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Corporate Governance and Its Emergence

The Infosys Way

ABSTRACT

"Corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return"

1. INTRODUCTION

Governance is that separate process or certain part of management or leadership processes that make decisions that define expectations, grant power, or verify performance.

Corporate Governance is the system, set of process, customs, policies, and laws by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board of directors, management, banks and other lenders, regulators, the environment and the community at large) and spells out the rules and procedures for making decisions on corporate affairs. By doing this , it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance.

2. ATTENTION TO CORPORATE GOVERNANCE

Corporate Governance issues are receiving greater attention in both developed and developing countries as a result of the increasing recognition that a firm's corporate governance affects both its economic performance and its ability to access long-term, low-cost investment capital. Numerous high-profile cases of corporate governance failure have focused the minds of governments, companies and the general public on this issue.

Moreover, the whole issue of corporate governance become a matter of concern especially because of major shifts in public opinion and societal change on an international scale, together with the strategic requirements of newly emergent forms of business structure, new technologies, globalization and new forms of competition and particularly the investment by the foreign financial institutions in the emerging markets. In other words, when investments take place across national borders, the investors want to be sure that not only is their capital handled effectively and adds to the creation of wealth, but the business decisions are also taken in a manner which is not illegal or involving moral hazard. Corporate governance therefore calls for four factors:-

- To build up an environment of trust and confidence amongst those having competing and conflicting interest.
- Transparency in decision-making
- Accountability which follows from transparency because responsibilities could be fixed easily for actions taken or not taken, and The accountability is for the safeguarding the interests of the stakeholders and the investors in the organization.

3. PARTIES TO CORPORATE GOVERANCE

Parties involved in corporate governance include the regulatory body (e.g. the Chief Executive Officer, the board of directors, management and shareholders). Others stakeholders who take part include suppliers, employees, creditors, customers and the community at large

A Board of Directors often plays a key role in corporate governance. It is their responsibility to endorse the organization's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organization to its owners and authorities.

All parties to corporate governance have an interest, whether direct or indirect, in the effective performance of the organization. Directors, workers and management receive salaries, benefits and reputation, while shareholders receive capital return. Customers receive goods and services; suppliers receive compensation for their goods or services. In return there individuals provide value in the form of natural, human social and other forms of capital.

Thus, Corporate Governance is a set of rules stipulated for according due weight-age to foster ethical behavior which would help in enhancing the reputation. Thus the code of Governance is as applicable to individuals; the same is also applicable to Corporate.

4. MODELS OF CORPORATE GOVERNANCE

There are two models of Corporate Governance:-

A. SHAREHOLDER WEALTH MAXIMIZATION MODEL (SWM)

The suppliers of equity capital bear the entire risk of the enterprise and are the residual claimants of income. The shareholder elect a board of Director for the corporation on a one share equals to one vote basis.

The Board of Directors chooses the management who are supposed to make decision such as maximize the value of share owned by the share holders. The value of share is based on the present value of expected future dividend. Dividends are based on Profit After tax.

B. CORTPORATE WEALTH MAXIMIZATION MODEL (CWM)

In addition to the suppliers of equity capital i.e. shareholders there are other groups which have a stake in the operation of the corporation. These various groups can be called stakeholders. These include-

- Labour with special skills
- Labou without special skills
- Management
- Suppliers of Dept Capital

5. IMPORTANCE OF CORPORATE GOVERNACE

- Corporate governance has succeeded in attracting a good deal of public interest because of its apparent importance for the economic health of corporations and society in general.
- Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.
- Corporate governance provides proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently
- The corporate governance structure spells out the rules and procedures for

making decisions on corporate affairs.

- Corporate governance is used to monitor whether outcomes are in accordance with plans and to motivate the organization to be more fully informed in order to maintain or alter organizational activity. Corporate governance is the mechanism by which individuals are motivated to align their actual behaviors with be overall participants.
- Corporate governance is a tool for competitive advantage. Normally when we look at the issue of competitive advantage from a managerial point of view, we can look at those factors, which are within the control of the enterprise. This relates to the focus on quality, productivity as well as innovation, which are the basic requirements, in a highly competitive environment. This is needed for getting the competitive edge in a market where the customer is king.
- The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
- The corporate governance framework recognizes the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
- The corporate governance framework ensures the timely and accurate disclosure of all material matters regarding the corporation, including, the financial situation, performance, ownership, and governance of the company. A strong disclosure regime can help to attract capital and maintain confidence in the capital markets. Disclosure also helps improve public understanding of the structure and activities of enterprises, corporate policies and performance with respect to environmental and ethical standards, and companies' relationships with the communities in which they operate.
- Corporate Governance as a catalyst for Organizational Change.

6. IMPORTANCE OF CORPORATE GOVERNANCE IN BANKING SECTOR

Banks are a critical component of the economy while providing financing for commercial enterprises, basic financial services to a broad segment of the population and access to payment systems. The importance of banks to national economies is underscored by the fact that banking is, almost universally, a regulated industry and that banks have access to government safety nets. It is of crucial importance therefore that bank have strong corporate governance practices From a banking industry perspective, corporate governance involves the manner in which the business and affairs of individual institutions are governed by their Supervisory Boards and senior management, affecting how banks:

Set corporate objectives to generate sustainable economic returns to owners;
Run day-to-day operations of the business;
Protect the interests of depositors;
Consider the interests of other recognized stakeholders; and,

Align corporate activities and behaviours with the expectation that banks will operate in a sound manner and in compliance with applicable laws and regulators.

Banks are also important catalysts for economic reforms, including corporate governance practice. Because of the systemic function of banks, the incorporation of corporate governance practices in the

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assessment of credit risks pertaining to lending process will encourage the corporate sector in turn to improve their internal corporate governance practices.

Importance of implementing modern corporate governance standards is conditioned by the global tendency to consolidation in the banking sector and a need in further capitalization. best corporate governance practices will enable banks to Increase efficiency of their activities and minimize risks;

- Get an easier access to capital markets and decrease the cost of capital;
- Increase growth rate;
- Attract strategic investors;
- Improve the standards of lending;
- Protect the rights of minority share holder and other counterparts;
- Strengthen their reputation and raise the level of investors and clients' trust.

7. CORPORATE GOVERNANCE IN INFOSYS

By the late 1990s, Infosys Technologies Limited (Infosys) had clearly emerged one of the best managed companies in India. Its corporate governance practices seemed to be better than those of many other companies in India.

Because of its good governance practices, Infosys was the recipient of many awards. In 2001, Infosys was rate India's most respected company by Business World. Infosys was also ranked second in corporate governance among 495 emerging companies in a survey conducted by Credit Lyonnais Securities Asia (CLSA) Emerging Markets. It was voted India's best managed company five years in a row (1996-2000) by the Asiamoney poll.

In 2000, the Government of India has awarded the "National Award for Excellence in Corporate Governance" Infosys. In 1999, Infosys had been selected as one of Asia's leading companies in the Far Eastern Economic Review's REVIEW 2000 Survey and voted India's most admired company by The Economic Times.

Infosys had also provided all the information required by the Cadbury committee Infosys had benchmarked its corporate governance practices against those of the best-managed companies in the world (Refer Exhibit I for broad structures and processes and processes for good governance).

It was one of the first companies in India to publish a compliance reports on corporate governance, based on the recommendations of a committee constituted by the Confederation on Indian Industries (CII). Infosys maintained a high degree of

In the late 1990s, the Confederation of Indian Industries (CII) published a code of corporate governance (Refer Exhibit II for the highlights of the report). In 1999, the Securities and Exchange Board of India (SEBI) appointed a committee under the Chairmanship of Kumar Mangalam Birla to recommend a code of corporate governance.

Infosys had accepted the recommendation of both the CII and the Kumar Mangalam Birla Committee. This section provides an overview of corporate governance practices followed by Infosys.

Infosys had an executive chairman and chief executive officer (CEO) and a managing director, president and chief operating officer (COO). The CEO was responsible for corporate strategy, brand equity, planning, external contacts, acquisitions, and board matters. The COO was responsible for all day-to-day operational issues and achievement of the annual targets in client satisfaction, profits, quality, productivity, employee empowerment and employee retention.

The CEO, COO, executive directors

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and the senior management made periodic presentations to the board on their targets, responsibilities and performance.

Some analysts felts that Infosys' corporate governance practices offered many lessons to corporate India. Infosys had shown that increasing shareholder wealth and safeguarding the interests of other stakeholders was not incompatible. Infosys had given its non-executive directors the mandate to pass judgment on the efficacy of its business plans. Every non-executive director not only played an active role in decision making, but also led or served on at least one of the three (Nomination, Compensation and Audit) committees.

8. CONCLUSION

Corporate Governance is the reflection of the company's culture, policies, relationship with stakeholders, commitment to values & ethical business conduct. In the same spirit, timely & accurate disclosure of information regarding financial situation, performance, ownership and governance of the company is an important part of the Corporate Governance.

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