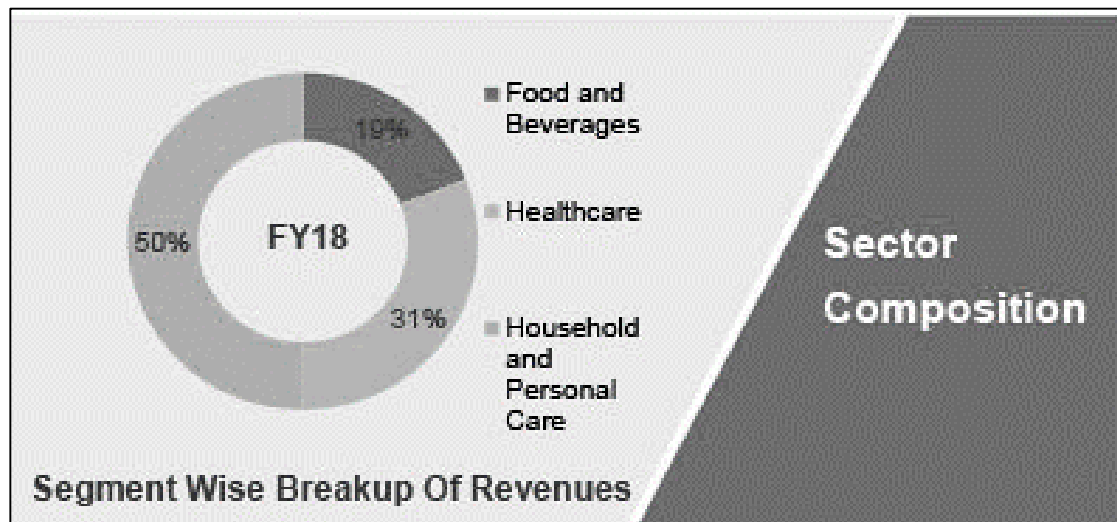
The second part of the paper explains the research methodology of the case whereas the third and fourth part give insights into the business overview and corporate governance disclosures of HUL respectively. The last part deals with the suggestions for the case.

### **RESEARCH METHODOLOGY:**

The research methodology of the paper is described in two parts. The first part deals with the selection of the sector for the case and the latter part explains the selection of the company.

#### **Selection of the sector:**

FMCG Sector is one of the fastest growing and the fourth largest sector of the Indian economy. As per the reports of the Indian Brand Equity Foundation, personal care sector accounts for 50% sales of FMCG in India. The drivers of growth in this sector are the increased awareness, changing lifestyles and demands of the people. The sector recorded a growth of 16.5% in terms of value as on September 2018. Hence, this sector was a motivation for selecting a case for this study.



Source: IBEF

#### **Selection of the company within the sector:**

After the selection of the sector, the company which had the highest market cap as per the BSE listings, was chosen for study. Thus, HUL ( Hindustan Unilever Limited) was the selected case for the study.

The annual reports of the company for the financial years' 2014-15, 2015-16 and 2016-17 were considered for revelation of the governance structure of the company.

### **HUL: BUSINESS OVERVIEW**

HUL is one of the leading names in the Indian FMCG sector. The basic purpose of HUL is to make *sustainable living commonplace*. It also believes that this is the best way to create long-term value for all our stakeholders, especially in a volatile and uncertain world. Its business model relies on sustainable growth. HUL product portfolio is played a call across five different segments, comprising of 20 categories and 35 brands altogether.

Five different segments of HUL are:

1. Soaps and detergents
2. Personal products
3. Beverages
4. Packaged foods
5. Others.

VISION– *to accelerate growth in our business, while reducing or environmental footprint and increasing our positive social impact.* The purpose and vision of HUL, when aligned together helps in surviving competition and at the same time fulfils the needs of its customers. This insures a consistent, competitive, profitable and responsible business growth for HUL. The company owns it long-term success to its USLP or the Unilever Sustainable Living Plan Approach, which helps it to innovate, handle the risk, cost reduction, improve returns and boost confidence and trust of its consumers. USLP of HUL consist of targets related to improve health and well-being, better livelihood to be achieved by 2020 and another target of reducing the environmental footprint to be achieved by 2030.

The strategic focus of HUL is encompassed around four pillars, namely

1. *Winning with brands and innovation.*
2. *Winning in the marketplace.*
3. *Winning through continuous improvement.*
4. *Winning with people.*

The strategic focus towards achieving the vision and purpose, helps in delivering growth oriented performance to its stakeholders. The net revenue of the organization rose to 34487 in FY 2016–17 from 30806 CR in FY 2014–15. The business model of HUL is based on *Sustainable and Equitable Growth.*

## **CORPORATE GOVERNANCE DISCLOSURES:**

### **CG Philosophy:**

HUL believes that a sound governance structure and responsible governance conduct is an integral principle of its business. It proclaims that such principles are embedded across all its management levels within the organization. The firm believes that accountability and transparency are the two key elements of corporate governance and therefore ethical business practices are the core of all its business operations and adoption of highest governance standards contribute in its success. The firm opines that such practices form a path of developing consistent, profitable, competitive and responsible growth for attaining long-term value for all its stakeholders and also help in maintaining an independent well informed and effective board. The board, is responsible to oversee whether the interest of all its stakeholders are made on long and short-term basis.

### **Board Composition:**

HUL has vested the requisite powers and duties to its board, which, in turn is entrusted with the responsibility to manage the affairs, guide and over look into the performance of the company. For this purpose, it has a mix of executive and non-executive directors, where in approximately half of the directors are independent. The annual report of the organization discloses the details of directorships, chairmanship of committees held along with the attendance records and remuneration payable to the directors. The public disclosure gives exhaustive detail into the duties and responsibilities of the board such as *reviewing the function of board and its committees, reviewing details of risk evaluation and internal control system, reviewing reports on progress made on the ongoing projects, monitoring and reviewing board evaluation framework* etc.

The board is a balance of professionals with relevant experience, expertise and knowledge so as to contribute to words effective leadership and diversity of the board.

The details of board composition as discussed in the report for the FY 2016-17 are-

Total board size	10
Total executive directors	4
Total independent directors	5
Total non-executive directors (chairman)	1
Women director	1 ( independent)

### **Board Meetings:**

It is the duty of the board to conduct meetings at regular intervals so as to have discussions on the business policies and strategies of the company. The directors are informed in prior so as to have meaningful participation. The various annual report studied for the financial years reveals that board meeting frequency was as follows:

FY 2014-15- 8

FY 2015-16- 6

FY 2016-17- 6

Besides this, the independent directors of the board conducts separate meetings at least once in each quarter to discuss upon matters such as performance of non-executive directors and chairmen, flow of information etc. between the management and the board.

### **Board Committees:**

As per the published reports of HUL, the committees of the board are imperative to the governance structure of a company. The purpose of Constitution of such committees is to deal with those particular areas which need to be reviewed in a close manner. The disclosure highlight the description of the roles expected from the members and attendance record of the directors. The duties to be performed by these committees are supervised by the board. The details of various mandatory and voluntary committees constituted by the board, as on 31st March 2017 are:

Committee	Type – Mandatory or Non-Mandatory	Number of Meetings Held		
		2014-15	2015-16	2016-17
Audit committee	Mandatory	6	7	6
Nomination and remuneration committee	Mandatory	5	3	4
Stakeholders relationship committee	Mandatory	1	2	2
Corporate Social Responsibility Committee	Mandatory	1	3	2
Risk management committee	Non- Mandatory	1	1	2

Besides the above committees, HUL has constituted several other functional committees also.

### **Board Evaluation:**

The annual report of the company reveal that every year, the company evaluates the board, as a collective body, its committees and individual directors. The board uses the technique of discussions and oral assessment as a part of its evaluation process. The board, the committees were given opportunities to interact among themselves, whereas the independent directors was supposed to interact among themselves as well as the chairman. The discussion concerned the matters regarding improving the effectiveness of the board and also in the context of organizations external environment. The parameters that were discussed verbally with Chairman for performance evaluation of the board and its committees comprised of-

*Structure, composition, meetings, functions and interactions with management, contribution being made by the board, as a whole and also suggestions to improve the board effectiveness.* The overall process of evaluation was led by the nomination and remuneration committee as well as non-executive chairman of the company. The outcomes of the performance evaluation but for the reported periodically to the board for further improvements.

### **Remuneration:**

The annual report of the company state that the company has a performance linked plan, where the achievement of performance parameters, as recommended by the board or its committees shall be a part of directors remuneration. The nomination and remuneration committee is responsible for formulating a remuneration policy for its employees.

The remuneration policy of HUL is based upon the following principles;

1. *Open, fair and consistent.*
2. *Insight and engagement.*
3. *Innovation.*
4. *Simplicity, speed and accuracy.*
5. *Business results.*

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## RECOMMENDATIONS :

Although, HUL practices a sound governance model, but the following recommendations can be considered by it for further improvements:

1. The organization lacks detailed description of the profile of all its board members. Revelation of details of the entire board will lead to better comprehension of the board diversity.
2. Representation of women on the board of the company can be improved upon. A constant trend of single women on the board has been observed in the annual reports of the company.
3. The board evaluation process of the organization can be considered the following suggestions:
  - (a) the frequency of evaluation can be more than just once a year.
  - (b) The performance can be evaluated by involvement of external skilled experts or special committees to ensure more transparency and fairness in its process.
  - (c) It can also enable constructive criticism so as to have more scope for improvement.
  - (d) The board can adopt a rigorous criteria for evaluation of Independent directors and also update its criteria as per the changes in the external environment.
  - (e) The use of other techniques, such as document review, questionnaires, online survey can be considered for performance evaluation for fair and unbiased outcomes, as already recommended by SEBI in its guidance note issued in January 2017.
  - (f) It can resort to disclose its evaluation outcomes to its stakeholders for representing their positive image. Inclusion of other relevant criteria for measuring board effectiveness such a strategic decision making, contribution in growth, formulating innovative business strategies etc.in the evaluation process.

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