

Corporate Performance and Governance in Infosys Technologies

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<<< Abstract

In the light of corporate governance practices envisaged by the recent amendments to the companies Act, 1956 and the provision of Sebi's revised clause 49 of the Listing Agreement, this case study evaluates the quality of corporate governance practices in I.T. industry in India, particularly based on the annual report of Infosys Technologies, a leading Indian I.T. firm for the financial year 2008-2009. The study is expected to serve as a pointer to the effectiveness of current corporate governance practice in Infosys Technologies, in particular, and the Indian corporate sector, in general

1. INTRODUCTION

The term corporate governance became a prominent research theme after the publication of Cadbury committee report in the UK in the early 1990s. This is evident from the fact that the number of research in India also, the corporate governance movement gathered momentum after the publication of the report of CII on desirable code of corporate governance in 1997.

Corporate Governance is typically perceived by academic literature as dealing with "Problems that result from the separation of ownership and control". From this perspective, corporate governance would focus on the internal structure, role of the board of directors, the creation of independent audit committees, rules for disclosure of information to shareholders and creditors, and control of the management.

2. TRENDS IN CORPORATE GOVERNANCE

Some of today's trends in governance (particularly prevalent in the US and UK) that are likely to continue include following-

- Boards are getting more involved not only in reviewing and evaluating company strategy but also in shaping it.
- Institutional investors, such as pension funds, mutual funds and insurance companies, are becoming active on boards and are putting increasing pressure on top management to improve corporate performance.
- Shareholders are demanding that directors and top managers own more than token amounts of stock in the corporation. Stock is increasingly being used as part of a director's compensation.
- As corporations become more global, they are increasingly looking for international experience in their board members.

The study has been made to evaluate the state of compliance of key governance parameters in Infosys Technologies in line with the statutory and non-mandatory requirements stipulated by the revised clause 49 of the (SEBI) Listing Agreement as also the provisions required by the companies Act, 1956.

3. KEY GOVERNANCE PARAMETERS AND THEIR COMPLIANCE STATUS

We have examined the corporate governance reports of Infosys Technologies and ascertained the actual position with respect to the following key governance parameters.

Statement of Company's Philosophy on Code of Governance: As disclosed in the report of corporate governance, Infosys Technologies's Philosophy on corporate governance envisages attainment of the highest level of transparency, accountability and equity in all its operations and interactions with its stakeholders. Infosys is committed to achieve and maintain the highest international standards of corporate governance and enhance overall shareholders' value on a sustained basis. Infosys has a well defined policy framework consisting of: (a) values and commitments policy, (b) code of ethics, (c) business policies (d) Policy for prohibition of insider trading and (e) program of ethics management.

Boards of Directors/ Boards Issues : We examined the various aspects of the board of directors' viz., board structure, board strength and size, directors' attendance and a few others.

Observation from Table 1:

- It is evident from table 1 that the ownership of the company is widely distributed under public shareholding i.e. 64.38% while founders having holding only 16.49%
- The table also indicates that the change in shareholding pattern from March 31, 2008 to March 31, 2009 is negligible.

Board Structure, Strength and Size: The Board Structure, Strength and Size of Infosys Technologies have been shown in table2.

Observation from Table 2:

- Infosys has an optimum combination of executive directors (ED's) and non-executive directors (NED's)/ Independent directors (ID's) on its board during the year 2008-2009 there by complying with the conditions of clause 49 of the listing Agreement.

Directors' Attendance in Board Meetings :Directors' attendance in the board meetings of Infosys Technologies in the year 2008-2009 is shown in Table3.

Table-1
Share Holding pattern of Infosys Technologies for the year 2008-2009.

Category	March 31,2009			March 31,2008		
	Shareholders (no.)	Voting Strength (%)	No. of share held	Shareholders (no.)	Voting Strength (%)	No. of share held
Founders holding Indian Founders	19	16.49	9,44,84,978	19	16.52	9,44,95,978
Total founders holding (A)	19	16.49	9,44,84,978	19	16.52	9,44,95,978
Public shareholding Institutional Investors	254	3.58	2,05,19,719	184	2.92	1,67,18,693
Mutual funds Banks, Financial inst. &	63	4.16	2,38,01,421	71	4.20	2,40,36,054
Foreign Inst. Investors Others	817	34.85	19,96,64,124	56	33.36	19,08,21,914
Private Corporate bodies	3520	3.51	2,00,85,568	4066	2.86	1,63,48,351
Indian Public	4,84,412	16.89	9,67,35,467	5,42,914	17.52	10,01,92,778
NRIs/OCBs/Foreign Nationals	7,776	0.89	51,05,579	7,696	2.95	1,68,69,562
Trusts	45	0.50	28,45,557	48	0.50	28,55,406
Total Public Share Holding (B)	4,96,887	64.38	36,87,57,435	5,55,542	64.31	36,78,42,758
Equity Share Underlying ADS (C)	1	19.13	10,9587,630	1	19.17	10,95,57,022
Total (A+B+C)	4,96,907	100.00	57,28,30,043	5,55,562	100.00	57,19,95,758

Source : Annual Report 2008-2009

Table-2
Board Structure, Strength and Size of Infosys Technologies
for the year 2008-2009

Particulars	Infosys
1. Total Number of Directors	15
(a) No. of executive Directors (EDs)	
(i) Promoters	4
(ii) Others	2
(b) No. of Non-executive Directors (NEDs)	
(i) Promoters	1
(ii) Independent (IDs)	8
(iii) Nominee	-
(iv) Others	-
2. Total Number and percentage of Directors	
(i) Executive Directors (EDs)	6 (40%)
(ii) Non-executive Directors (NEDs)	9 (60%)
(iii) Independent Directors (IDs)	8 (53.3%)

Source: Annual Reports (2008-2009)

Table-3
Director's Attendance in the Board meetings of Infosys
Technologies in the year 2008-2009.

Type of Directors	No. of Directors	Meeting held	Meeting attended
(a) Executive Directors			
(i) Promoters (ED's)	4	6	6
(ii) Others	2	6	6
(b) Non-Executive Director (NES's)			
(i) Promoters	1	6	6
(ii) Independent Director (ID's)	8	6	5

Source: Annual Reports (2008-2009)

Observation from table 3:

- Infosys board met six times in the year 2008-2009, out of which the full board met four times.
- The statistics shows that directors' attendance in the board meeting during the year 2008-2009 is encouraging. This clearly indicates good accountability and commitment of the board towards the stakeholders of the company.

Disclosure of Tenure and Age Limit of Directors: The code of best practice demands that, Independent Directors may have a limited tenure, say, not exceeding in aggregate, a period of nine years on the board of a company. Although, the age limit for directors to satire may be decided by the respective companies

Disclosure of other provisions as to the Boards and committees. **(Statutory Board committees)**

Audit Committee:

The status of the audit committee in Infosys in the year 2008-2009 is given in Table 4.

Observation from table 4:

- Infosys has complied with the conditions of clause 49 of the listing Agreement as mentioned in Table 4.
- Infosys has published audit committee report on corporate Governance.

Shareholders'/ Investor's Grievance Committee:

The Status of shareholders'/ Investors' grievance

Table-4
Status of Audit committee in Infosys Technologies
in the year of 2008-2009.

SI. No.	Particulars	Status
1.	Transparency in composition of audit committee.	Committees consist of 6 independent directors.
2.	Compliance of minimum requirement of the numbers of independent directors in the committee.	All members are independent directors as required by the clause 49 of the listing Agreement.
3.	Compliance of minimum requirement of the number of meetings of the committee.	Four meeting held during 2008-2009, 4 independent directors out of 6 attended all 4 meetings, 2 out of 6 attended two meetings.
4.	Information about literacy and financial expertise of the committee members.	All members reported having adequate literacy and expertise in finance and accounting.
5.	Information about participation of head of finance, statutory auditors, chief internal auditors, and other invitees in the committee meetings.	Executives of Accounts, finance, secretarial departments, Management Audit cell, and representatives of statutory, internal auditors, cost auditors attended the meetings.
6.	Disclosure of audit committee charter and terms of reference	Audit committee , charter/ terms of reference disclosed in corporate governance report
7.	Publishing of audit committee report	Published in corporate governance report

Source: Annual Reports (2008-2009)

committee in Infosys Technologies in the year 2008-2009 is given in Table 5.

Observation from Table 5-

- Infosys has complied with the requirements of clause 49 of the Listing Agreement in respect to all the items from 1 to 5.

- Company shows the total commitment in dealing with investors grievances.

Non Mandatory Board Committee

Remuneration Committee: The status of the remuneration committee in Infosys Technologies in the year 2008-2009 is given in Table 6.

Observation from table 6:

- Forming of remuneration committee in a listed company is a non-mandatory requirement of the clause 49 of the Listing Agreement. Despite that Infosys has set up a remuneration committee following the conditions of clause 49 of the Listing Agreement

- During the year 2008-2009, the remuneration committee meetings were held four times and also published the report.

Table- 5

Status of Shareholders'/Investors' Grievance Committee in Infosys Technologies in the Year 2008-2009

SI. No.	Particulars	Status
1.	Transparency in composition of committee	Committee consists of three Directors. All are independent.
2.	Information about nature of complaints and queries received and deposited item wise	Item wise break up of the nature of queries/ complaints disclosed. No complaints pending reported.
3.	Information about number of committee meetings and attendance of committee member	Four meeting were held during the year all the three members attended all four meetings.
4.	Information about investor /shareholder survey conducted	Shareholders' feedback survey conducted and disclosed in CG report
5.	Publishing of committee report	Published in corporate governance report.

Source: Annual Reports (2008-2009)

Other Board committees :Infosys Technologies set up the following board committees in order to look into the important aspects of corporate governance.

- Corporate Governance and stakeholders interface committees

- Employees stock compensation committee

- Finance Committee

- Health, Safety, and Environment Committee

- Functional Committee

- Nomination Committee

4. EVALUATION OF GOVERNANCE PRACTICE

After analyzing the governance structures, processes and disclosures made on corporate governance, the question arises as to what is the standard and quality of governance that has been achieved by Infosys Ltd.

Table-6

Status of Remuneration Committee in Infosys Technologies in the Year 2008-2009

SI. No.	Particulars	Status
1.	Transparency information of the committee.	Committee consists of four independent directors.
2.	Information about number of committee meetings.	Four remuneration committee meetings were held in 2008-2009.
3.	Compliance of minimum requirement of the number of NEDs in committee.	Committee consists of all the NEDs / Independent directors, complying with minimum requirement of the clause 49 of the Listing Agreement.
4.	Compliance of the provision of independent director as chairman of the committee.	Chairperson of the committee is an independent director, resulting in compliance of clause 49 of the Listing Agreement.
5.	Information about participation of all members in the committee meeting	One member attended all the four meetings. Another one attended three while rest of 4 attended two meetings
6.	Publishing of committee report	Published in corporate governance report

Source: Annual Reports (2008-2009)

Table-7
Criterion for Evaluation of Governance standard for the year 2008- 2009

S.No.	Governance parameters	Points/score	Assigned
1.	Statement of Company's philosophy on code of Governance	2	3
2.	Structure and strength of the Board	2	3
3.	Chairman, CEO & MD perspective		5
	(i) Non-Executive chairman cum chief mentor	2	
	(ii) Promoter and Executive Co-Chairman	1	
	(iii) Promoter non-executive chairman	1	
	(iv) Promoter MD and CEO	1	
	(v) Promoter COO	1	
4.	Disclosure of Tenure and Age limit of Directors	2	2
5.	Disclosure of :		3
	(i) Definition of independent director	1	
	(ii) Definition of financial expert	1	
	(iii) Selection criteria of board of directors Including independent directors	1	
6.	Appointment of Independent director	1	2
7.	Disclosure of other provisions as to the Boards & Committee	1	2
8.	Disclosure of :		5
	(i) Remuneration policy	2	
	(ii) Remuneration of directors	2	
9.	Code of conduct:		5
	(i) Information on code of conduct	2	
	(ii) Affirmation of Compliance	2	
10.	Board committees A. Audit Committee:		8
	(i) Transparency in composition of audit committee	1	
	(ii) Compliance of minimum requirement of the number of independent directors in the committee	1	
	(iii) Compliance of minimum requirement of the number of meetings of the committee	1	
	(iv) Information about literacy and expertise of committee members	1	
	(v) Disclosure and publishing of audit committee report	2	
	B. Remuneration/compensation committee:		7
	(i) Formation of the committee	1	
	(ii) Information about numbers of committee meetings	1	
	(iii) Compliance of minimum requirement of the number non-executive directors in the committee	1	
	(iv) Compliance of provision of independent directors as chairman of the committee.	1	
	(v) Publishing of committee report	1	
	C. Shareholders' / investors grievance committee		5
	(i) Transparency in composition of the committee	1	
	(ii) Information about nature of complaints and queries received and disposed item wise	1	
	(iii) Information about number of committee meetings	1	
	(iv) Information about investors/ shareholders survey conducted	1	
	(v) Publishing of committee report	1	

11.	Disclosures and Transparency (a) Significant related party transactions having potential conflicts with the interest of the company. (b) Non-Compliance related to capital market matters during last three years (c) Accounting treatment (d) Board disclosure – Risk management (i) information to the board on risk management (ii) Publishing of risk management report (e) Management discussion and analysis (f) Shareholders’ information: (i) Appointment of new director/reappointment of retiring directors (ii) Quarterly results and presentation (h) Audit Qualification (i) Training of Board directors (j) Evaluation of non-executive directors	2 2 2 2 1 2 1 1 2 2 2	20
12.	General Body meetings: (i) Location and time of general meeting held in last three years (ii) Details of special resolution passed in the last three AGMs / EGMs. (iii) Details of resolution passed last year through postal ballot including the name of conduction official and voting procedure	1 1 1	5
13.	Compliance of corporate Governance and Auditors’ certificate: (i) Clean certificate from auditors (ii) Qualified certificate from auditors	10 5	15
14.	Disclosure of stakeholders’ interests: (i) Environment, Health and safety measures (ii) Human resource development initiative (HRD) (iii) Corporate social responsibility (CSR) (iv) Industrial relation (IR) (v) Disclosure of policies on EHS, HRD, CSR & IR	2 2 2 2 2	10
	Total	88	100

Table-8
Grading on Five Point Scale

Score Range	Rank
86-100	Excellent
71-85	Very Good
56-70	Good
41-55	Average
Below 41	Poor

For determining the governance standard in Infosys, a point value system has been applied and adequate weightage in terms of points has been provided according to their importance. Accordingly, Infosys has been awarded points on key parameters, which constitute the governance process in the company. Due to non-availability of inside information and no scope for

discussion with key officials of the company, a working method model has been developed under which governance standards have been selected on a hundred-point scale as shown in table no. 7. After determining the total score based on these parameters, Infosys Ltd. has been evaluated on a five- point scale as shown in table no.8.

Results: An evaluation of the results reveals that Infosys Technologies has shown excellent performance with a score of 88 points, while maintaining the standards and attaining quality of governance practices.

From the above micro analysis and study of the annual report of Infosys Technologies for the year 2008-2009, it appears that there is still scope for improvement

Table-9
Impact of Good Governance Practice on Employees Strength and Revenue

Fiscal	Employees	Income (Rs. crores)
1996	1,172	89
1997	1,705	139
1998	2,605	258
1999	3,766	509
2000	5,389	882
2001	9,831	1,901
2002	10,738	2,604
2003	15,876	3,640
2004	25,634	4,853
2005	36,750	7,130
2006	52,715	9,521
2007	72,241	13,893
2008	91,187	16,692
2009	1,04,850	21,693

Source: Annual Reports (2008-2009)

in the level of corporate standards and quality of disclosures to be practiced in the company.

5. CONCLUSION

A detailed analysis of corporate governance practice of Infosys Technologies (refer Table 1-9), reveals that the governance practice of Infosys Technologies is quite satisfactory. Also, it clearly shows that the good corporate governance practices adopted by the Infosys clearly indicate that the strength of the employees and revenue of the company is consistently increasing year by year from 1996 to 2009.

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