CHAPTER - SIX

EVALUATION OF CORPORATE GOVERNANCE IN GODREJ GROUP.

PROLOGUE

The sixth chapter of the study has been devoted to the examination of corporate governance practices in Godrej Group. Godrej Group is a heading rapidly towards perfection and developing competitive edge to become a global group. This is because of customer relationship practices, innovations in products and services and dedication and commitment to keep the interest of stakeholders. Godrej Group has immense passion for relentless innovations and entrepreneurial spirit.

Godrej has well equipped in-house R&D centre with proficient scientist. Being a cash rich group, it is consistently on the outlook for both organic and in-organic growth opportunities which further strengthen its competitive position. The group has built a sound infrastructure combined with encouraging economic indicators the brighter future.
In the words of CEO of Godrej, "We invest in our people. It is this talent pool that drives our Company. Individual strengths and energies are integrated and channeled to achieve the common corporate goal. It is the strong belief in the Company that in turn kindles the passion to excel in each and every individual working here. We believe that if we can sustain this intensity of conviction and sincerity to the Company's purpose, we will create a stronger tomorrow."

6.1 GODREJ GROUP FLAGSHIP AND NOW.

Hitting a century is a thing of glory in cricket. Patience, ambition, far sight, maneuverability, ability to correctly perceive each ball and shape every stroke with a balanced mind are some of the total skills needed for it. But then, cricket is just a show spanned over a few hours or a few days. Still, it is a commendable feat. And now, think over a company accomplishing the same feat, not in the cricket field but in the corporate world. Here, these qualities are not needed for a short-time but through decades. The sustained presence and growth of a company for such a long-time makes it a force to reckon with. This centenary player in Indian business answers to the name – Godrej.
Thinking of Godrej flashes into mind events like – Godrej Miss World 1996, popular soap brands like – Cinthol, Ganga, fruit drink Jumpin, Godrej refrigerator with ‘PUF’, Good-Knight Mosquito repellent, Godrej store-well cupboard, Godrej locks, Godrej office furniture, typewriters and printers, computer workstations, computer aided design systems and the list goes on ... with the possible exception of Tata’s, no other Indian business house seems to have its fingers in so many pies.¹

**All round recognition of Godrej**

Godrej has built an image to be a quality organisation and has earned high laurels far and wide. It has also earned all round recognition for its durables as well as non-durables goods. Some of the products which have brand loyalty have been mentioned below:

- **Branding and marketing:**
  - Cinthol recognized as a ‘Super brand’.
  - Godrej Consumer Products Limited (GCPL) recognized as “Business Super Brand”.

¹[www.godrej.com](http://www.godrej.com)
Operations:

Baddi manufacturing unit was one of the few facilities to have applied for and received completely integrated ISO recognition i.e., BVQi for ISO: 9001:2000 (Quality Management System), ISO: 14001:1996 (Environmental Management System) and ISO: 18001:1999 (Occupational Health and Safety Management System).

Recognized by Business India as part of the magazine’s ‘Super 100’ ranking as the Company with the highest RoCE in Corporate India for the second year in row.

People:

The company was ranked seventh in the ‘Great Place to Work’ survey conducted by Business World and Grow Talent.

CNBC/Hewitt Associates, based on their Best Employers Survey acknowledged the GCPL team as the ‘Best Managed Workforce’.

Shareholder value:

ICRA reaffirmed GCPL’s Corporate Governance rating at CGR2+

Rating for Stakeholders Value Creation and Governance practices also retained at SVG2+: amongst the highest in the
category – yet another validation of the high level of corporate governance practices in GCPL.2

6.2 GROUPS COMPANIES OF GODREJ AND PRODUCTS.

The Godrej Group completes 108 years of its existence in 2006. Looking back at this juncture, it has been a long but progressive journey for Godrej. It was in 1897 that Ardeshir Burjorji Godrej decided to start a company making locks and latches. And so, the Godrej Empire was born. Stating from locks, the company diversified its area of activity. Soaps came in 1919, machine tools in 1942, refrigerators in 1958 and so forth. The company was incorporated on 13 August 1947. The Godrej empire has seen substantial growth over the years. In 1968, the Godrej Soap company’s turnover was range of 4 crore. Ten years later the figure touched Rs. 100 crore. Now, the figure is more than Rs. 1800 crore. This is a perfect example of growth experienced by the Group as a whole and Godrej Soaps, in particular.

The Mumbai based family-owned business conglomerate turns out a wide variety of products. There are many strategic
business units – consumer products, chemicals, household insecticides, foods, agrovet, medical diagnostics, palm plantations, photo services, infotech services, software services, appliances and property development. Godrej banks on its reliability, quality and above all its brand name.

The Group’s current turnover is Rs. 18,000 crore. In the past few years the Group’s companies have frayed into a clutch of new areas – tissue culture, bio-technology, real estate, eggs and poultry, insect repellents, scissors, financial services, etc. The Group is also planning to undertake a major restructuring programme to focus on a few core areas and spin-off non-strategic ones. The programme to be kicked-off in this centenary year (2006-2007) is expected to catapult the Group’s turnover to Rs. 25000 crore by the year 2007.

The Godrej Group (Rs. 18000 crore) companies, after the restructuring include:

* **Godrej & Boyce:** Managed by Naororji Godrej, and his son Jamshyd Godrej, it produces the largest number of products marketed under the Godrej’s brand name. It manufactures locks, safes, security equipment, filling
recording systems, steel furniture and architectural items, i.e., doors and fittings, etc.

**Godrej-GE Appliances:** It is a 60:40 joint venture between Godrej and Boyce and General Electric of the US. It manufactures refrigerators and typewriters. Every year Godrej-GE appliances launches a cost saving project with its vendor called TARGET 10. This calls for a 10 percent reduction in the production cost per year by improving material, process and design.

Godrej-GE is the only appliance company in India today to get an ISO-9001 certification across the range of manufacturing and marketing function as per stringent 2004 guidelines. Ninety-five per cent of the refrigerators carry the Godrej name. There are very few General Electric brands at the top end which are imported. This comprises the super-premium range of products. In January 1995, the company launched a Godrej-GE refrigerator with a capacity of 760 litres and features of automatic ice-maker and a water-dispenser on the door-priced at Rs. 1 lakh.

**Godrej Soaps:** Headed by Adi Godrej himself as MD, it is the flagship company of the Godrej Group. It manufactures soaps, toiletries, shaving creams, after-shave lotions, talcum powder, chemicals etc. There is immense competition in the
Indian soap market. In India, the contribution of rural India has risen from 39 percent of total soap market in 1988 to 54 percent. As the area is large so there is good number of non-users in this product category – even today there is an immense scope for market expansion. In its expansion plans, Godrej Soaps has set up a 60,000-toilet soap plant in Andhra Pradesh. It has also set up cogeneration plants at its factory in Mumbai and MP.

**Godrej Hi Care Ltd:** With a turnover of Rs. 250 crore, it has got a new name for “Transelektra Domestic Product Ltd.” (TDPL). Godrej acquired TDPL in 1974. It piped several others like Johnson, Beewax Bayer and Hindustan Lever Limited to the post, scooping up 85 percent of the equity in the small but dynamic company for about Rs. 200 crore. The acquisition has yielded fruitful results in the form of improved market performance of the company. The market share of Good Knight grew from 55 percent in 2005 to 65 percent in 2006. The company plans to become a global player in Household Insecticides (in fact, i.e., what ‘HI’ in the name means) segment.

**Godrej Foods:** Under the chairmanship of Adi Godrej, and CEO, N.R. Dixit, Godrej Foods, Jumpin is progressing with satisfaction. Its product portfolio comprises the Jumpin range of tetrapack food drinks, tomato puree, mineral water,
refined sunflower oil, and groundnut oil. The tetrapack strategy helps cut the packaging cost allowing competitive pricing. To increase volume of business it took its edible oil brands, like Godrej sunflower national instead of limiting it to its strongholds like Mumbai and certain parts of Maharashtra. Earlier, in 2003 Godrej Foods tie-up the US based Blue Diamond Almonds led the launch of flavoured almonds. About to be launched in the market is tetrapack jam mix.

**Godrej Pillsbury:** It is a marketing and distribution joint venture brought about in June 1995 between Godrej Foods (49%) and Pillsbury Company (51%). It is the US based subsidiary of London based food giant Grand Metropolitan (Grand Met). The company in which Pillsbury has majority stake will launch value-added wheat dough products and bakery products. It will also build sales and marketing force. The marketing activity of Godrej food products has however, been retained by Godrej Foods.3

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3 www.godrej.com
HAIR COLOUR ON TOP AT GODREJ

Godrej Consumer Products Ltd., is reducing its dependence on its core soaps business, which has seen a sharp fall in profits. The company will, instead, focus on more profitable categories such as hair colours and liquid detergents. Hair colours contributed more than 75% of the total profits for the year ended March 31, 2006, although the company derives 57% of its total turnover from soaps.

Except for Godrej No. 1 the company’s flagship brand which contributes more than 40% of soap division’s turnover, other soap brands such as Cinthol and Fair-glow have not been doing well. Even Godrej No. 1 is a sub-popular brand—brands priced at Rs. 5-10—which is growing because it is a strong value-for-money product. “Our old soap brands have not been doing well. We are looking at re-launching them soon. Soaps will continue to be part of our business, but I see more growth coming from the emerging categories”, GCPL chairman Adi B Godrej said. The growth in the soaps business will be less than the company’s growth, he said.
6.3 THE SUCCESS STORY OF GODREJ GROUP.

The Godrej Group has the distinction of being a totally home-grown company. Although it has now alliances with many MNCs but the successful standing of the name ‘Godrej’ is backed by many factors. The main strength of Godrej is its integrated leadership. There is a close-knit family managing the giant enterprise as a family affair. The name ‘Godrej’ evokes reliability and affordability. Apart from the far-sightedness and vision of the directors and its brand equity, there are many other factors attributing to its success. These can be enlisted as follows:

- **Adi Godrej’s Spill of Advertising:** Adi Godrej has perfect marketing skills. He has given adequate importance to aggressive advertising of Godrej products over television. Adi Godrej admits to the major role played by an advertiser in the success of a company. Godrej has of course been a well-known brand name in India for many years, but their advertising after 1985 has definitely increased all the dimensions of their business. The Rs. 50 lakh sum, which was spent on advertising in 1985, has gone up to Rs. 50 crore in the year 2005-2006. The Godrej group is confident of the growing importance of the Indian global trade. They
welcome the change and are geared to accept the challenge – resulting from development and literacy in the country.

**Godrej’s Concern for Workers:** The company is very much concerned with the welfare of its employees and their families. There are flats for the employees of Godrej, schools for their children, dispensaries and medical facilities. There is a Pragati Kendra Centre for housewives and widows. There they manufacture utility items like hand gloves, gunny bags, etc., which are used in Godrej factories. In schools, the students are given nutritious food and drink during the lunch break. Godrejs are strictly for family planning. The third child of an employee does not get admission in the Godrej School. Also an employee with more than two children does not get the facility of a flat in the Godrej township. There is a ward for Godrej employees in the Breach Candy Hospital, Mumbai. Godrej’s are great philanthropists. They have foundation trusts for helping the needy. They have orphanages and educational institutes. Godrej’s are good pay-masters. The minimum salary is around Rs. 5000 per month. Godrej’s are very honest and have high morals. They have a democratic way of functioning. They do not impose their views on others. They believe in delegation of authority.
**Concern about Environment:** At plant sites or construction sites, Godrej's do not get the trees cut down. They get them uprooted from the construction site and implant them elsewhere. The Godrej Group has promoted the Centre for Environmental Studies at Lodhi Road in New Delhi.

**Customer Satisfaction:** For any business to be successful, consumer satisfaction is of utmost importance and cannot be neglected. The Godrej Group is a strong believer of this factor. Their motive is to provide after-sales service to sustain the customers. They are delivering the goods and creating awareness among its prospective users. They are giving proper demonstrations regarding the way the product has to be used. Tips regarding its maintenance, etc., are also provided and in case of complaints, prompt action is taken. Godrej also keeps an eye on consumer needs. It identifies the demands and churns out new products in the market to fill the existing gaps.

**The Problems:** Godrej Foods are well known but has not been necessarily ambitious till today, like other companies of Godrej. Though Godrej’s meal maker was launched in 1991 with a healthy budget, it has failed to create a mark business despite the high potential, the development of the
market was tedious. Moreover, Godrej could not give proper
advertisement in this segment at the right time.

The Godrej Group has very strong labour unions. They had
a very bitter experience with the labour union in 1982, but now
unions do not pose a big problem. They have discussions with
union leaders and go by the rule of 'give and take'. Though Godrej
faced many problems off and on but they have reached one of the
top positions, specially in the field of soaps and sales.¹

6.4 MANAGEMENT PRACTICES OF GODREJ
GROUP.

Adi Godrej, is presiding over the metamorphosis of the Rs.
18000 crore Godrej group from a tightly controlled enterprise. An
insight into how this corporate India’s best time manager is
managing himself and the change can be had by analysing his
corporate life. Life has always been a laboratory for Adi Burjorji
Godrej. He is an entrepreneur par excellence. And his guiding
principles remain the same which he got back in the 1940s and
1950s from his school teacher-mother – Change, Organise, Learn.

He is always in a hurry. This can be well estimated from the fact that he has led his group into three acquisitions, six joint ventures and five new businesses in just three years. Godrej brings his impatience to bear most on the way he manages not his corporation, but his own work. In his own words, “I am very quick person I do not need too much time. I like to and do things fast”.

As he accelerates, Godrej is also making a mega-shift from a manager to a strategist. And he is trying to institutionalise practices which were uniquely his own. To many of his peers, he is succeeding admirably. Even as he manages the transition, Godrej is also silently, but emphatically, managing himself for the new era of business. To the world he has acquired the aura of a flamboyant jet-setting CEO who water-skies and visits art exhibitions. But behind this exterior, Godrej is reorganising himself resolutely, using the same three pillars of wisdom which he acquired in his childhood.

Godrej Soaps Limited, Mumbai today boosts of a highly motivated staff, from shop-floor to senior manager. The system of collective effort search for ways to improve operations, in which each individual gets a chance to participate, has resulted in heightened sense of belonging-ness. The reason behind all this is the method by which the company has succeeded in motivating them.
The top brass of Godrej Soaps Ltd., was searching for an effective and practical way by which employees could be motivated. It was then that they decided to implement Kaizen, which has been followed in Japan for several decades now. The man who pioneered this system is Adi B Godrej. His innovative idea has proved to be a great success.

Kaizen is a Japanese word which stands for 'continuous improvement'. It is a formalised system by which employees of an organisation can bring about a change in their system of working, a change for the better. The Godrej management took the decision to implement Kaizen in March 1991. In words of Shrinivas Gondhalker, Deputy GM (Productivity Services), who played a key role in implementing the system, “Kaizen is a tool for attitude change”.

6.5 BUSINESS ETHICS AND SR OF GODREJ GROUP.

Godrej has practiced good business ethics right from its inception and has set an example of dedicated business group with high code of conduct for its managers. It has a high sense of

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concern for its millions of customers and high concern for the investing public. The people are the most valued concern for Godrej. Godrej has always believed in healthy competition which has ultimately benefited its myriad customers. It has also set good example of prompt payments to its suppliers of raw materials and ancillaries. Thus, these are some of the traits for the success of Godrej Group in India and abroad.

VISION AND MISSION OF GODREJ

“We are dedicated to Deliver Superior Stakeholder Value by providing solutions to existing and emerging consumer needs in the Household and Personal Care business.

We will achieve this through Enduring Trust and Relentless Innovation delivered with Passion and Entrepreneurial Spirit.”

- We shall operate in existing and new businesses which capitalise on the Godrej brand and our corporate image of reliability and integrity.
- Our objective is to delight our customer both in India and abroad.
We shall achieve this objective through continuous improvement in quality, cost and customer service.

We shall strive for excellence by nurturing, developing and empowering our employees and suppliers. We shall encourage an open atmosphere, conducive to learning and team-work.

Guided by its basic philosophy, the company believes in discharging its responsibility towards:

- By protecting and safeguarding their investment; and
- By ensuring to them a fair return.

**Employees:**

- By a realistic and general understanding and acceptance of their needs and rights and enlightened awareness of the social responsibility of Godrej.
- By providing adequate wages, good working conditions, job security, effective machinery for speedy redressal of grievances and suitable opportunities for promotion and self-development.
- By promoting feelings of trust and loyalty through a human and purposeful awareness of their needs and aspiration and
By creating a sense of belongingness and team-spirit through their closer association with management at various levels.

**Customers:**

- By products of proven quality at a fair price.
- By fulfilling its commitments impartially and courteously in accordance with sound and straightforward business principles and
- By bearing their counting confidence in its productive ability and its technical competence to keep improving the quality of its products.

**Community:**

- By respecting the dignity of the individual and acting according to the ideas of social justice.
- By encouraging talent and promoting civic sense among members of the community.
- By availing of opportunities of develop the democratic qualities involved in collective work undertaken in the interest of the community and
By assuming its proper share of social responsibilities in the community in which the company operates

These missions of the Godrej are directed towards making the company:

- The best company to buy from,
- A sound company to invest in,
- A good company to work for,
- A reliable company to sell to and
- A leading company in the corporate field of the country.

The various points are indivisible. Together as a unit, they state the fundamental management philosophy of the Godrej. In order to fulfil its mission, Godrej has taken a number of programmes. Such programmes are in the following directions:

- **The City Development**: The company has developed the plant site, that is, Baddi and Silvassa into a full-fledged city with adequate provisions of housing, health and conservancy, medical services and related amenities.

- **Pollution Control**: This is of very high order so that there is no pollution problem in any part of the work place or in the city.
**Employer-Employee Relations:** These are of very high order. Workers are given every opportunity to voice their concern through the recognized union. In fact, the union is encouraged to take up the causes for improving employer-employee relationships.

**Consumers:** The company has adopted the policy of fair pricing and distribution of FMCGs. Though there has been continuous shortage of FMCGs, the company never indulged in unfair trade practices. To ensure quality, the company has very rigid quality control system.

**Shareholders:** An attempt is made to reward the shareholders suitably. The company could not distribute dividends when there was control over this aspect but later, the shareholders have got their due.

**Community Development and Social Welfare Programme:** To undertake various programmes, the company has created a separate department under the charge of Chief Social Services Manager. Various programmes under this category include operation of community development centres, welfare of Adivasis, youth clubs etc.

**Obligations of Society:** The company has undertaken programmes like smallpox eradication, flood relief, drought and cyclone reliefs in Orissa, relief work in cyclones in
Andhra Pradesh, relief work during civil disturbances in Bihar and other similar activities.\(^6\)

**6.6 DISCUSSION ON CORPORATE GOVERNANCE AT GODREJ GROUP.**

Godrej Group is committed to the adoption of best governance practices, their adherence in true spirit and conduct of its affairs in a manner which is transparent, clear and evident to those having dealings with or having a stake in the company. Godrej lays strong emphasis on business ethics in all its dealings. Godrej belongs to the 108 years old Godrej group that has over the years built a reputation for meeting its commitments to all its stakeholders and stands for quality and reliability. In line with Godrej’s vision and long-term business objectives, all corporate decisions are taken by the company’s highly respected Board in conjunction with a competent management team, keeping in view the best interest of all its stakeholders.

This year (2005-2006), post surveillance, ICRA has reaffirmed the Corporate Governance Rating of CGR2+ (pronounced as CGR two plus) and the Stakeholder Value

Creation and Governance Rating SVG2+ (pronounced as SVG two plus) assigned to the company. The + sign indicates relatively higher standing within the category indicated by the rating. The two ratings together seek to examine whether the company is being run on the principles of Corporate Governance and whether the practices followed by the company lead to value creating for all its shareholders.

The CGR2+ rating is on a rating scale of CGR1 to CGR6 where CGR1 denotes the highest rating. The CGR2+ rating implies that in ICRA's current opinion, the rated company has adopted and follows such practices, conventions and codes as would provide its financial stakeholders a high level of assurance on the quality of corporate governance. The SVG2+ rating is on a rating scale of SVG1 to SVG6 where SVG1 denotes the highest rating. The SVG2+ rating implies that in ICRA's current opinion, the rated company belongs to the High Category on the composite parameters of stakeholders value creation and management as also corporate governance practices.

Code of corporate governance of Godrej Group is very widely elaborated and includes: its commitment, board structure and practices, transparency and disclosure, corporate ethics and business policies.
**Transparency and Disclosure:** Godrej believes that increased transparency and enhanced disclosure promote better corporate governance. It believes that the accounts are prepared on the basis of the highest accounting standards and practices including US GAAP and International Accounting Standards. The accounts are audited by the statutorily appointed Indian auditors, and a firm of international accountants. Godrej believes in adequate information sharing, both financial and non-financial, with all stakeholders in terms of time and volume – quantity and quality.

**Corporate Ethics:** Godrej believes that an effective corporate governance process transcends integrity and efficiency and encompasses all of the corporation's relationships, values of: honesty, integrity, respect, fairness, purposefulness, trust, responsibility, citizenship and caring.

In order to ensure adherence to corporate ethics and fair business practices, Godrej has codified ethics policy and business policy. These policies are: 7
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<th><strong>Code of Ethics Policy</strong></th>
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<td>Payments and Gifting</td>
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<td>Receipt of Gifts</td>
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<td>Purchases through Suppliers</td>
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<td>Appointment of Agents, Consultants &amp; Representatives</td>
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<td>Inside Trading</td>
<td>Health and Safety Environment Quality</td>
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Thus, it is clear that the above discussion and information that Godrej Group is a group par excellence in all fields. The group is committed to responsible management and control while being consistently agile to take advantage of various opportunities. The cornerstones of corporate governance in Godrej Group are mutual trust, efficient cooperation and transparent communication and also with the objective of safeguarding the interest of millions of stakeholders.

As a result of its consistent all-round performance, the group is recognized as a business "Super Brand". The group has won many accolades recognizing its operational and financial performance. The group is ranked amongst the excellent
organizations as “Great Place to Work”. The group has also done
ce on career planning of people at work through continuous
training and education and employees empowerment activities.