

# A CASE STUDY ON CORPORATE GOVERNANCE POLICIES IN SPECIAL REFERENCE WITH INFOSYS PVT LTD

<sup>1</sup>Dr. Molly Chaturvedi, 2Dr.A.Mary Francina

<sup>1</sup>Assistant Professor

NMIMS, Hyderabad

molly.chaturvedi@nmims.edumaryfrancina1980@gmail.com

2Associate Professor & Director MBA

St. Ann's College for Women (Autonomous)

Hyderabad, TS

## KEYWORDS

## INTRODUCTION

Corporate Governance - Corporate governance can be defined as the system which are adopted by the organisation to operate and control the processes affecting the varied stakeholders .

### ABOUT INFOSYS

India's leading IT company Infosys began its journey with the team of seven software engineers namely NR Narayana Murthy, Kris Gopalakrishnan, Nandan Nilekani, SD Shibulal, K Dinesh, Ashok Arora, and NS Raghavan in the year 1981 with the US\$ 150 as their initial seed money or investment, the company first overseas office was opened in USA Washington in the year 1987. The company was able to successfully launch its first Initial public offer (IPO) in the market by 1993 and also achieved a milestone by becoming the first Indian Information Technology company to be listed in NASDAQ in the year 1999

### CORPORATE GOVERNANCE AND 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-atlarge. The raison d'être of every corporate body is to ensure predictability, sustainability and profitability of revenues year after year. Infosys received best-governed company in India and on NASDAQ in 2014..

## – N. R. Narayana Murthy

Infosys being one of the foremost Indian IT company to come forward in framing the compliance policies based on the suggestions of Confederation of Indian Industries (CII). The company is known for maintaining and maximizing legally shareholder earned value, the company ensures and is committed for the implementation of corporate governance towards all its stakeholder whom they consider as part of their family, their governance policies are directed towards betterment of Customers, investors, vendors, partners, financial institutions, Media, Government, Citizen action group in which ever country they work and operate from, the company sole motto in reference with Corporate governance is highly critical in increasing and retaining investor trust, it clearly indicates the culture, policies, integral values, practices and commitment towards stakeholders and societal values of the Company.

## THE CORPORATE GOVERNANCE PHILOSOPHY AT INFOSYS IS BASED ON THE FOLLOWING PRINCIPLES:

1. Spirit of law is much important than mere letter of the law.
2. Uprooting and upholding the corporate governance laws.
3. Higher level of transparency to be maintained pertaining to disclosure matters.
4. Open, honest and truthful communication about the matters concerning internal environment of the Company to the stakeholders.
5. Following the law of the land in whichever country they operate
6. Transparent and Authentic corporate structure driven by Business need and requirement.

7. Developing a model where management of the company will act as a trustee of the shareholders capital and not as a owner.
8. Strongest pillar to be belief and trust for the stakeholders and disclosing the matters pertaining to them as and when needed.

## **HISTORY OF CORPORATE GOVERNANCE IN INFOSYS**

Code of corporate governance was published in the year 1990 by the confederation of Indian Industries (CII). Kumar Mangalam Birla was appointed as the Chairman of committee constituted by the Security exchange Board of India (SEBI). KumarMangalam committee submitted the observations in November 1999, which one month later was accepted by the SEBI committee.

Infosys as part of their corporate governance policy accepted the recommendations of the CII, KumarMangalam committee, including the suggestions proposed by Founder member NarayanaMurthy on corporate governance which were approved by SEBI.

Infosys was being awarded as Corporate Governance Rating-1 (CGR-1) by Investment Information and credit rating agency (ICRA) on the successful implementation of corporate governance in the company, in the year 2021 Infosys receive highest rating in Environmental, Social and Governance, accredited by Credit Rating Information Services of India Limited (CRISIL).

Infosys was also able to achieve another benchmarking performance as they were rated “A” by the international rating agency, Standard and Poor.

## **PURPOSE AND FRAMEWORK**

Infosys always comprehends and understand that enhancement of corporate governance is the need of the hour in serving stake holders and fulfilling societal responsibilities. Corporate structure clearly and distinctively defines the respective roles and responsibilities of the levels of management. Strong Corporate Governance founded on values is the bedrock of the sustained performance at Infosys and fuels the Company’s vision to achieve the respect of stakeholders. The corporate governance standards established which on regular intervals are being updated by the Board of Directors (the “Board”) of Infosys Limited helps in accomplishment of organisational objectives along with the mission and vision of the company.

These guidelines are framed in conjunction with Company’s Memorandum & Articles of Association, the charters of the committees of the Board and applicable laws/ regulations / guidelines in force for the specific period of time in India and the USA and other jurisdictions, as applicable. Explanation – For the purpose of these guidelines the term “Management” includes, ‘Executive officers’ as designated under SEC rules, ‘Key Managerial Personnel (KMP)’ so appointed under Companies Act, 2013 and ‘Senior Management’ as defined under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

## **BOARD COMPOSITION**

The core policy of Infosys aims at serving the interest of the varied stakeholders. Board of Infosys consists majority with independent members which ensures corporate governance with high standards, independent members contribute in auditing, compensation, shareholders and investors grievances, risk management committees etc. Infosys is also known for complying with the Euro shareholders corporate governance guidelines 2000 and equally they abide the Conference board on Public Trusts and Private Enterprises, USA recommendations. Company is known for following United Nations Global compact program also as part of their corporate governance policy.

## **BOARD INDEPENDENCE AND LEAD INDEPENDENT DIRECTOR**

Majority of the Directors in the board of Infosys meet the criteria as required and accepted by the Indian companies Act, Listing Regulations and the listing standards of the New York Stock Exchange (NYSE). Company has the policy of appointment of lead Independent Director who acts as a liaison between the non-executive Directors of Infosys and Management and in charge for performing additional responsibility as per the board requirements.

## **CORPORATE SOCIAL RESPONSIBILITY**

Infosys is one of the initial companies who have worked tirelessly towards the implementation of CSR initiatives in their organisation, company vehemently believes that economical and social growth, stewardship, societal interest are the most important pillars and drivers in organisational true success. In continuing with their deep rooted organisational culture, Infosys established its not for profit nodal body aimed at serving all sections of the society, predominantly committed towards Health infrastructure, Women and child welfare, Making available primary education, rehabilitating destitute animal care centres, Preservation and protection of Indian art and culture, they have also partnered with Non-Government organisations to assist local communities in managing their daily lives and livelihood. Infosys E-Shiksha abhiyan amongst local communities have garnered them much appreciation as it is empowering young children towards technology. The company CSR aims at the sustainable development of environmental and societal interest and make this beautiful plant liveable for future generations.

## **ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG)**

The financial success of Infosys has been tempered with an uncompromising commitment to excellent governance and sensitivity to societal and ecological needs. Infosys has readily accepted its responsibility to include ESG elements into what it does because it was an early proponent of responsible business, and they are becoming more and more important especially in light of COVID-19.

For instance, Infosys started addressing climate change in early 2008 and has since declared that 2020 will be the year when Infosys achieves carbon neutrality. Infosys' 2030 strategy illustrates how ESG will continue to play a crucial role in the company's success as a sustainable enterprise. According to CRISIL's ESGauge for 2021, Infosys has the highest grade in terms of environmental, social, and governance (ESG).

## **CONSIDERATION TOWARDS STAKEHOLDERS AND TRANSPARENCY**

The board of Infosys always takes into account how different actions and decisions would affect the company's clients, staff, suppliers, government/administration, and statutory authorities. The board also discloses all direct or indirect material matters affecting the stakeholders. This in turn increases transparency for Infosys's many stakeholders.

## **BOARD COMMITTEES AND ITS INDEPENDENCE**

The Infosys Board is comprised of the following committees: the Audit Committee, the Nomination and Remuneration Committee, the Stakeholders' Relationship Committee, the Risk Management Committee, the Corporate Social Responsibility Committee, and the Environment, Social, Governance (ESG) Committee.

The committees' memberships are as specified in their individual terms of reference, which were created in accordance with the Indian Companies Act, the Listing Regulations, the

listing requirements of the NYSE, and any other laws or regulations that are currently in effect.

## **RISK MANAGEMENT**

The Infosys Board is in charge of monitoring management's efforts to identify and manage significant risks as well as analyzing potential risk-reduction measures. The Board also reserves the right to oversee the Company's major risks and may assign committees of the Board with this duty. The Infosys Risk Management Committee supports the Board in carrying out its corporate governance oversight duties with regard to the identification, assessment, and mitigation of strategic, operational, and environmental risks. The Committee also approves the company's enterprise risk management framework and related procedures.

## **CORPORATE GOVERNANCE ISSUES AT INFOSYS**

### ➤ *Phaneesh Murthy case*

Infosys was involved in a scandal that damaged its reputation as a business with the best corporate culture, in the country for governance structure. In India, the events that occurred between October 1999 and December 2000 were finally made public when Phaneesh Murthy, the head of sales, marketing, and communications, a director on the board and the product services division of Infosys, left his position in June 2002. Phaneesh claimed he quit in order to concentrate on defending himself against a lawsuit brought against him in the US. The Reka Maximovitch, his former secretary, claimed in a complaint that Phaneesh had harassed her sexually and illegally dismissed her from her job. The stock price of the company dropped 6.6% shortly after Phaneesh left.

Later, on November 24, 2004, Infosys released a press release in which Narayana Murthy stated, "Infosys has learned that the sexual harassment lawsuit brought by Ms. Jennifer Griffith, a former employee, against the Company and Mr. Phaneesh Murthy, a former director, has been settled by Mr. Phaneesh Murthy and Ms. Griffith, just prior to the October 29, 2004, trial date set for the lawsuit's trial. Infosys has now learned that the parties to the settlement agreement, Mr. Phaneesh Murthy and Ms. Griffith, just signed the settlement agreement.

"I am glad that we stood by our objective of not contributing to the settlement of this sexual harassment case involving Phaneesh Murthy," Mr. Narayana Murthy stated.

### ➤ *Vishal Sikka's appointment as CEO with a twist in compensation*

Mr. Narayana Murthy, one of the company's founders, questioned the appointment of an independent Vishal Sikka, a former member of the executive board at the German software company SAP, who became Infosys' first non-founder CEO in 2014, as well as the payment of severance benefits to others, including former finance chief Rajiv Bansal.

The Infosys Board has supported Sikka and dismissed concerns about Sikka's compensation as CEO, the nomination of independent directors, and severance pay for former employees, claiming that such concerns were resolved years ago and that all necessary disclosures had been made.

Bansal received cash equivalent to 24 months of wages. Even the Indian Securities and Exchange Board believe the sum is excessive. The audit committee of Infosys hired Cyril Amarchand Mangaldas to look into the claims made regarding the payment. According to the law firm, the severance compensation was "not given with the intent to prevent him from disclosing any irregularities."

### ➤ *Investment in secondary market*

Infosys acknowledged in 1995 that they had invested corporate money in secondary markets incorrectly and had suffered a loss. At the AGM, they stood up and apologized to the shareholders for their behavior, making a commitment to never repeat this error.

The same year, Infosys announced within 48 hours that we had lost a Fortune 10 company's business, which was responsible for 25% of our top line. It worked very hard and recovered. Infosys stepped up and said in 2001 that they would only grow by 30% a year despite the fact that they had grown by 100% the year before. Every time it saw rapid growth, it let the investors know that this growth might not be long-term.

## CONCLUSION

The corporate governance standards established by the Board of Directors of Infosys Limited provide a framework within which directors and management can successfully pursue the company's goals for the benefit of its stakeholders. Additionally, these standards are framed in conjunction with the company's Memorandum & Articles of Association, the charters of the Board committees, and any applicable laws, regulations, and standards that are currently in effect in.

Infosys was ranked third among the best companies in the world in 2019 based on its accomplishment of its products and services, which instantiates the company's culinary masterpiece, the awe it inspires among its stakeholders, and also illuminates the commitment to universal technological services (Forbes India Magazine, 2020). Infosys' leading position is described as an Asian invasion in the rankings. Although it had a few corporate governance problems, they investigated them and found solutions to secure its position as India's finest governance firm.

## References

1. Amita Gupta Katragadda, U.K. Sinha, Opinion | The Quiet Transformation of Corporate Governance, Livemint, May 10, 2019, <https://www.livemint.com/opinion/columns/the-quiet-transformation-of-corporate-governance-1557392837251.html>
2. Aarati Krishnan, All you wanted to know about Corporate Governance, The Hindu, August 21, 2017 <https://www.thehindubusinessline.com/opinion/columns/slate/all-you-wanted-to-know-about-corporate-governance/article9825427.ece>.
3. Corporate Governance: concepts and objectives, Bussiness.gov.in,( Last accessed: January 8, 2020) [https://archive.india.gov.in/business/corporate\\_governance/concept\\_objectivess.php](https://archive.india.gov.in/business/corporate_governance/concept_objectivess.php)
4. Dr. Alka Mittal, An analysis of corporate Governance Imbroglio at Infosys, International Journal of Management Studies, <http://www.researchersworld.com/ijms/>
5. Ibid.Jagdish Rattwani, A corporate crisis in Infosys again, Deccan Herald, November 12, 2019.
6. Corporate Governance in India: What needs to change?, India Infoline News Service, Mumbai, November 30, 2018.
7. Report of the Uday Kotak committee on Corporate governance, SEBI, 5th october 2017.
8. Oommen A. Ninan, Corporate Governance: Focus on Sebi, The Hindu. August 20, 2017 <https://www.thehindu.com/business/Industry/corporate-governance-focus-on-sebi/article19530038.ece>
9. Corporate Governance in India: What needs to change?, India Infoline News Service, Mumbai, November 30, 2018.

10. Sachin P. Mampatta, How Long Does an Indian CEO last in a corner office?, Livemint, September 27, 2019, <https://www.livemint.com/Companies/Kek9zqK4tT4MVhtFYK957I/How-long-does-an-Indian-CEO-stay-in-the-corner-office.html>
11. <https://economictimes.indiatimes.com/opinion/interviews/no-talks-on-strategy-with-vishal-sikka-infosys-founder-nr-narayana-murthy/articleshow/57070727.cms?from=mdr>
12. ETmarkets.com, Sebi okays up to 1 cr reward for corporate whistle blowers, Economic Times Markets, August 21, 2019, <https://economictimes.indiatimes.com/markets/stocks/news/sebi-okays-up-to-rs-1-cr-reward-for-corporate-whistle-blowers/articleshow/70771483.cms?from=mdr>
13. Dr. Alka Mittal, An analysis of corporate Governance Imbroglio at Infosys, International Journal of Management Studies, <http://www.researchersworld.com/ijms/>
14. Aarati Krishnan, All you wanted to know about Corporate Governance, The Hindu, August 21, 2017 <https://www.thehindubusinessline.com/opinion/columns/slate/all-you-wanted-to-know-about-corporate-governance/article9825427.ece>