ABSTRACT

In this paper an attempt has been made to look into recent Maruti Suzuki’s decision about setting up of 100% subsidiaries by Suzuki Motor Corporation in Gujarat and analyze whether it is about corporate governance issue. The paper contemplates the issue in terms of principles of Corporate Governance and whether more proactive steps in reaching out to shareholders especially minority shareholders would have helped the cause in mitigating avoidable frictions in the matter. The paper uses secondary data from relevant sources, which has been acknowledged.

Keywords: Corporate Governance; Maruti Suzuki; Shareholders; Subsidiary

INTRODUCTION

Corporate Governance is about the ways the company affairs are to be conducted. On account of principal agent structure, those who actually own the company are not the ones who actually manage it, leaving the scope in the hands of management to take decisions which are more conducive to management rather than for the owners. The world has seen many scandals in the past on account of excessive powers in the hands of few sitting on board and actual owners (shareholders) haplessly watching it without much of the action on their part since the corporate governance code was in the process of evolving during those times.

However during last some years there has been remarkable change, with so many Codes coming up in UK and advent of Sarbanes Oxley in USA has certainly helped the cause of Corporate Governance. The management and owners (shareholders) have become aware of their responsibilities and both parties know the available remedies.

Here is an attempt to look into recent Maruti Suzuki’s decision about setting up of 100% subsidiaries by Suzuki Motor Corporation and analyze whether it is about corporate governance issue.

OBJECTIVES

To apply principles of Corporate Governance to real life scenario and assess whether there is scope for proactive action in the matter.

What is the Case!

Maruti Suzuki India Limited and which is better known in India as Maruti Udyog Limited is subsidiary of Japanese Automobile and Motor Cycle Manufacturer –Suzuki. Maruti Udyog has started its functioning in India way back in the year 1981 and has brought quite a revolution in Indian Four wheeler segments.

At the point of its entry in Indian Four wheeler segments way back in 1981, the only known brands which had presence in India at that time were Premier Padmini and Ambassador. In short span of time, Maruti Udyog changed landscape of Indian car industry and maruti became household name in 1980s.
and 1990s till it started facing heat from Hyundai, Tata, Mahindra, Ford. However as on date its’ market share ranges from 35% to 40% to denote the company is still dominant force in Indian auto sector.

**Shareholding Pattern on Maruti Suzuki India**

As on December 31, 2013 – with 56.21% stake held by Suzuki Motor Corporation followed by Foreign Institutional Investors to the extent of 21.47% and institutional investors such as LIC, ICICI Prudential etc. Individuals holding nominal share capital to the extent of less than One Lakh INR were 1.94%

**Case Study – Maruti Suzuki's decision of setting up subsidiary in Gujarat**

Maruti Suzuki India (MSI-India) announced that Suzuki Motor Corporation of Japan-(SMC-Japan) (Parent of MSI-India) would set up plant in Gujarat to manufacture cars for MSI-India. The fully owned subsidiary Suzuki Motor Gujarat Pvt Ltd (SMG-Gujarat) would be formed for the purpose.

Around 1200 acres land in Mehsana district –Gujarat were acquired for the purpose. The Company had also signed an agreement with the State Government to set up a plant with an annual capacity of 250,000 units with an initial investment of about 4,000 crore. It has also been announced that SMG-Gujarat would not be public listed company and would only be a manufacturing unit. All the marketing and expansion of the dealer network would be taken care of by MSI-India and profits will be shared by MSI –India, SMC –Japan and SMG –Gujarat.

Logic for allowing SMC –Japan to fund and own SMG-Gujarat was that SMC-Japan has funds to the extent of 25000 Cr in Japan on which it (SMC –Japan) was earning less than 1% return. However there is another view that MSI –India which also has cash reserves to the extent of 7500 Cr which could have been utilized in setting up of SMG-Gujarat by MSI-India itself rather than allowing SMC- Japan to do it.

**Reaction to announcement by MSI India about setting up subsidiary in Gujarat**

After raising the red flag over a deal between MSI India and its Japanese parent for the proposed Gujarat project, the car maker’s institutional shareholders took up the matter and announced that they would be doing everything in their strides to safeguard their interest. Investors have fear that the deal would transform MSI India into a distribution company from a manufacturing one. Investors are concerned about turning this critical and highly profitable project into a 100 per cent subsidiary of SMC Japan instead of MSI India. Investors are worrying about the fact that this move would lead to significant erosion of value for the shareholders. The Stock market reacted adversely as shares of MSI India lost some 8 odd percentages after announcement.

**Case for Corporate Governance**

Now the issue is going to be analyzed only from the perspective of Corporate Governance Principles rather than merit of business decision from the company’s point of view. We are also not going to assess the legality of the decision and whether the decision needs concurrence from institutional and individual investors in order to be legal, as it falls under the domains of legal pundits and about what would be stand of SEBI in the matter.

The scope of this analysis does not take those aspects into account. The purpose of this analysis is only academic and is being done with the sole purpose to assess whether corporate governance issues are involved in the matter or not.

Corporate governance addresses the principle-agent structural issue, found within large publicly quoted companies today. The ‘principals’ e.g. thousands of company shareholders, hire ‘agents’ e.g. a board of directors, to run the company and add value on their behalf e.g. maximize profit, dividends and their share price.
Investors invest in shares and own them both for dividend growth and capital growth. Even if we keep Dividend Irrelevance Theory aside on account of imperfect market conditions – investors (including minority shareholders) do expect both dividends with growth at regular intervals and also capital appreciation.

The essence of Corporate Governance regulations emphasis the need for treating minority shareholders fairly. While taking decisions which would obviously be backed up by majority shareholders in their own interest, corporations are expected to cater to the aspirations and concerns if any of shareholders and especially of minority shareholders. Thus Corporate Governance Codes lay importance on being fair to all stakeholders rather than to shareholders in more ethical and responsible manner.

Thus Corporate Governance Codes have enlightened shareholders including minority shareholders to keep scrutiny of decisions by board and assess their impacts on future growth of company and its value.

The Corporate Governance Codes emphasis on the transparency in managing the affairs of the company. It emphasizes on the composition of board and necessity of having Non Executive Directors who would be keeping tab on the decision making in the interest of shareholders. It also emphasizes on the existence of Audit Committee of independent directors who would be monitoring internal controls and safeguard company’s interest.

MSI- India has Board having non executive directors in terms of Corporate Governance Principles, to keep tab on every decision of the Board whether it is being taken in the best of interest of shareholders including minority shareholders. MSI –India also has independent audit committee.

The essence of Corporate Governance principles also stress the importance of transparency in decision making and taking everybody on the board at least on landmark decisions. Taking everybody on board does not necessarily mean that every faction to be consulted and to be taken into account before taking any decision which may not be practicable in real life scenarios.

However use of management tools such as Mend low’s Matrix Analysis which spells out process of identifying stakeholders and according them treatment in terms of power and interest these stakeholders have holds good in real life scenarios such as this. This would certainly obviate the negativity either in the form of protest or displeasures by some factions after the decision is taken.

Now there are concerns expressed by institutional investors about sustaining long term value of MSI – India’s shares and they have got every right to get those concerns explained. The Board of MSI-India might have considered all the pros and cons of the business decision about setting up of subsidiary by SMC Japan rather by itself but from the perspective of corporate governance principles either before taking such landmark decisions all the stakeholders should have been taken on board by MSI India.

Now since that stage has already been crossed (as decision has already been taken), it requires on the part of Board –MSI India to assuage the feelings of institutional investors and minority shareholders and convince them merits of the decision.

Corporate Governance aims at enhancing corporate image and thereby value. By the present episode, unfortunately MSI-India trusted brand name in Indian Auto Industry is coming up in the news for wrong reasons. There are certain statements in this regard issued by MSI-India management to allay investors’ fears but much more concentrated and proactive approach in coming up with more facts and assumptions on the basis of which the business decision was taken needs to be followed and more importantly reaching out to minority shareholders and convince them about decision would go long way in MSI-India’s corporate journey. It would not only enhance its image among investors and stakeholders but also exhibit its capabilities to come over such delicate situations and coming out victorious and making win-win situation for MSI India and also its shareholders including minority shareholders.
CONCLUSIONS

Corporations face such dilemmas many a times in their journey towards achieving glory and brand name. It is for the astute board to act in swift and decisive way to come over the situations. If Board sincerely feels the decision has been taken in the best of interest of MSI India and its shareholders in the medium and long term, the next important stage would be opening up and taking all on the board to convince them. It is very rare in reality that every decision would be unanimous and welcome by all stakeholders but what lies in corporate strength of Institution is to make sincere attempt in reaching out to all and putting the facts and convince and if possible have safeguards to accommodate the fears and apprehensions if there is headroom to do it.

Let us hope MSI India would soon come out of it and would be able to concentrate on the important projects including the present one to take it to further glory in Indian Auto Industry.

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