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**CORPORATE GOVERNANCE COMPLIANCE: A CASE STUDY OF
INFOSYS**

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Good corporate governance is about intellectual honesty and not just sticking to rules and regulations, capital flowed towards companies that practiced this type of governance.

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Abstract

Corporate governance is a control mechanism to ensure that management of the company is working with the best interest of its stakeholders. Corporate governance is not all about written rules and regulations or code of ethics rather it is way of living an honest and ethical corporate life. Infosys is considered as best company in corporate governance practices all over the world. The Indian IT sector has transformed the image of India in the global world. IT sector is the pioneer in introducing improved corporate governance structures in India. The main reason is that companies derive major revenues from exports from all over the world, so it is important for them, adhere to the good governance practices in interest of their clients. Another reason for following corporate governance practices in the IT industry is diverse shareholding pattern, as most of the funds are contributed by foreign financial institution investors and the customers of the companies. Infosys is the largest company in the IT industry that deals with business consulting and outsourcing services. The core strength of Infosys is its value creation ability. Infosys is known for its best ethical practices, transparency and value creation.

The objective of this paper is to study the corporate governance practices followed at Infosys in accordance with the clause 49 of listing agreement.

Keywords: Corporate governance, Ethics, clause 49 of listing agreement, board practices

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I. Introduction

Indian economy has been totally reshaped after globalization and technological developments. Indian firms are expanding their business throughout the world and able to find space in the international arenas for business growth. Due to internationalization of Indian firms the need of corporate governance has been highlighted. Corporate governance concept has received special attention after corporate scandals like Harshad Mehta case, Ketan Parekh, Vanishing co. and Satyam scam case, so there was a need for greater transparency and accountability of firms towards their stakeholders.

II. Background

SEBI has made serious efforts to clean the system by incorporating clause 49 of corporate governance. It is mandatory for Indian corporate to comply with the revised clause 49 to protect the interest of its stakeholders. Several corporate governance initiatives launched in India since the 1990s. The first initiative was taken by the Confederation of Indian Industry (CII), came up with the first voluntary code of corporate governance in 1998. The second was by the SEBI, now named as Clause 49 of the listing agreement. The third was the Naresh Chandra Committee, which submitted its report in 2002. The fourth was again by SEBI — the Narayana Murthy Committee, which also submitted its report in 2002. Based on the recommendations of the committee, SEBI revised Clause 49 of the listing agreement in August 2003. Subsequently, SEBI withdrew the revised Clause 49 in December 2003, and currently, the original Clause 49 is into force.

“Corporate Governance is about promoting corporate fairness, transparency and accountability”
J. Wolfensohn, President, World Bank[1]

“The fundamental objective of corporate governance is the enhancement of long-term shareholder value while, at the same time, protecting the interests of other stakeholders.”

- Kumar Mangalam Committee report on corporate governance, 1999

Cadbury Committee (U.K.), 1992 has defined corporate governance as such: “Corporate governance is the system by which companies are directed and controlled. It encompasses the entire mechanics of the functioning a company and attempts to put in place a system of checks and balances between the shareholders, directors, employees, auditor and the management.” [2]

Definition of corporate governance by the Institute of Company Secretaries of India is as under: “Corporate Governance is the application of best Management practices, Compliance of law in true letter and spirit and adherence to ethical standards for Effective Management and distribution of wealth and discharge of social Responsibility for sustainable development of all stakeholders”. [3]

III. Objectives and Methodology

The objective of this paper is to study the corporate governance compliance through a case study of Infosys which is pioneer of implementing corporate governance practices. For evaluation, paper is divided into two sections. This work has been analyzed and evaluated on the basis of secondary data.

In the first section, concept of corporate governance, evolution of corporate governance in India has been discussed. The second section analyses the corporate governance practices followed in Infosys.

IV. Corporate governance practices at Infosys

The primary purpose of corporate leadership is to create wealth legally and ethically. This translates to bringing a high level of satisfaction to five constituencies - customers, employees, investors, vendors and the society-at-large. The raison d'être of every corporate body is to ensure predictability, sustainability and profitability of revenues year after year.

-N. R. Narayana Murthy

1) Financial Times, June 21, 1999

2) Cadbury, Adrian, "Report of the Committee on the Financial Aspects of the Corporate Governance", Gee & Co. Ltd, London, 1992

3) <http://www.icaai.org/icaairoot/resources/guidance6.jsp>

Infosys technologies, India's most popular and best managed IT company with its global headquarters at Bangalore. It was founded in 1981 by Naryana Murthy and six of his colleagues in Bombay with a sum of Rs. 10000 as capital. Today, it has global presence with more than 197000 employees, 85 sales and marketing offices and 114 development centers. Infosys was ranked 15th largest IT service provider in the world by "HFS Research in 2013 ranking. Infosys has prestigious awards. It has been featured among the world's most respected and admired company. It was also recognized in a number of other categories including social responsibility and innovation.

The goal of Infosys is to ensure fairness for every stakeholder customers, investors, vendor-partners, the community, and the governments of the countries in which they operate. They believe in enhancing and retaining investor trust by following sound corporate governance practices.

Infosys has become a pioneer in benchmarking corporate governance policies with the best in the world. Infosys has been audited for corporate governance by the Investment Information and Credit Rating Agency (ICRA) and the Credit Rating Information Services of India Limited (CRISIL) and have been awarded a rating of Corporate Governance Rating 1 (CGR 1) and Governance and Value Creation Level 1 (GVC Level 1) rating respectively.

V. Corporate Governance Philosophy of Infosys

The philosophy of corporate governance is based on the following principles.

1. Satisfying the spirit of the law
2. Transparent and high degree of disclosure levels
3. Distinction between personal conveniences and corporate resources
4. Truthful external communication
5. Compliance with laws of all countries in which the company operates
6. Simple and transparent corporate structure driven solely by business needs
- 7.

Management is the trustee of the shareholders' capital and not the owner.

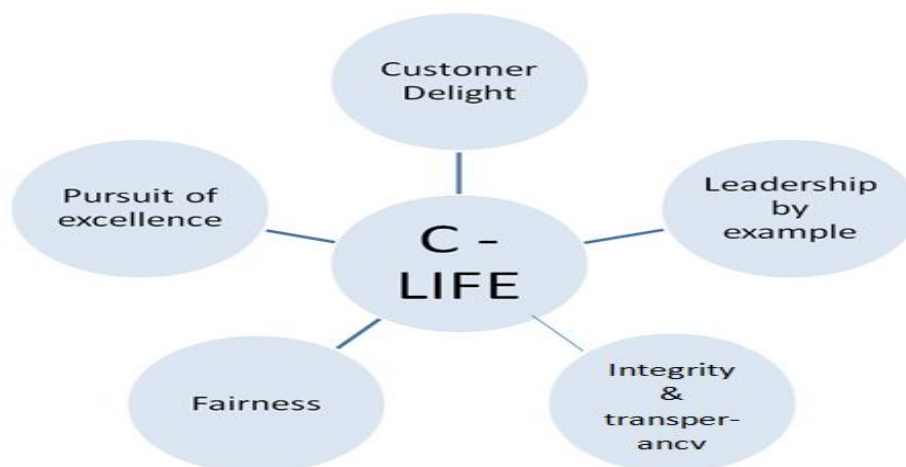


Fig.1: Value system at Infosys

The value system of Infosys comprised of five core elements C-LIFE: Customer Delight, L: Leadership by example, I: integrity & transparency, F: fairness. E: Pursuit of excellence

The corporate governance practices followed in Infosys were assessed on the basis of board practices, stakeholder's services and disclosure practices. Parameters specific to Corporate Governance were considered.

Board Structure: This parameter talks about total number of directors, number of executive, non-executive and independent directors. This shows the independence of the board in its functioning.

Committees: This parameter talks about the number of committees related to corporate governance that each company has and the constitution of these committees. This shows the commitment of companies towards fulfilling corporate governance norms.

Disclosure of Information: This parameter talks about how open the company is regarding disclosures such as board compensation, related party transactions, implementation of corporate governance principles, linking of senior management.

VI. Board practices

6.1 Board composition and size: Infosys board has appropriate mix of executive and independent directors to maintain the independence of the Board, and separate its functions of governance and management. As on March 31, 2013, the Board consists of 13 members, six of whom are executive or whole-time directors, and seven are independent directors. Three of the executive directors are our Founders. The Board periodically evaluates the need for change in its composition and size.

6.2 Board meetings: The Board meets at least once a quarter to review the quarterly results and other items on the agenda, and also on the occasion of the AGM of the shareholders. Additional meetings are held when necessary. Independent directors are expected to attend at least four Board meetings in

a year. Six Board meetings were held during the period of April to October 2013. These were held on April 11, 2013 and April 12, 2013; June 1, 2013; June 15, 2013 July 12, 2013; October 11, 2013

6.3 Board committee: Currently, the Board has six committees: the audit committee, management development and compensation committee, nominations and governance committee, stakeholder's relationship committee, risk management committee and corporate social responsibility committee. All committees except the CSR committee consist entirely of independent directors.

VII. Stakeholder services

The vision of Infosys is to earn global respect from all stakeholders. Engaging with stakeholders is a key approach of Infosys for achieving success. Company has defined channels, forums and platforms for engaging their stakeholders.

The following table provides details on the key stakeholders, the engagement channels and forums, and the respective internal owners:

Key stakeholder	Engagement mode	Internal departments
Clients	Request for proposals Client visits and meetings Sustainability portal on the website, (www.infosys.com) Mailers Newsletters Brochures Social media Customer satisfaction surveys Annual customer leadership meets	Sales Pre-sales Quality Delivery Corporate Marketing
Employees	Employee satisfaction survey Voice of Youth forum Employee affinity networks Grievance redressal board HRD blog, 'Ask Shibu' blog Leaders' blogs Inclusivity survey Development Centers (DCs) engagement initiatives Bulletin boards Corporate television channel, InfyTV intranet, Sparsh Sustainability portal on website Mailers Eco clubs Employee committees	Employee clubs HRD Delivery Communication Group Internal Systems Design
Investors	Analyst meets Analyst briefings	Finance Company Secretary

	Quarterly results Annual General Meeting with our shareholders Sustainability Report Financial reports	Corporate Marketing Communication Design Group
Government	Memberships in global associations Press releases Annual Report and quarterly reports Form-20F filed with the SEC Engaging with governments and global forums Award applications Various government submissions Infosys blogs Media releases and reports	Legal Facilities Corporate Marketing
Academia	Discussion with academic institutions Participation in events involving academia Curriculum enhancement programs Case studies Global internship programs (InStep) Fellowships White papers Joint R&D projects	Education & Research Corporate Planning
Vendors	Partner meets Procurement policy and vendor selection process Event brochures Vendor satisfaction surveys Vendor review meetings and awareness sessions	Purchase Personnel Computers and Communications Division Facilities
Local Community	Site visits Interviews with local NGOs and community representatives Sustainability portal on website, Meetings with associations / NGOs Local community meetings Press releases Social media	Education & Research Infosys Foundation Corporate Market

(Source: Infosys Sustainability Report 2012-13)

It has been found that Infosys management serves in the best interest of its stakeholders and also builds a strong relationship with them.

VIII. Disclosure and transparency practices

It is mandatory for the listed companies to publish their financial & non financial information in annual reports in compliance with the corporate governance code in reference to the clause 49 of listing agreement issued by SEBI.

- a) Basis of related party transactions 49 (IV A)
- b) Disclosure of Accounting Treatment 49 (IV B)
- c) Board Disclosures 49 (IV C)
- d) Proceeds from public issues, rights issues, preferential issues etc. 49 (IV D)
- e) Remuneration of Directors 49 (IV E)
- f) Management 49 (IV F)
- g) Shareholders 49 (IV G)

As part of the commitment, the Infosys technologies furnish all the information pertaining to disclosures in its annual reports in compliance with the corporate governance guidelines. Further, company also adheres to the euro governance guidelines 2000 and UN global compact program. It has been rated highly in several corporate governance reports, including by CLSA, which has given it a high CG star grade. Its annual report is said to be a trend setter with respect to disclosure norms. Securities and Exchange Commission of US has commended its annual report.

IX. Conclusion

An ideal way to ensure sound corporate governance is to do business in the "Right Way". Infosys demonstrates that it is possible to create success by focusing on cutting edge technology, and applying strict ethical business practices. Infosys success lies in giving high quality of life to its employees, complying with accounting standards of advanced countries and by ensuring strict adherence to corporate governance. Infosys has complied with the recommendations of CII and Managalam committee in the best manner. Infosys has adopted best corporate governance practices by setting up proactive and independent board, independent committees and following transparency in disclosures.

Infosys doesn't believe in wealth creation only it has social concern for the community. It believes high value and social commitment towards the stakeholders at large. Infosys established the Infosys foundation, a trust for disadvantaged people and also conducting different types of social services activities in different sectors like education, healthcare and other areas as a part of social responsibility. Finally, this study concludes good governance practices of Infosys are a true reflection of its culture, values and beliefs.

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