Project Report On

"EFFECTS OF CORPORATE GOVERNANCE IN INFOSYS"

Submitted by

VARAD NANDKISHRO REDIJ

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Project Guidance by

Professor: **HIMANSHU LAPASHIA**

UTTARI BHARTI SABHA'S

RAMANAND ARYA D.A.V COLLEGE OF COMMERCE AND SCIENCE

DATAR COLONY, BHANDUP (EAST)

RamanandArya D.A.V. College

Bhandup (East) Mumbai 400042

Certificate

This is to certify that **VARAD NANDKIDHOR REDIJ** has worked and duly completed his Project Work for the degree of Master in Commerce under the Faculty of Commerce in the subject of **HUMAN RESOURCE MANAGEMENT** and his project is entitled, **EFFECTS OF CORPORATE GOVERNANCE IN INFOSYS** under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and facts reported by his personal findings and investigations.

Co-Ordinator:

Dr. Shushma Patil

Principal:

DR. AJAY M. BHAMARE

Project Guide/Internal Examiner:

Himanshu Lapashia

External Examiner:

RamanandArya D.A.V. College

Bhandup (East) Mumbai 400042

Declaration by learner

I, the undersigned **VARAD NANDKISHOR REDIJ** declare that the work embodied in this project work hereby, titled **EFFECTS OF CORPORATE GOVERNANCE IN INFOSYS** forms my own contribution to the research work carried out under the guidance of **Himanshu Lapashia** is a result of my own research work and has not been previously submitted to any other University for any other Degree to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

Name of the learner: Varad Nandkishor Redij

Signature:

Certified by

Name of the Guiding Teacher: Himanshu Lapashia

Signature:

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Signature of the Student

VARAD NANDKISHOR REDIJ

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Introduction

1. Introduction

1.1. Introduction to the project

Corporation’s pool capital from a diverse group of investors across the globe, these investors put their trust on the ability of the corporation’s management to use the capital they received for the benefits of the stakeholders and also earn adequate rate of return which should typically be higher than the cost of capital. In this regard, investors expect the management to act in their best interests at all times. This can be achieved by the corporation by implementing diligent rules, practices, and processes by which the firm can provide its stakeholders guarantee of proper functioning. Corporate Governance is important to an organization, as it reduces the possibility of any conflicts of interest among the stakeholders and provide the management with accurate processes through which the corporation can achieve their objectives.

India is a home to many technology companies but the one that stands out of all is Infosys lead by an Indian billionaire businessman Mr. Nagavara Ramarao Narayana Murthy, Mr. Murthy along with his six software professionals founded Infosys in 1981. Throughout the journey of Infosys to the top among the best technology companies, Infosys Technologies Limited has proven to be the most respected company in India with regards to its corporate governance practices. Infosys has been a role model and a benchmark for numerous companies in respect to their Corporate Governance practices, it was one of the first companies in India to publish a compliance report on corporate governance. Infosys has maintained a high degree of transparency while disclosing information to the stakeholders which has helped built a reputation of trustworthy and diligent company.

This report paper dives down into the “Effects of Corporate Governance on Infosys”, the report is an attempt to understand the functioning and the practices of Corporate Governance in Infosys.

1.2. Objectives of the project

A company's corporate governance is very important to the stakeholders as it showcases a company's potential and the integrity. Good corporate governance helps build trust among investors, which overall helps the company to expand and have better reach with the society. Hence, the primary objective of this project is to understand how corporate governance work and analyze its effects on Infosys Technologies Limited. This research project also talks about some of the recent happening with respect to corporate governance and Infosys, and the problems involved with implementing corporate governance. The report ends with some recommendations with respect to incorporating and smooth functioning of corporate governance.

1.3. Importance and Scope of study

Corporate Governance enables a accountability culture among various stakeholders, which leads to positive growth in the company. A good corporate governance creates an essence of sustainability and proper functioning of the company at a larger level. This project is based on the effects that corporate governance has had on Infosys, it also include further case study and assessment of how Infosys has managed to incorporate good corporate governance along with further recommendation on the bases of evolution in corporate governance.

Concepts related to Corporate Governance

2. Concepts related to Corporate Governance

2.1. What is Corporate Governance?

Corporate governance has become an important topic of interest for numerous businesses as it helps the business get a competitive position above the competitors, helps to attract capital from public, and ensure a steady growth in the economy. But what exactly is Corporate Governance in theoretical terms? Corporate governance is classified as a collection of mechanisms, processes and relations used by various parties to control and to operate a corporation, in other words corporate governance is a set of rules, proper processes, and best practises by which a corporation can be guided towards its primary goal that is making sustainable earnings to survive in the long run. It involves numerous rules and responsibilities, and balancing the interest of different stakeholders, as an investor spending its hard earned money on the corporation of his/her choice they expect the management to to run the business in the stakeholders best interest and adopt these corporate governance practices.

Definition of Corporate Governance:

The OECD (Organization of Economic Cooperation and Development) Principles of Corporate governance, 2004 states:

"Corporate governance involves a set of relationship between a company's management, it's board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

Securities and Exchange Board of India, 2003 defines corporate governance as:

"Corporate Governance is the acceptance of management of the inalienable rights of the shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company."

Sir Adrian Cadbury, Foreword to Corporate Governance and Development, Global Corporate Governance Forum, 2003:

“In the broadest sense, corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interest of individuals, of corporations and of society.”

2.2. Understanding Corporate Governance and its features

Governance in layman's terms can be defined as a set of rules, controls, policies, and resolutions put together to make sure that the corporate acts or works in a certain way. Shareholders are important personnel's who can affect the governance of the corporation by working together with the management of the corporation. Management play a pivotal role in the working of the corporation as they are the ones who look after the functioning of the corporation. A corporation's corporate governance is important to the investors as it shows the sign of sustainability and business integrity. Good functioning of corporate governance helps to promote the companies and build a sense of trust among investors and other market participants.

In the modern world, finding a profitable company is not the only priority for investors, as the mindset of investors are getting inclined more towards an ethical behaviour and long term sustainability of the company. That's where corporate governance comes into picture, it helps the corporation to create an image that is a corporate image of well functioning, sound business practices, and complete transparency within the organisation.

Some of the features of Good Corporate Governance are as follows:

- Transparency

  Corporate governance ensures that the company is transparent with its functioning and actions, this enables the shareholders to get actively involve with the company's management to take relevant actions towards the working of the corporation. Transparency helps reflect the true picture of whats happening inside the corporation which can help create a good corporate image and attract capital in form of new investors.
- Accountability

  The BOD and the higher management of the company must be made accountable for their actions to the shareholders and to entire society. Corporate governance helps to create and maintain a proper mechanisms to ensure responsibility and accountability of key decision makers and implementers.
- Protection of Shareholders rights

The BOD must protect the rights of shareholders, and this can be achieved by good corporate governance. The set of rules and responsibilities towards various stakeholders defined in the corporate governance can help protect the rights of shareholders.

- Ethical Standards

  Corporate governance is based on ethics, moral, and values; hence the BOD must make sure they follow proper ethical value in all divisions of the company. This means the higher management must make sure they are not involved in any type of unethical activities like fraud or malpractices. Ethics and integrity are the primary principles of corporate governance.

- Systematic Process

  Corporate governance is very systematic, it is based on laws, regulations, proper and ethical rules, etc. All these are made to maintain a standard of the company and to make sure that the company is running smooth and in an orderly manner. These processes are made to ensure the rights of all the stakeholders are protected by the corporation.

- Social Responsibility

  A well managed company are aware of the social issues happening around them and are ready to make an effort towards handing or making a meaningful contribution to irradiate these issues. A good corporate governance makes sure that the corporations are actively involved in helping not just the business environment but also the social environment which may be affecting them.

2.3. Importance

Weak corporate governance in recent period has lead to many failures in the market, a lack of proper oversight by the BOD, inadequate protection to shareholders, and incentives at companies that promote excessive risk taking are just a few of examples that are lead because of lack of good corporate governance. Many financial crisis, scandals, and bankruptcies over the last few decades are a result of such poor corporate governance. One of the recent crisis that is the 2008-09 global financial crisis was a result of poor corporate governance.

But beyond the crisis and frauds, however are several reasons explaining why corporate governance is important to for the organisation and the economy as a whole. Strong corporate governance helps a company to cultivate a culture of accountability, integrity, and transparency which leads a company to make positive changes in the business and to back the claim of sustainability in the future. A good corporate governance signals the market that the company is well managed and that the interests of various stakeholders are taken into consideration, this gives the corporation a competitive advantage.

Strong corporate governance leads to shareholder recognition, which ensures that all shareholders have a say in the working of the company. This helps to secure the right and the value of shareholders stock. It helps the organisation to have a clear and concise vision of where they want to be and how they can get there, with the help of ethical guidelines and a proper goal helps the organisation to seek higher profits and make sure the company is out of any legal trouble.

Some of the importance of corporate governance are as follows:

- Active involvement of stakeholders
  Stakeholders are important for improving the overall performance of the organization, and having strong corporate governance helps encourage transparency which in complementary affects the stakeholders to get actively involved in the organisation.
- Helps build a good corporate image

Corporate governance helps enhance the goodwill of the company, and this is achieved by building good relation with various stakeholders. Maintaining high ethical standards along with sound decision making helps to improve the overall performance of the business organisation.

- Social Responsibility

  Corporate governance enables the corporation to adopt fair business practices in regards to accounting and finances. It insists on companies to report with transparency the financial affairs of a business, this helps the organization to protect the interest of all stakeholders.

- Long term sustainability

  Corporate governance enables business firm to survive over a long period of time. That is because public trust those companies who believe in fair practices and ethical functioning, the trust and support of all stakeholders ensures long term survival of business.

2.4. History

The topic of corporate governance enjoys a long and rich history. It's the topic that incorporates managerial accountability, board structure and shareholder rights. The issue of corporate governance began with the beginning of corporations, dating back to the East India Company, the Hudson's bay company, the Levant Company and other major chartered companies during the 16th and 17th centuries. While the concept of corporate governance has existed for centuries, the name didn't come into vogue until the 1970s. It was a popular concept in the United States, after the world war 2, the United States experienced strong economic growth, which had an impact on the history of corporate governance.

In the 1970s, things began to change as the Securities and Exchange Commission (SEC) brought the issue of corporate governance to the forefront when they brought a stance on official corporate governance reforms. In 1976, the term "corporate governance" first appeared in the Federal Register, the official journal of the federal government.

In the 1960s, the Penn Central Railway had diversified by starting pipelines, hotels, industrial parks and commercial real estate. In 1970s Penn Central filed for bankruptcy in 1970 and the board came under public fire. Later in the early 1970s the SEC filed suits against the directors for misrepresenting the company's financial condition. Around the same time, the SEC caught several other incidents of misrepresentation, this lead the SEC making a mandatory requirement for listed companies to have audit committee composed of independent board of directors. This was the beginning of modern day corporate governance.

In the 1980s, Eugene Fama and Michael Jensen established the principal-agent problem as a way of understanding corporate governance, principal agent problem can occur when higher officials have incentives to act in their own interests rather than the agents that is in this case shareholders.

In the early 2000s, the massively bankruptcies of Enron and WorldCom, and other lesser known scandals (AOL, Tyco, Arthur Andersen, etc) led to increased political interest in corporate governance. These events led to the passing of Sarbanes –Oxley

Act of 2002 which was passed to ease the pressure by the U.S. Congress, this act lead to creation of strict new rules for accountants, auditors, and corporate officers and imposed more stringent record keeping requirements.

In 2007, banks had been taking excessive risks and there was growing concern about a possible collapse of the financial system. As the government sought to prevent fallout by offering massive bailouts and other financial measures. The collapse of Lehman Brothers Bank became a major financial crisis, this placed a heavier focus on best practises for corporate governance principles.

These events led the world economy to realise the importance and need of proper extensive regulations for corporate governance.

2.5. Corporate Governance in India

The concept of good governance is very old in India dating back to third century B.C. where Chanakya elaborated fourfold duties of a king (Raksha, Vriddhi, Palana, and Yogakshema). Substituting the king of the state with the company CEO or Board of Directors the principle of corporate governance refers to protecting shareholders wealth (Raksha), enhancing the wealth by proper utilization of assets (Vriddhi), maintenance of wealth through profitable ventures (Palana) and above all safeguarding the interest of the shareholders (Yogakshema).

The modern day concept of corporate governance emerged in India in the early 1990s, due to economic liberalization and deregulation of industry and business. In India, weakness in the system such as undesirable stock market practices, board of directors without adequate responsibilities, poor disclosure practises, lack of transparency and chronic capitalism where indicating a need for good corporate governance. As the economy was opened for foreign investment and growth this made it of utmost importance to safe guard the shareholders from any kind of fraud or unethical working of the organizations in the market. The report by the Cadbury committee on the financial aspects of corporate governance in the U.K. gave rise to the debate of corporate governance in India. The most important initiative of 1992 was the reform of Securities and Exchange Board of India (SEBI), the primary objectives of the SEBI was to supervise and standardize stock trading in India. In December 1995, CII set up a task force to design a voluntary code of corporate governance. The final draft of this code was widely circulated in 1997. In April 1998, the code was released, it was called the Desirable Corporate Governance.

In India, the CII took the lead in framing a desirable code of corporate governance in April 1998. This was followed by the recommendations of the Kumar Mangalam Birla Committee on the Corporate Governance. This committee was appointed by SEBI. The recommendations were accepted by SEBI in December 1999 and now enshrined in Clause 49 of the listing of every Indian Stock Exchange.

We will take a look at this topic in detail in the section “Evolution of Corporate Governance in India”

2.6. Corporate Governance in Infosys

Infosys is a global leader in consulting, technology, outsourcing and next generation services. Infosys has had a reach throughout the world unto more than 50 countries. To stay ahead of the competition they have been outperforming their competition for several years. Their expertise lies in number of areas from helping build lighters and stronger passenger jets to creating more fuel efficient cars and providing technology supports to remote corners of the globe. At Infosys, it's more than just the innovation that has won the trust of the shareholders, where they believe the duties of an organization lies beyond the boundaries of making profit.

By the late 1990s, Infosys had 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 practises, Infosys was the recipient of many awards. In 2001, Infosys was rated India's most respected company by the 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 also voted India's best managed company five years in a row (1996-2000) by the Asia money poll. In 2000, Infosys had been awarded the "National Award for Excellence in Corporate Governance" by the Government of India. In 1999, Infosys had been selected as one of Asia's leading companies in the Far Eastern Economic Review's 2000 Survey and voted India's most admired company by the Economic Times. Infosys has managed to win many other awards in other social activities other than corporate governance. Infosys won a leading Green Energy award in 2014. The 2014 Asian Most Admired Knowledge Enterprises (MAKE) award was presented to Infosys.

In the recent period Infosys has struggled in finding strong leadership for few years, and its board doing well to bring about a quick resolution to the crisis in Infosys. But now the things have changed due to escalating public war of works with its founder and former executive, which has accused them for lapse of corporate governance in their company board. The recent allegations by a whistle-blower who claimed to be an employee of the company's Finance Department had alleged that the top officials had induged in unethical practices and the CEO of the company Salil Parikh for certain misdeeds. They had also alleged the involvement of CFO, Nilanjan Roy in ‘unethical practices ‘for boasting short-term profits. Similar incident took place in 2017, when CEO Vishal Sikka was accused of similar practices due to which he had to resign. These events and incidents raised major concerns over the company’s policies in regards to corporate governance, let’s look at the effects and issues in details that led the public doubt the strong structure of Infosys’s Corporate Governance.

2.6.1. Case 1: Accusation of Visa Fraud

Infosys Limited, was charged with committing visa fraud by using B-1 (work visa) in 2011, where an American employee of Infosys had complaint and had put a legal case on the company that he was harassed after bringing the visa fraud matter in the public. Infosys were accused by the US Emigration and customs enforcement that the company was knowingly and unlawfully using B-1 visa holders to perform skilled labour to fill positions in the US for employment that would otherwise be performed by US citizens or legitimate H-1B visa holders. The government also alleged that Infosys violated US immigration laws to increase its profits, minimize costs of securing visas, increase flexibility of employee movement, obtain an unfair advantage over competitors, and avoid tax liabilities.

The settlement was agreed which required Infosys to pay $34 million to the United States, the settlement also required an additional auditing for I-9 forms, a reporting required for B-1 usage.

2.6.2. Case 2: Corporate Governance Lapse in Infosys

The issues came under light in 2017, when a group of whistleblowers had accused the management mainly CEO Salil Parekh and CFO Nilanjan Roy of conducting unethical accounting practices. Similar issues had unfolded when promoters had blamed the board including CEO Vishal Sikka for his misgovernance. Tensions were mounting as the whistle-blowers made complaints ranging from the acquisition of Israeli Automation Company in February 2015, large severance packages of former CFO Rajiv Bansal and former Chief Legal Officer David Kennedy and a 55% hike in Sikka's compensation had heightened the conflict.

These allegation had massively daunted the reputation of Infosys having strong corporate governance. The two major issues that Infosys faced are Agency Problems and Asymmetric Information. Agency problems arises because professional managers are agents of the investors, but they focus on their personal interests, even if these interest are against investors interests. And Asymmetric information arises because professional managers and members of the board have comparatively more access to information than the other investors of the firm. These issues have led to the fall of corporate governance giant in India. Many of the above allegations led to a fall in stock price of Infosys in global market.

2.6.3. Case 3: Narayan Murthy on Corporate Governance in Infosys and questioning the actions of Board

In an interview with KR Balasubramanya, Narayan Murthy had questioned the integrity and transparency of Infosys under the Chairman R Seshasayee and independent director Jeffrey Lehman. When asked about the transparency with regards to the severance paid to a departing employee, Murthy put doubt on the companies handling of the situation and whether the company had used such payments as hush money to hide something. He addressed the disappointment of from various stakeholders including former employee who were let down by the management and the board. When talking about then CEO Vishal Sikka who was the successor for the company after the founders had decided to voluntarily retire, he said that the CEO was given utmost freedom in the working of business. When asked about the redemption of its credibility, he asked the committees who were in fault that is Chair of the board, Remuneration committee accept their mistakes and show contrition. Other advise was to improve the credibility by emulating the corporate governance standard which were implemented in pre-2014 period.

2.7. Evolution

Over the period Corporate Governance has evolved in many form by passing many new reforms to control and irradiate any kind of malpractices that might harm the shareholders and the market as a whole. The concept of good governance is very old in India dating back to third century B.C. where Chanakya elaborated fourfold duties of a king (Raksha, Vriddhi, Palana, and Yogakshema). Substituting the king of the state with the company CEO or Board of Directors the principle of corporate governance refers to protecting shareholders wealth (Raksha), enhancing the wealth by proper utilization of assets (Vriddhi), maintenance of wealth through profitable ventures (Palana) and above all safeguarding the interest of the shareholders (Yogakshema). Corporate Governance was not in agenda of Indian companies until early 1990s and no one would find much reference to this subject in the book of law. In India, weakness in the system such as undesirable stock market practices, lack of transparency and chronic capitalism were all eager for reforms and improved governance. The fiscal crisis of 1991 and resulting need to approach the IMF induced the Government to adopt reformative actions for economic stabilization through liberalization. The momentum gathered albeit slowly once the economy was pushed open and the liberalization process got initiated in early 1990s, as a part of the process of liberalization. In 1999 the Government amended the Companies Act, 1956. There were various reforms which were passed with the help of both Security Exchange Board of India (SEBI) and Ministry of Corporate Affairs, Government of India (MCA) playing important roles.

The primary first phase of India’s corporate governance reforms focussed solely at making Audit Committees and Boards more powerful, transparent and abiding the shareholders.

2.7.1. Chamber of Indian Industries

The Confederation of Indian Industries set up a taskforce in 1995 under Rahul Bajaj, a reputed industrialist. In 1997, CII was the first institution in India to take initiative on Corporate Governance. The objective of this code was to promote corporate governance in Indian companies, bank, and financial institutions. The steps taken by CII addressed public concerns regarding the security of the interest and concerns of investors, especially the small investors; the promotion and encouragement of transparency within industry and business, the necessity to proceed towards international standards of disclosure of information by the corporate bodies, and through all of this to build a high level of people's confidence in business and industry. The code was released in April 1998.

Many recommendations were made by CII to promote strong corporate Governance, which would help promote transparency in the organization. Some of them are as follows:

- Frequency of Board Meetings – The code proposed the organizations board to meet at least 6 times in the gap of 2 months.
- Composition of Board – Listed companies with annual turnover of Rs. 100 crore should have independent non executive directors at least 30% of the board members, if the chairperson is not executive director, and50% of the board members if chairman and managing director is same person.
- Audit Committee – Proposal of Audit Committee be present consisting of non-executive directors who have relevant experience in finance and accounts.
- Compliance Certificate – To promote accountability the code proposed a compliance certificate be signed by the CEO and CFO with the stock exchanges.

Many other recommendations were made by CII code, a total of 16 recommendations were proposed.

2.7.2. Report of the committee by Kumar Mangalam Birla

Well reputed industrialist Mr. Kumar Mangalam was appointed by SEBI as a chairman to help and control the rights of investors and to promote and raise the standards of good corporate governance. The focus of the committee was to view corporate governance from an investor's point of view and prepare a code of conduct in that manner. The committee divided the code in 2 part one consisting of mandatory recommendations and the other as non mandatory recommendations. These recommendations were applicable to companies with paid up capital of Rs. 3 crore or more and a net worth of Rs. 25 crore or more at any time in the history of the organization, these recommendations were the founding pillars of Clause 49 which we will see later in this report. The recommendations of the report were as follows:

- Composition of BOD – The composition should be optimum combination of executive and non-executive directors. At least 50% of the Board shall have non-executive directors. And if chairman is non-executive director, then at least 1/3rd of the board shall be independent directors.
- Board Meetings – the organisation should conduct meetings at least 4 times a year with the time gap between 2 meetings of not more than 4 months. All members should actively partake in the board meetings where the board will discuss about reviews in regards to operational plan, capital budgets, results, etc.
- Audit Committee- The organization should consist of 3 independent directors with adequate financial and accounts knowledge.
- Directorship – A director shall not be a member of more than 10 committees and shall not act as chairman of more than 5 committees across all companies.
- Shareholders Grievance Committee – The organization should allot a different committee specifically to address shareholders complains.

These are some of the mandatory recommendations whereas non-mandatory recommendations consisted of addressing issues with regards to Role of Chairman, Corporate restructuring, Venturing into new business, etc.

2.7.3. Report of the committee by Naresh Chandra on Audit and Governance Committee

The department of Company Affairs also constituted on August 21, 2002 a high level committee, popularly known as the Naresh Chandra committee. The Committee took the charge of the task to analyse, and suggest changes in different areas like the statutory auditor and company relationship, procedure to appoint of auditors and determination of audit fees to promote transparency among the organizations. Some of the recommendations by the Committee were as follows:

- Disqualification for Audit Assignments – The committee recommended a list of disqualifications for auditing assignments, which includes prohibition of receiving any loans from or on behalf of the audit client by the audit firm, its partners or any member of engagement team and their relatives. Prohibition of any business relationship with the audit client by the auditing firm.
- Compulsory audit partner rotation – There is no need to legislate in favour of compulsory rotation of audit firms, but, the partners and at least 50% of the engagement team responsible for the audit of either a listed company or companies should be rotated every five years.
- Auditors Annual Certification of Independence – Before agreeing to be appointed, the audit firm must submit a certificate of independence to the Audit Committee or the BOD of the client company.
- Percentage of Independent Directors – 50% of the BOD of any listed company, as well as non listed company with paid up capital and free reserves of Rs. 10 crore and above, or turnover of Rs. 50 crore and above should consist of independent directors.
- Minimum Board Size of listed Companies – The minimum board size of all listed companies, as well as unlisted public limited companies with a paid up capital and free reserves of Rs. 10 crore and above, or turnover of Rs. 50 crore and should be seven of which at least four should be independent directors.

2.7.4. SEBI Report on Corporate Governance (N.R. Narayan Murthy)

To further improve the corporate governance standards, SEBI initiated a committee under the Chairmanship of N. R. Narayan Murthy, to evaluate the adequacy of existing corporate governance practices and further improve these practices. Some of the mandatory recommendations were as follows:

- Strengthen the responsibilities of Audit Committee – The report stated that at least one member should be well averse with financial knowledge and financial management proficiency.
- Quality of financial disclosures – Improving the quality of financial disclosures, including those related to concerned party transactions.
- Proceeds from IPO – Company raising money through IPO should disclose every details to the Audit Committee about the uses / applications of funds, etc.
- Other recommendations included company declaring any exposure to business risk, which provided transparency. Laying down of certain code of conducts for the boards and other notes on directors nominance and compensation were discussed as well.

2.7.5. Clause 49

After the liberalisation serious efforts have been made towards overhauling the system with SEBI formulating the Clause 49 of the listing agreements dealing with corporate governance. Clause 49 of the listing agreement to the Indian stock exchange came into effect from 31st December 2005. There were many recommendations made under this agreement, and many rights were build for the stakeholders under this foundations. Some of the recommendations are as follows:

- As per clause 49 a company with an executive chairman, at least 50 percent of the board should comprise of independent directors, and in the case of non-executive chairman at least 1/3rd of the board should be independent directors.
- Clause 49 requires all companies to submit a quarterly compliance report to stock exchange in the prescribed form. The clause also requires that there be a separate section on corporate governance in the annual report with a detailed compliance report.
- Clause 49 consisted of many principles and rights in favour of various stakeholders, this section targeted mainly transparency and accountability factor for the organization. This encouraged cooperation between stakeholders and the company.
- Whistleblower policy was introduced where an organization was required to establish a mechanism to report unethical behaviour or violation in among the organization.

2.7.6. Companies Act 2013

Companies Act of 2013 was a major development in the corporate governance, the new act of 2013 was a replacement for 1956 and aims to improve corporate governance standards, simplify regulations and enhance the interests of minority shareholders. Some of the regulations under companies act are as follows:

- Board of Director (Clause 166) – the new act provides that the company can have maximum of 15 directors on the board.
- Independent Directors (Clause 149) – The concept of independent directors had been introduced for the first time in the company law of India
- Related Party Transaction (Clause 188) – The new act requires that no company should enter into RPT contracts pertaining to sales, purchase or supply of any goods or materials.
- Corporate Social Responsibility (Clause 135) – The new act has mandated the profit making companies to contribute towards CSR related activities
- Disclosure and Reporting (Clause 245) – In the new Act, there is significant transformation in non-financial annual disclosures and reporting by companies as compared to the earlier format in the Companies Act 1956.

2.8. Effects of Corporate Governance on Infosys

It was observed throughout the public that Infosys was may have been known for Good Corporate Governance standards in the past, but it was also because of the poor standards elsewhere. Infosys has struggled to find strong leadership for nearly a decade now, and its board will do well to bring about a quick resolution to the crisis in Infosys. The main issues faced by Infosys that dampened their corporate image of a good governance company were as follows:

- Several flags were raised with regards to the pay of Chief Executive Vishal Sikka and other severance payouts given to other executives, including former finance head Rajiv Bansal.
- Current CEO Salil Parekh and CFO of Infosys were accused by a group of whistleblowers for unethical practices and fraud.
- In 2017, the founders had raised concerns over the operation of corporate governance and its issues. There was a public fallout between the founders and the board of Infosys.
- Infosys were accused by the US Emigration and custom enforcement with respect to visa fraud where they were made to pay a huge fine for their inappropriate and dampening actions.

These controversies had a major impact on the price of Infosys stock, it had rose by nearly 5% on the news speculations of one of the seven founders of Infosys, making a return to the company. Later the stock price witnessed a dip due to the Vishal Sikka's resignation as the CEO of the company news. Post the resignation of former CEO, directors Jeffery S Lehman and John Etchemendy also resigned form the Infosys board. While the chairman of board R Seshasayee and co-chair Ravi Venkatesan followed the dismissal, the stock had dropped by nearly 15% in two sessions following Sikka's resignation.

In the modern times though Infosys has went through their times of tough period yet it is still considered as one of the top IT companies with good corporate governance. Corporate Governance is an ethically driven business process that is committed to values aimed at enhancing an organizations wealth, this is ensured by taking ethical business decisions and conducting business with a firm commitment to values, while meeting shareholders expectations. In the recent concerns over the issue of governance lapse, Infosys has faced various controversies over different issues, though some had lacked evidence of wrong doing, yet Infosys has claimed to comply with the governance norms, recommendations and guidelines made by number of corporate governance committees and codes. It can be seen that concerns raised by majority are because of the shift in working pattern of the company and differences that came along with the changes in management structure, this had a major effect on the stock prices of Infosys which ultimately effected the integrity and the corporate image of the company.

Objectives of the Project Report

3. Objective of Study

- To examine the effectiveness of corporate governance in Infosys
- To study the post-2014 period of Infosys that attracted a lot of controversies
- To examine how the incidents led to a drop in stock price and dampening of the corporate image
- To understand how corporate governance work and its effects in Infosys
- To examine the above objective and provide a complete and extensive lists of recommendations

Review of Literature

4. Review of Literature

Dr. Alka Mittal – An Analysis of Corporate Governance Imbroglio at Infosys

Dr. Alka Mittal carried out an extensive study on the topic of corporate governance and how Infosys had went from being a benchmark for corporate governance to being under spot light for their lack of one. In her research paper, she writes about the uncovering of controversies surrounding Infosys which had brought embarrassment to the image build by the founder members and that the transition from the pre – 2014 Infosys and post were the main reason behind the downfall of the company's corporate image.

B. S. Hathi – Corporate Governance and Leadership

B. S. Hathi carried out an important study focusing on how the past incidents of companies like Infosys, TATA, etc has made it important for the SEBI to have a transparency and a need for a committee to scrutinize the organization so that the shareholders are confident within the markets.

Prof. Mamata Sawakar – Corporate Governance in India – Evolution and Challenges \

Prof. Mamata Sawakar in her research paper conducted based on secondary research using various journals and different research papers writes about how the corporate governance has evolved in India and what should the next plan of action with regards to governance be from a perspective of a shareholder.

Research Methodology

5. Research Methodology

5.1. Objective of Study

- To examine the effectiveness of corporate governance in Infosys
- To study the post-2014 period of Infosys that attracted a lot of controversies
- To examine how the incidents led to a drop in stock price and dampening of the corporate image

5.2. Scope of Study

- The study is solely based on the corporate governance actions taken by India and Infosys.
- The constraints of time, energy and financial resources requires that the scope be narrowed down to only certain issues regarding corporate governance and Infosys.
- This project paper will help to summarize key incidents that took place in Infosys and how the company plans to tackle it.
- The data is majorly collected by the use of secondary research along with primary research methodology like questionnaire.

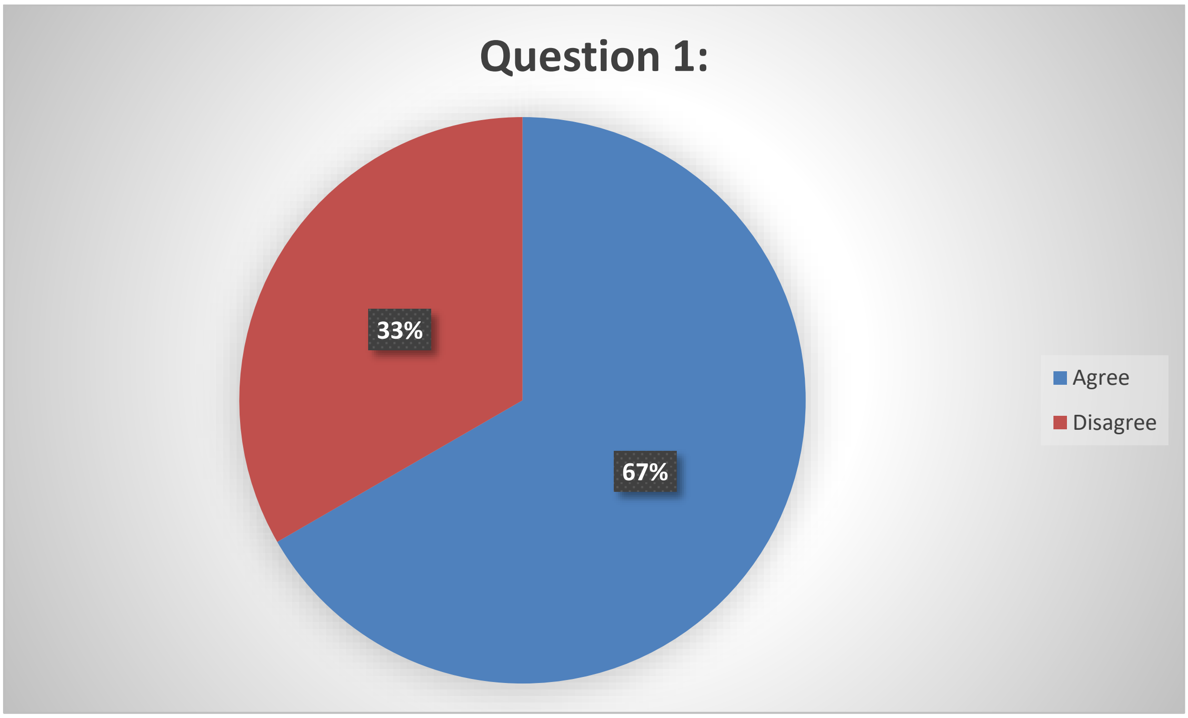
5.3. Data collection

In this research project, both primary as well as secondary method of data collection was considered. Primary data was collected using questionnaire as a tool for data collection. The questionnaire is attached in the annexure, the questionnaire was drafted in order to obtain a clear image of the effect of corporate governance on Infosys. Questions were framed to elicit free and frank responses. The secondary data was collected from sources like research papers, journals, and various other internet websites.

Data Analysis and Interpretation

6. Data Analysis & Interpretation

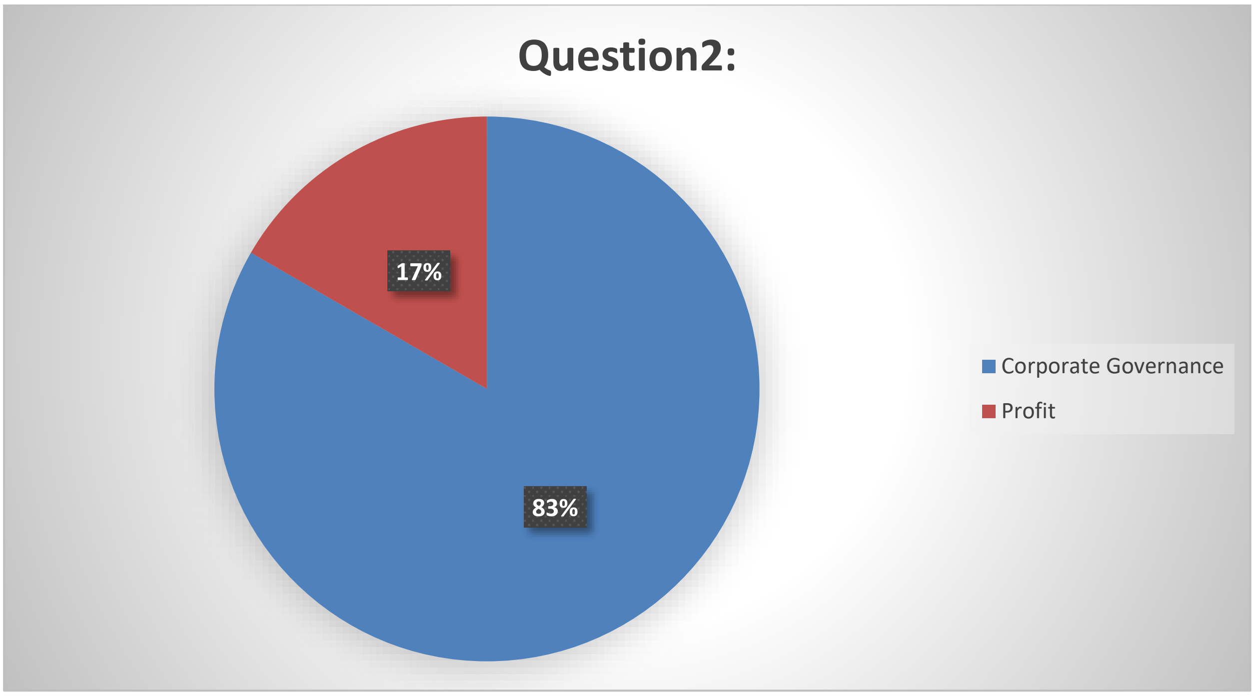
Question 1: Will Infosys be able to emulate the same governance as it had been during pre-2014 era?



Interpretation:

It can be interpreted that the sample population are fairly optimistic about the functioning and further operation of governance in Infosys. This can be due to many reasons as Infosys has had its fair bit of ups and down it has still managed to have a positive attitude towards corporate governance.

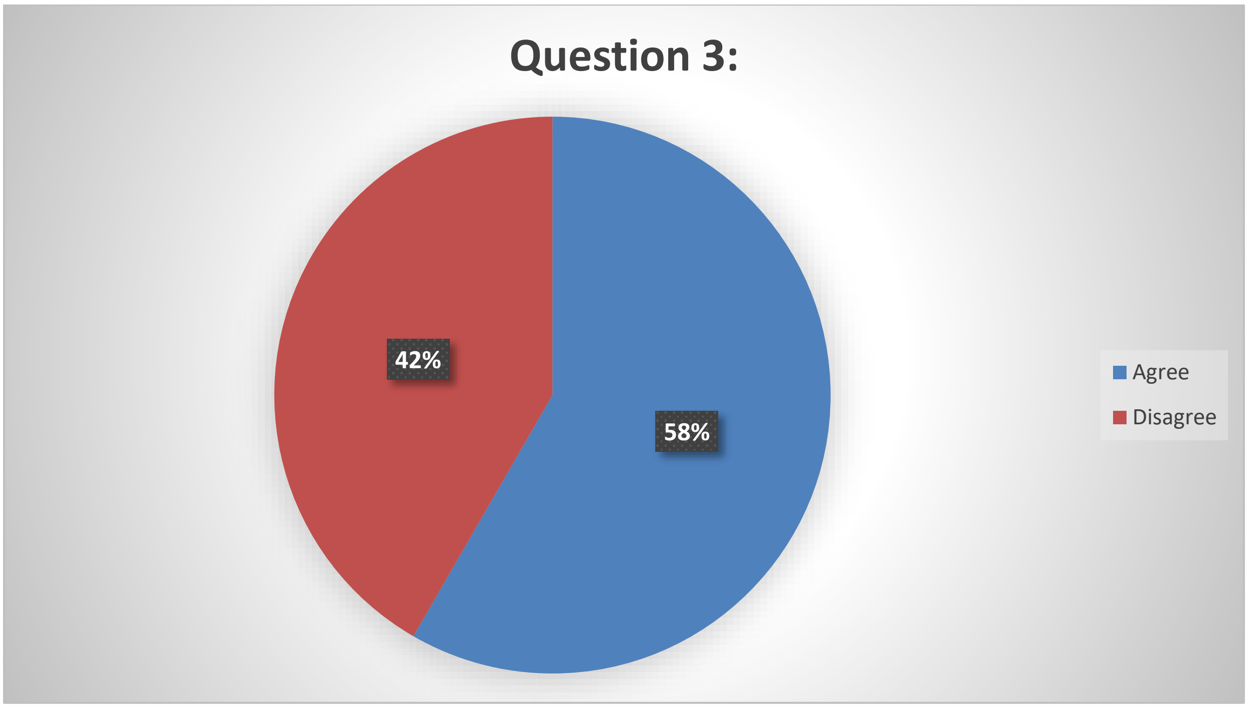
Question 2: Where does Infosys need to focus to gain a competitive advantage over competitions?



Interpretation:

It can be seen that more than 80 percent of sample population believe that corporate governance has to be the primary goal for Infosys to survive and sustain over a longer period of its organization life.

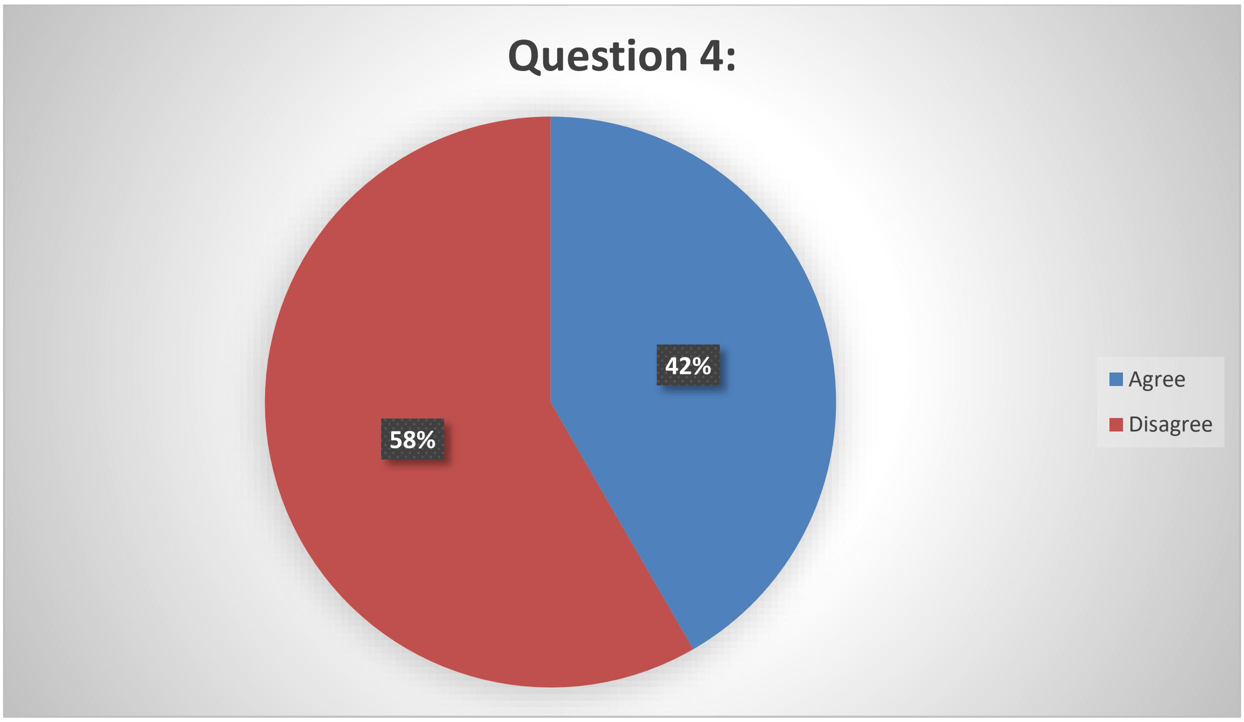
Question 3: Is corporate governance losing its value?



Interpretation:

It has been a fairly even say by the sample population when asked about corporate governance losing its value. Majority (58%) believe that the organizations in modern era have focussed more towards short term sustainability that is profit generation rather than long term sustainability.

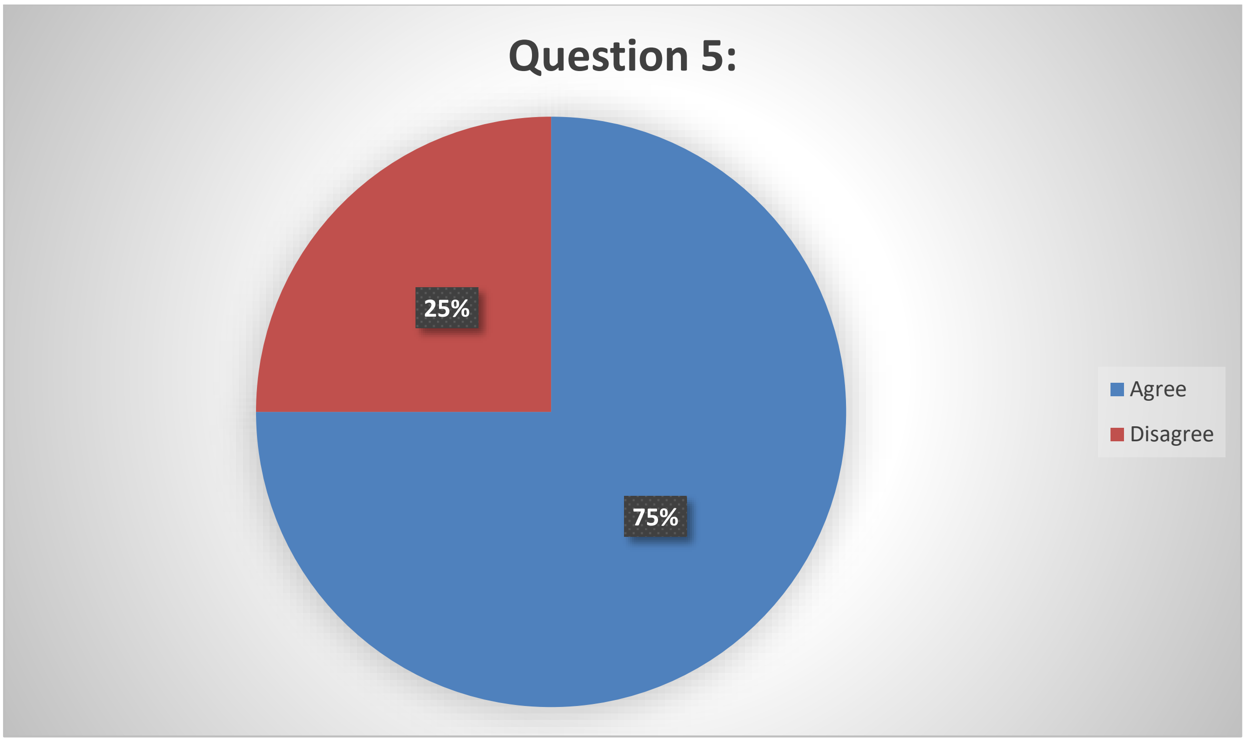
Question 4: Are the action taken by the Indian authorities to counter malpractices working?



Interpretation:

Much of the sample population believe that India has not taken the relevant and strict measures to curb malpractices and frauds. India has established many committees and reports with respect to corporate governance but are still to implement a tougher and more stringent laws to ensure safety of the shareholders.

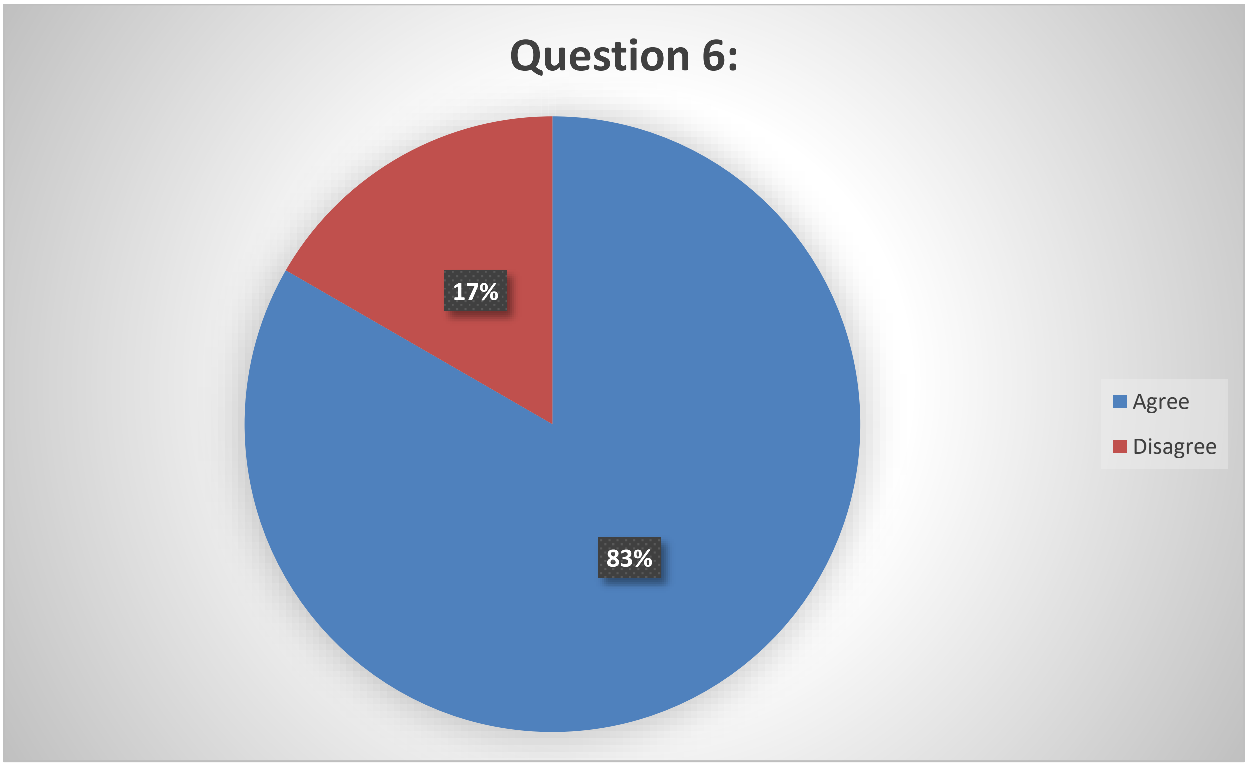
Question 5: Are the action taken by Infosys to tackle further issues adequate?



Interpretation:

Majority of the sample believe that the actions taken by Infosys even after some bad controversies have been adequate to maintain trust among the stakeholders.

Question 6: Can Infosys manage to sustain in the long run?



Interpretation:

About 83% of the sample population believe that Infosys has taken proper precautions to sustain in the long run and that the company has a further growth opportunity.

Conclusion

7. Conclusions

The Infosys ups and downs with respect corporate governance has many essential lessons for other organisations. There was a time when Infosys was considered a benchmark for the rest of the world. However, the biggest mistake the founder made was with the transition that took place in 2014 which led to the drop in their corporate image. The BOD, as trustees of shareholders are responsible for securing the company's current and future leadership. The lack of transparency and accountability had caused a huge drift between the shareholders and the management, followed by the controversies surrounding the former CEO and with regards to the severance pay that Infosys had been paying its former employees. A company that has good corporate governance has a much higher level of confidence amongst the shareholders associated with the company. In case of Infosys, it was witnessed by a steep fall in its share price, it must act as a reminder of how whistleblower accusations can harm a company's reputations. Hence, for the company itself to win the trust of its founders and other stakeholders, it must first stabilize the standards of its corporate governance practices.

Recommendations

8. Recommendations

The company with a strong corporate governance has a higher chances of enjoying the credibility and the sustainability build on these foundations. These are some of the recommendations that can be summarized from the project report.

- Conducting a proper Audit by the Audit Committee consisting of independent auditors.
- The remuneration committee must disclose the particular reason or due diligence behind hike in salary.
- There must be total disclosure to the shareholders and other stakeholders about the functioning and the business risk that are to be expected.
- Quarterly reports be published to get a view of overall progress within the organization.
- Proper emigration and customs laws be followed to make sure proper work force are utilized within the organization.
- The CEO and the upper management to be made accountable for the actions taken on their behalf.
- Issues are to be identified and worked on by the management, if necessary a separate grievance committee to be placed to keep it in check.

Limitations of the Study

9. Limitations of the study

The research is based on Primary as well as Secondary data. Hence, there are certain limitations that may affect the research study. The limitations of the project are as follows:

- Due to time constraints, the data obtained is limited. The conclusion and recommendation may not reflect the clear image.
- The research had to be conducted within a period of 1 month as a result of which, the researcher could obtain limited data.

Due to time constraints, the project covers only major milestones in the journey of Infosys.

Reference

10. Reference

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Annexures

11. Annexures

Questionnaires

1. Will Infosys be able to emulate the same governance as it had been during pre-2014 era?
   - Agree
   - Disagree

2. Where does Infosys need to focus to gain a competitive advantage over competitions?
   - Corporate Governance
   - Profit

3. Is corporate governance losing its value?
   - Agree
   - Disagree

4. Are the action taken by the Indian authorities to counter malpractices working?
   - Agree
   - Disagree

5. Are the action taken by Infosys to tackle further issues adequate?
   - Agree
   - Disagree

6. Can Infosys manage to sustain in the long run?
   - Agree
   - Disagree