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An Analysis of Corporate Governance Imbroglio at Infosys

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ABSTRACT

Corporate governance provides the arrangement through which the objectives of the company are set, and the means of getting those objectives and monitoring performances are determined. Infosys, since a very long time, is considered as a very well governed organisation and its board works on the guidelines and norms provided. In the recent concerns over the issue of governance lapses, Infosys has faced various controversies over different issues since February 2017, these include the concern of shareholders over the huge severance pay to CEO Rajeev, huge pay hikes to then CEO Dr. Vishal Sikka along with Panaya deal and appointment of Punita Kumar Sinha as a director. The present paper studies the actual reasons behind these issues, the effect of the issues and the lessons to be learnt from them.

Keywords: Corporate Governance, SEBI, Shareholders, Code of Conduct.

CORPORATE GOVERNANCE AND SEBI NORMS:

SEBI(Securities and Exchange Board of India) defined corporate governance as, "the objective of Good Corporate Governance is to increase the long term value of the company for its shareholders and all other interested partners. Corporate governance assimilates financial activity and nonfinancial activity of the company to best perform by safeguarding the interests of related parties and economy too". Corporate governance is about ethical code of conducts. Furthermore, ethics is some code of values and principles which let a person to choose between right and wrong. Cadbury Report (1992) defined Corporate governance as 'the system by which businesses are directed and controlled'. Corporate governance is the subjective device by which investors to the companies can assure themselves regarding their returns (Shleifer & Vishny, 1997).

OBJECTIVES OF THE STUDY:

- To Study the Corporate Governance of Infosys.
- To understand the problems with corporate governance and its applicability in Infosys.
- To explore the solutions provided for the problems in application of Corporate Governance

REVIEW OF LITERATURE:

M.D.Rama(2012) studies how family owned business group deal with corruption in their corporate governance practices. This study provide the effects of corruption in Asian Business Groups and the contribution of Corporate Governance in dealing with it.
S.Pande and K.V Kaushik(2012), have reiterated in India the evolution of Corporate Governance reforms and have recognized the issues peculiar to Indian context but are not being addressed in the present Corporate Governance Framework.
S.M Amba(2013) studies the influence of Corporate Governance on the Financial Performance of the Firm. The factors which have negative influence are Duality of CEO, Leverage and proportion of Non- executive directors.

The factors which have positive influence are proportion of institutional ownership and board members as chair of audit committee

T. Peter and K.B. Bagshaw (2004) found that most of the firms had disclosed items of Corporate Governance with highest being done by Banking Sector.

Bajpai and M. Mehta(2014) compared two Indian companies on the basis of compliance to SEBI's clause 49 A & B. It also concluded that Chairman of Board and CEO should be different persons.

Namita Rajput and Bharti(2015) took a sample of BSE 100 companies to develop the relationship between shareholders' types and financial performance. The result showed significant positive influence of Ownership of Families and Foreign Institutional Investors on ROE. Whereas Government and retail share holder have negative impact on ROE.

A study was conducted by Twinkle Prusty & Saurabh Kumar on the top Effectivity of Corporate Governance on Financial Performance of IT companies inn India with special reference to Corporate Board. The study concluded that there is a substantial impact of board governance on financial performance of the selected companies. It had been observed that almost all selected companies have disclosed and practised their corporate governance codes but the way of such implementation is different from each other. In regard to this aspect, Infosys excels in CG practising as compared to other companies. Many of the companies were framing Infosys corporate governance practices as their benchmark.

RESEARCH METHODOLOGY:

The present study is descriptive. It is based on Secondary data which has been collected from various research studies, journals and newspapers.

Earlier Controversies at Infosys:

Accusation of visa fraud:

Infosys was charged with committing visa fraud by using B-1(work visa) in 2011. An American employee of Infosys in an internal complaint had made the charge and had put a legal case on the company that he was harassed after bringing the matter in the public.

Later on case was though dissolved but the US authorities started investing and in October 2013 Infosys settled the case by paying US$ 34 million.

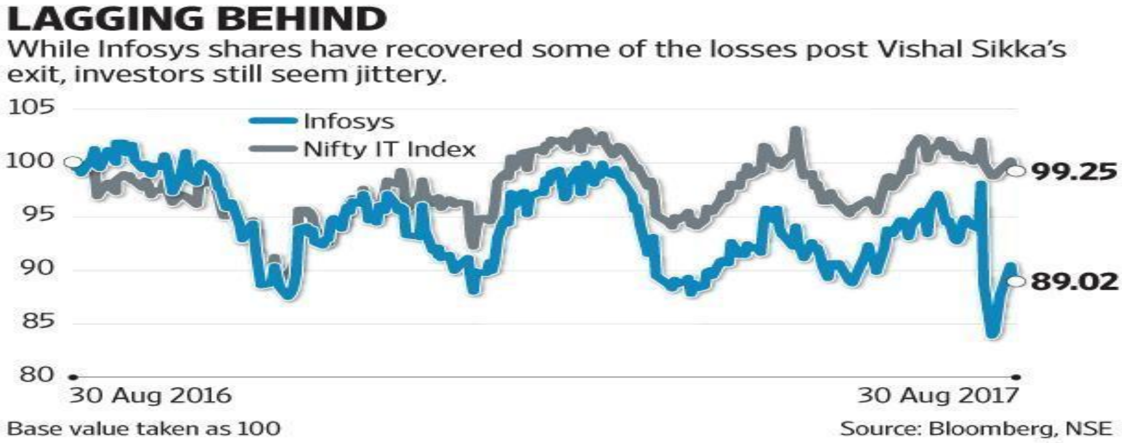
In 2015, the Department of Labour received complaint that Infosys had used workers with H-1B visas to replace workers at Disney and Southern California Edison, Florida Sen. But nothing wrong was found.

The Current Issues of Corporate Governance:

1. Former CEO Rajeev Bansal received the Compensation package of 17.38 croreand no adequate explanation on the package offered.
2. The untimely exit of David Kennedy and his compensation package ($868,250 million).
3. Vishal Sikka's annual compensation (Rs 49 crore)
4. The shift in culture of Infosys towards less people more software driven people.
5. Concern of Shareholders options of Buyback..
6. Loss of image of Infosys of the transparent organization.
7. The decision of the company to hire Punita Sinha, wife of Union Minister Jayant Sinha as the independent director.

Effect of Issue of Corporate Governance on Stock Market:

IT major Infosys's stock price rose by nearly 5% on the news speculations of one of the seven founders of Infosys, Nandan Nilekani making a comeback in the company as chairman. The stock prices witnessed a fall on the bourses post Vishal Sikka's resignation as the CEO of the company. Post the resignation of former CEO Vishal Sikka, directors Jeffery S Lehman and John Etchemendy also resigned from the Infosys board with instant effect. While the chairman of the board R Seshasayee and co-chair Ravi Venkatesan also resigned from the company's board. The stock had dropped by nearly 15% in two sessions following Sikka's resignation.



The Real Issues of Corporate Governance:
The issues that rose at Infosys have crucial consequences for the corporate governance in professionally managed firms. Two key problems faced by firms are Agency problems and Asymmetric Information.
Agency Problems arises because professional managers are agents of investors, but they focus on their personal interests, even if such personal interest is against investors' interests. Some exceptions may exist but academic research shows that most of the manager pay maximum attention to his and the team's compensation rather than taking care of shareholder's wealth.
Asymmetric information arises because professional manager and members of the board have comparatively more information than the other investors of the firm. Seeing their own benefits they will not pass on any bad news and will only pass on good news to the stakeholders. The CEO and board at Infosys may not have hidden the bad news but at the same time no special efforts were made to pass on the bad news when it surfaced.
Agency problems are widespread in corporations across the world, the CEO and the board should have taken the initiative to provide evidence disproving this perception. Good Corporate Governance requires diligent adherence to principles that remove the twin perceptions of Agency Problems and Asymmetric Information.

Succession Planning:
The succession planning of Indian corporate is an issue of concern. Although the concept of succession planning is there in India, bluechip corporate are trying hard to put it into practice. The abrupt exit of Sikka puts the company in a state of disarray.

Role of Stakeholders:
There is a Lot of Ambiguity in the role played by different stakeholders in the firm. Promoters needs to clarify

their role as shareholders, executives and board members. When promoters mixup their role then the problems like that in Infosys arise. Corporate Governance issue arisen at Infosys in a company which had made this concept of Corporate Governance popular in India is a matter of big concern. To achieve high standards of Corporate Governance Transparency is the key. The factors that determine the sustainability of large firms are : Clarity of roles and Corporate Governance. If the old guards of the firm do not let go of their companies to innovate then the survival of the corporate may go under threat. Large scale automation was making the back office processing and IT support irrelevant at Infosys and was moving towards Artificial Intelligence and robotics. Innovations does not come easy to the large firms. It comes either from some managers who are new and unfamiliar to the industry or from a new company with non traditional background. Innovation at slow pace was the major problem at Infosys. This could lead to the slow demise of the company which is part of such a fast paced IT Industry. At a broader level it also damages the ability of the country to innovate which is very worrying for its presence at the world stage. The Indian Corporate sector is required to be cautious. According to Narayan Murthy Good Governance is about doing what is fair in a transparent manner with full accountability accepted by senior leaders and board members for their actions. Good Governance results from following the adages- when in doubt, disclose and let the good news take the stairs and bad news take the elevator. The real story in the Infosys saga however does not lie in the intricacies of the company’s boardroom battles but the larger malaise that it highlights within Indian Corporates as a whole.

CONCLUSION:

Corporate governance essentially is an ethically driven business process that is committed to values aimed at enhancing an organization's wealth generating capacity. This is ensured by taking ethical business decisions and conducting business with a firm commitment to values, while meeting stakeholders' expectations. There are certain principles and guidelines for good conduct of corporate governance given by various national and international organisations and committees, like SEBI in India.Infosys, since a very long time, is considered as a very well governed organisation and its board works on the guidelines and norms provided. In the recent concerns over the issue of governance lapses, Infosys has faced various controversies over different issues since February 2017, these include the concern of shareholders over the huge severance pay to ex-CFO Rajeev Bansal, huge pay hikes to then CEO Dr. Vishal Sikka , along with Panaya deal and appointment of Punita Kumar Sinha as a director. Recently Infosys denied the claims made by the whistle-blowers and also appointed a law firm Cyril Amarchand Mangaldas to review its corporate Governance. According to the reports, auditors have concluded investigating various allegations of violationof Corporate Governance at Infosys Ltd, made by whistle-blowers, and have found no evidence of wrong doing.Also it claimed that all the hikes and payment sanctions were approved by the Nomination and Remuneration Committee and there were no governance lapses.Further Infosys claims to comply with the norms, recommendations and guidelines made by a number of corporate governance codes which are of international standards and notable among them are: SEBI Listing RegulationsCorporate Governance Voluntary Guidelines, 2009Naresh Chandra CommitteeKumar Mangalam Birla CommitteeEuroshareholders Corporate Governance Guidelines 2000Conference Board Commission on Public Trust and Private Enterprises in the U.S. OECD Principles of Corporate Governance. United Nations Global Compact. It has become very clear from the above facts and findings that Infosys has complied with the norms of corporate governance and the controversies and criticisms made by the whistle-blowers and the concerns raised by the founders and shareholders are the effects of the changes in the working pattern of the company and differences that come along with changes in management structure. While keeping this in mind, it is also very important for the company of this stature to keep the founders and stake holders informed about the operations and should to win their confidence as any controversy leads to chain of reaction which ultimately affects the integrity of the company, along with fall in share prices as was witnessed in the case of Infosys Ltd.

RECOMMENDATIONS:

A company which has good corporate governance has a much higher level of confidence amongst the shareholders associated with that company. In case of Infosys, we have witnessed a steep fall in their share prices of the company and it is favour of all the shareholders and stakeholders of the company and for the company itself to stabilize the standards of its CG practices and also to win the trust of its founders and other stakeholders. For good Corporate Governance when in doubt then bad news must be disclosed first than the good news and this should be followed by the current leaders and executive of the company.
The remuneration committee must convene a meeting, deliberate upon the current practice of paying severance

pay and what changes are required in the current policy, its effects on the reputation of the firm and employees. In companies with good governance in developed countries the ratio of CEO salary to the next lower level is generally 1:2. At Infosys, today it is about 2000 between the CEO salary and entry level salary for a software engineer. Such a large difference is not acceptable in developing countries special attention should be given to keep this ratios even lower. Identification and control of risk is the most important duty for the management of the firm. Visa is one of those riks for companies like Infosys. Infosys started this process in 2013 because it enables the firm to decrease the risk generated with H-1B visa. Infosys decreased from 30 percent to 10 percent on site percentage of work and replace the 10 percent of H-1B visa professionals with local talent. As long as Mr. Murthy was the chairman, he made quarterly presentations on the progress of this initiative and the project was not monitored at the board level once he left. This should be taken into consideration

The company and the board must take initiatives to improve shareholder's trust. Remuneration Committee must take certain Initiatives. The good practices undertaken prior to 2014 must be followed again.

The company also needs to bring in some people who are trusted by one and all. Company culture should be again brought to focus. Because it is the culture which brings joy or sadness. A good culture of the company must bring respect from all the stakeholders of the company in everything they do.

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