Impact of COVID-19 on the Corporate Governance: A Case Study on Bajaj Finance Ltd and Infosys

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Abstract

Introduction: The Novel Coronavirus has been bringing various revolutionary dynamic aspects to the World. It taught us many useful lessons. The COVID-19 has an impact on almost all human and economic activities. Lakhs of people have retrenched from their jobs in the India Corporate Sectors. The Indian Corporate Sectors have been affected slightly in the Financial Year 2019-20, but it will have a severe impact in the current and future financial years. It can also seem in the Corporate Governance of the different companies in India. It has inherent commercial risks impacting business operations due to disruptions to Meetings, Dividends, Liquidity, Disclosure, Capital Allocation, and Internal Control.

Research Gap: A lot of researches have been undertaken on the impact of COVID-19 in India. No remarkable studies have been conducted on the Impact of COVID-19 in the Corporate Governance of Bajaj Finance Ltd and Infosys.

Objectives: This paper attempt to study the impact of COVID-19 on the Corporate Governance of Bajaj Finance Ltd and Infosys.

Research Methodology

Nature and Sources of Data: The present study is based on secondary data. The secondary data have been collected through a well-designed strategy. These have been collected from various e-journals, e-magazines, e-annual reports of companies, and various reputed websites.

Tools of Analysis: There are various statistical tools, i.e., percentage calculations, correlation, and t-Test have used for analysis and interpretation of results.

Conclusions: COVID-19 pandemic comes with inherent commercial risks impacting business operations due to disruptions to Meetings, Administration, Business Continuity, Dividend and Liquidity management, Disclosure, Capital Allocation, and Maintenance, and lastly, risk management and Internal Control.

Keywords: Corporate governance, COVID-19, Business operations, Risk management, Internal control

Introduction

The Novel Coronavirus has been bringing various revolutionary dynamic aspects for the World. It taught us many useful lessons. The COVID-19 has an impact on almost all human and economic activities. Lakhs of people have retrenched from their jobs in the India Corporate Sectors. The Indian Corporate Sectors have been affected slightly in the Financial Year 2019-20, but it will have a severe impact in the current and future financial years.

The impact of COVID-19 can also seem in the Corporate Governance of the different companies in India. It has inherent commercial risks impacting business operations due to disruptions to Meetings, Dividends, Liquidity, Disclosure, Capital Allocation, Risk Management, and Internal Control.
A serious influence of the virus is that the law, corporate stakeholders, and public policy will likely expect boards to be responsive in some way to how circumstances have changed in a good-faith manner. Boards will thus be called upon to evaluate the governance impact of pandemic-specific lessons and experiences and to implement changes believed to be appropriate given the circumstances.

Review of Literature
A good number of researches have been undertaken by various researchers, academicians on COVID-19. Some of them explained as follows:


Peregrine, et al., (2020), in their paper “The Long-Term Impact of the Pandemic on Corporate Governance,” studied the long-term impact of the Pandemic on Corporate Governance. They concluded that the ultimate corporate law consideration in play post-pandemic is the expectation that boards will periodically reevaluate their governance policies and procedures in light of their particular facts and circumstances.


Alsayegh, et al., (2020) studied “Corporate Economic, Environmental, and Social Sustainability Performance Transformation through ESG Disclosure” studied that disclosing the implementation of environmental and social strategies within an effective system of corporate governance in the organization strengthens corporate sustainability performance. They concluded that ESG information disclosure to all stakeholders is a vital factor in creating a competitive advantage for enhancing corporate sustainability performance.

OECD (2020) prepared a paper on “COVID-19 and Responsible Business Conduct” and concluded that a responsible business conduct (RBC) method to the COVID-19 calamity reaction would support the environmental, social, and other governance concerns set down in globally documented RBC standards are central in the project and application of both business responses and government.

Research Gap
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Data Analysis and Interpretation

1. **Different Issues in Corporate Sector due to COVID-19**
   - **Meeting Postponements:** Different meetings have been postponed due to COVID19.
   - **Virtual-Only Meetings:** Board of Director Meetings held in virtual mode.
   - **Director Attendance:** count telephonic or e-participation as full participation
2. Compensation Issues
   • Change in Metrics/Shift in Goals or Targets.
   • Regarding long-term compensation plans.
   • We are going forward.
   • Option Repricing.

3. Steps were taken by India
   Steps were taken by the Ministry of Corporate Affairs (MCA):
   • The Ministry of Corporate Affairs (MCA) (vide Circular No.14/ 2020 dated 8 April 2020) has encouraged the companies to take all decisions of urgent nature which require the approval of members, other than items of ordinary business or business where any person has a right to be heard, through the mechanism of postal ballot or e-voting without holding a general meeting, which requires the physical presence of members at a corporate venue.
   • In case holding of an extraordinary general meeting (EGM) is unavoidable, MCA has permitted listed companies (along-with other companies which are required to provide e-voting facility) to hold the same through video-conferencing (VC) or other audiovisual means (OAVM) complemented with e-Voting facility/simplified voting through registered emails, without requiring the shareholders to physically gather at a mutual venue.
   • The above Circular, along-with MCA Circular dated 13 April 2020, also provides the procedure for conducting EGMs through VC or OAVM facility, such as the requirement of clear disclosure concerning accessing and participating in the meeting providing two-way teleconferencing or Webex, among others. It also specifies that the VC or OAVM facility should allow at least 1000 members to participate on a first-come-first-served basis, with no such restriction on the participation of large shareholders (holding 2% or more shareholding), promoters, institutional investors, chairpersons of committees, directors, KMPs, auditors, etc.

Steps were taken by SEBI
   • As per the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“LODR”), the top 100 listed entities by market capitalization have to hold their Annual General Meetings (AGM) within five months from date of closing of the financial year. Given the COVID-19 pandemic, SEBI has permitted these entities to delay their AGM by one month. Moreover, listed entities whose financial year ended on December 31, 2019, are allowed to conduct their AGMs till September 30, 2020.

A. Corporate Governance of Bajaj Finance
   Corporate Governance promotes fairness, transparency, accountability, commitment to values, ethical business conduct, and considering all stakeholders’ interests while conducting business. By the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and amendments to it, (the ‘SEBI Listing Regulations’), given below are the corporate governance policies and practices of Bajaj Finance Ltd. (the ‘Company’ or ‘BFL’) for FY2020.

This Report states compliance with requirements of the Companies Act, 2013, as amended (the ‘Act’), the SEBI Listing Regulations, and the Regulations of RBI for Non–Banking Financial Companies (the ‘NBFC Regulations’), as applicable to the Company. As will be seen, the Company’s corporate governance practices and disclosures have gone well beyond complying with the statutory and regulatory requirements stipulated in the applicable laws.

1. Philosophy: Corporate Governance reflects principles entrenched in our values and policies and embedded in our day-to-day business practices, leading to value-driven growth. The commitment of the Bajaj group to the highest standards of corporate governance practices predates the provisions of the SEBI Listing Regulations and clause 49 of the erstwhile Listing Agreement. Ethical dealings, transparency, fairness, disclosure, and accountability are the main thrust of the working of the Bajaj group. The Company maintains the same tradition and commitment.

2. Board of Directors: Keeping with the commitment to the principle of integrity and transparency in business operations for good corporate governance, the Company’s policy
is to have an appropriate blend of independent and non-independent directors to maintain the independence of the Board and to separate the Board functions of governance and management.

3. Composition: The Company has a non-executive Chairman. According to provisions of the SEBI Listing Regulations, if the non-executive chairman is a promoter, at least one-half of the company’s board should consist of independent directors. Nanoo Pamnani, Vice-Chairman and independent director, ceased to be a director of the Company with effect from 22 February 2020 consequent to his unfortunate demise.

As of 31 March 2020, the Board of the Company consisted of twelve directors, of whom one was executive (Managing Director), seven were non-executive independent (including one woman independent director), and four were non-executive and non-independent. The Board does not have any institutional nominee director. As Table 1 shows, the Company complies with the SEBI Listing Regulations. More details regarding the directors are mentioned in the Directors’ Report.

4. Review of Legal Compliance Reports: The Board periodically reviews compliance reports concerning the various laws applicable to the Company, as prepared and placed before it by the Management.

5. Code of Conduct: The SEBI Listing Regulations requires listed companies to lay down a code of conduct for their directors and senior management, incorporating duties of directors as laid down in the Act.

6. Independent Directors’ Meeting: The Ministry of Corporate Affairs vide General Circular no. 11 dated 24 March 2020 granted relaxation in compliance with holding the separate meeting of the independent director without the attendance of non-independent directors and members of the management for FY2019-20.

B. Corporate Governance of Infosys

1. Directors and KMP (Inductions, retirements, and resignations): Roopa Kudva, an independent director, on completion of her tenure, retired as a member of the Board effective February 3, 2020. D.N. Prahlad, an independent director, resigned as a board member effective April 20, 2020, to devote more time to his other business commitments. Uri Levine was appointed to the Board as an additional and independent director considering his integrity, expertise, and experience effective April 20, 2020, for three years subject to the approval of shareholders at the 39th AGM. The notice convening the meeting sets out the details of his appointment.

2. Reappointments: As per the provisions of the Companies Act, 2013, Salil Parekh, retires by rotation at the ensuing AGM and, being eligible, seeks reappointment. Based on the performance evaluation and recommendation of the nomination and remuneration committee, the Board recommends his reappointment.

3. Cybersecurity: Infosys continues to be certified against the ISO 27001:2013 Information Security Management System (ISMS) Standard. We have implemented advanced security controls and threat analytics by leveraging industry-leading technologies to help identify and mitigate internal and external threats to the organization. We ensure our cybersecurity staff is up to speed by providing them with avenues for continuous learning and making internal training forums available and courses through external academic institutions to keep them enriched and, in turn, help protect the organization from cyber-threats on a day-to-day basis.

4. MCA Compounding Order: The Company (along with certain current and former KMP) submitted applications with the Registrar of Companies, Karnataka, Bengaluru for the compounding of certain alleged offenses that related to the execution of severance agreement with a former Chief Financial Officer in October 2015 (“the Agreement”). The alleged offenses pertained to the Company not seeking approvals from the Board, the audit committee, and the nomination and remuneration committee about the Agreement and not making requisite disclosures. The Regional Director (South East Region), vide its orders dated February 25, 2020, has compounded the alleged offenses, and the payment of compounding fees is complete.
The compounding fee was ₹ 6,00,000 for the Company, and ₹ 25,000 for each of the current and former KMP for each alleged offense. These fees have been paid.

C. Environment, Social and Governance (ESG) Risk Ratings Analysis

Bajaj Finance Limited

Table 1: Environment, Social, and Governance (ESG) Risk Ratings of Bajaj Finance Ltd.

<table>
<thead>
<tr>
<th>Total ESG risk score</th>
<th>Environment risk score</th>
<th>Social Risk Score</th>
<th>Governance Risk Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>54th percentile Medium</td>
<td>2.2</td>
<td>11.8</td>
</tr>
</tbody>
</table>

Source: https://in.finance.yahoo.com/quote/BAJAJFINSV.NS/sustainability

Infosys Limited

Table 2: Environment, Social and Governance (ESG) Risk Ratings of Infosys Limited

<table>
<thead>
<tr>
<th>Total ESG risk score</th>
<th>Environment risk score</th>
<th>Social risk score</th>
<th>Governance risk score</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>8th percentile Low</td>
<td>1.1</td>
<td>7.4</td>
</tr>
</tbody>
</table>

Source: https://in.finance.yahoo.com/quote/INFY.NS/sustainability

D. Environment, Social, and Governance (ESG) Risk Ratings Analysis by Industry Comparison (Recent Review)

Bajaj Finance Ltd

ESG Risk Rating

Industry Group: Diversified Financials
Country: India
Identifier: BOM:500034
ESG Risk Rating: 23.0
Risk Level: Medium Risk

Ranking

Industry Group: Diversified Financials 152 out of 735
Universe: Global Universe 4198 out of 13645

Industry Comparison

Table 3: Industry Comparison of Bajaj Financial Limited

<table>
<thead>
<tr>
<th>Companies</th>
<th>ESG Risk Rating</th>
<th>Industry Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synchrony Financial</td>
<td>19.4</td>
<td>Low</td>
</tr>
<tr>
<td>American Express Co.</td>
<td>19.8</td>
<td>Low</td>
</tr>
<tr>
<td>Discover Financial Services</td>
<td>23.6</td>
<td>Medium</td>
</tr>
<tr>
<td>Capital One Financial Corp.</td>
<td>23.1</td>
<td>Medium</td>
</tr>
<tr>
<td>Bajaj Finance Ltd.</td>
<td>23.0</td>
<td>Medium</td>
</tr>
</tbody>
</table>

Source: https://www.sustainalytics.com/esg-rating/bajaj-finance-ltd/1008759822

Infosys Limited

ESG Risk Rating

Industry Group: Software & Services
Country: India
Identifier: BOM:500209
ESG Risk Rating: 15.2
Risk Level: Low Risk

Ranking

Industry Group: Software & Services 34 out of 779
Universe: Global Universe 1009 out of 13645

Industry Comparison

Table 4: Industry Comparison of Bajaj Financial Limited

<table>
<thead>
<tr>
<th>Companies</th>
<th>ESG Risk Rating</th>
<th>Industry Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infosys Ltd.</td>
<td>15.2</td>
<td>Low</td>
</tr>
<tr>
<td>Fujitsu Ltd.</td>
<td>14.6</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: https://www.sustainalytics.com/esg-rating/bajaj-finance-ltd/1008759822
From the above table 1 to 4, it is concluded that the ESG risk rating of Bajaj Finance Limited is Medium in comparison to other companies of the same category (Table 3), and the ESG risk rating of Infosys is Low in comparison to other companies of the same category (Table 4). Hence, Infosys limited is in a safer position as of January 2021 as compared to the same group of companies (Table 3), and Bajaj Finance limited is in a little bit of risk position as of January 2021 as compared to the same group of companies (Table 4).

Conclusions

COVID-19 pandemic comes with inherent commercial risks impacting business operations due to disruptions to Meetings, Administration, Business Continuity, Dividend and Liquidity management, Disclosure, Capital Allocation, and Maintenance, and lastly, risk management and Internal Control.

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