

A study of Corporate Governance practices in selected Companies in context of prevailing LODR and Companies Act

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Abstract:

The Corporate Governance has become a buzz word not only in India but other countries as well. In last decade all major economic nations has significantly revised the corporate governance norms.

Several service industry sector's importance has significantly increased in last couple of years. Moreover, various industries across sectors and geographical boundaries have seen digital transformation in last decade. The current trends includes the concept of Industry 4.0, Internet of Things and Artificial Intelligence etc.

Despite Favorable or Adverse situations in last two-three years, the Indian companies in in several sectors have not only performed financially well but also tried to accomplish better standards of corporate governance.

India also witnessed significant changes in the area of Corporate Governance. As the Companies Act, 1956 was replaced by The Companies Act 2013. The Securities and Exchange Board of India also came out with Listing Obligations and Disclosure Regulations (LODR) which are stricter norms for corporate governance. Recently, the National Stock Exchange announced introduction of "NSE Prime", a voluntary set of premium norms in context of listed companies.

This paper examines the corporate governance practices in Indian companies in context of prevailing act and LODR norms.

Key words: Corporate Governance; Companies Act; LODR; NSE Prime

Introduction

Corporate Governance has become the buzzword in recent times. This is the result of increase in investor awareness, greater emphasis on transparency by various factors and increased investor's literacy. The economic policy of Liberalization, Privatization and Globalization demands greater transparency and proper implementation of corporate governance standards.

Recently, National Stock Exchange launched a new corporate governance initiative, NSE Prime. NSE Prime is a framework that prescribes higher standards of corporate governance for listed Companies than those required by regulations. However, there are Additional disclosure requirements have also been prescribed to provide for higher quality of public information and greater transparency monitored by NSE.

The present study aims to examine the governance practices prevailing in the corporate sector within the Indian regulatory framework. The study is conducted to assess governance practices and process followed by Indian corporate houses. The study also

aims to assess the substance and quality of reporting of Corporate Governance practices in annual reports. The study is conducted on four renowned companies in Information Technology sector viz. Tata Consultancy Services Ltd. Wipro Ltd., Infosys Ltd. And HCL Limited.

The study aims to evaluate the state of compliance of various governance parameters in these companies. The parameters include the Statutory and Non mandatory requirements stipulated by prevailing Listing Obligations and Disclosure Requirement as prescribed by Securities and Exchange Board of India (SEBI) and relative amendments in the Companies Act, 2013.

Empirical Study

Sample Size, Period of Study and Rationale

The sample for this study comprises 4 (Four) renowned corporate houses representing the Information Technology Services Sector viz. Infosys Technologies Ltd., Wipro Ltd, TCS & HCL. All Four companies are listed in Bombay Stock Exchange (BSE) and are part of BSE 100 index. All corporates are renowned players in the Information Technology Sector and their scripts dominate and influence the stock market movement of the country.

For the Financial Year Ending 2021 the companies' performance can be summarized as follows. Infosys achieved a Revenue from Operations of Rs. 85,912 crores and is earned a profit before tax of Rs. 24,477 crores. TCS achieved a Revenue from Operations of Rs. 1,35,963 crores and earned a profit before tax of Rs. 40,902 crores. Wipro Ltd. achieved a Revenue from Operations of Rs. 554,179 crores and earned a profit before tax of Rs. 1,10,365 crores. HCL Ltd. achieved a Revenue from Operations of Rs. 75,379 crores and earned a profit before tax of Rs. 15,437 crores. The research is conducted with the help of the published annual reports, for the year ending 2021 of these companies.

The reasons for the selection of the period are as under.

- The SEBI (Listing Obligations and Disclosure Requirements) Regulations were introduced in the year, 2015. However they were last amended on January 10, 2020. The LODR specify the principles of corporate governance to be followed by the listed companies.

Moreover, the new Companies Act was incorporated in the year 2013 which replaced the Companies Act of year 1956 which was having as many as twenty four amendments of which at least three amendments pertaining to corporate governance were made during the period of 1999, 2000 & 2001.

In above context, it is considered prudent to examine and review the status of corporate governance compliance by these companies.

- Annual reports for the year 2020-21 would give some glimpse of the state of latest corporate governance and disclosure norms.

In order to assess the structure and processes for corporate governance followed by selected companies, their effectiveness in terms of substance and quality of disclosures of corporate governance in the annual reports, we have conducted the study based on the statutory and non-mandatory requirements stipulated by the SEBI (Listing Obligations and Disclosure Requirements) and by the Companies Act 2013.

Analysis

Our Analysis is made in two parts:

- a) Shareholding pattern in INFOSYS, TCS, WIPRO & HCL
- b) Key Governance parameters and their compliance status in these companies.

Share Holding Pattern

A summary of the share holding pattern as per the annual report of 2020-21 for Infosys, TCS, WIPRO & HCL is shown in Table: 1.

Table : 1 Share Holding Pattern of Infosys Ltd., Wipro Ltd, TCS Ltd. and HCL Ltd. for the year 2020-21

| Categories | INFOSYS | WIPRO | TCS | HCL |
|--------------------------------------|----------------|----------------|----------------|----------------|
| No. of Shares | 4,26,06,60,846 | 5,48,20,70,115 | 3,65,90,51,373 | 2,71,36,65,096 |
| A) Promoters' Holding | | | | |
| 1. Promoters | | | | |
| a. Indian | 13.11 | 73 | 72.3 | 44.26 |
| b. Foreign | | | | 16.46 |
| Sub Total (A) | 13.11 | 73 | 72.3 | 60.72 |
| B) Non Promoters' Holding (%) | | | | |
| 1. Institutional Investors | | | | 0.02 |
| a. Mutual Funds , Bank and FIs | 13.49 | 3.13 | 3.22 | 9.66 |
| b. Financial Institutions | 3.61 | 0.13 | 4.59 | 5.02 |
| d. FIIs | 33.3 | 8.11 | 14.18 | 18.97 |
| Sub Total (B) | 50.4 | 11.37 | 21.99 | 33.65 |
| C) Others (%) | | | | |
| b. Indian Public & Public Corp. Body | 10.77 | 6.79 | 4.58 | 3.71 |
| d. ADRs and GDRs | 0.33 | 0.27 | | 0.24 |
| f. Any Others | 25.39 | 8.57 | 1.13 | 1.68 |
| Sub Total (C) | 36.49 | 15.63 | 5.71 | 5.63 |
| Sub Total (B&C) | 86.89 | 27 | 27.7 | 39.28 |
| (D) | | | | |
| Grand Total (A) + (D) | 100 | 100 | 100 | 100 |

Observation from Table 1

1. The Listing Obligations and Disclosure Requirements of SEBI prescribes a format in which a listed company is supposed to file with the stock exchange its shareholding

pattern on a quarterly basis. Generally, the same format (as indicated in Table 1) is used by listed companies in disclosing information of their share holding pattern in the annual report.

It is observed that all companies have furnished the information about share holding in their annual report.

2. The ownership system is concentrated in mostly in promoters in case of all companies. But in case of Infosys, the promoters holding is only 13.11 % for rest all companies, the promoters holding is between 60 % to 85 %.
3. The management and control of operations of all companies are delegated to the managers under governance of the board controlled by the promoter groups. However, Infosys can be said as a company having a mentor based culture.
4. In Infosys the FII's share holding is significant high at 33.33 % .
5. The share holding of small, individual and retail Indian investors is around 10 % high in Infosys compared to the others, signifying better 'say' of stake holders in the management.

Key Governance Parameters

We now examine the corporate governance report of these companies and ascertain the actual position with respect to the following key governance parameters.

- **Statement of Company's Philosophy on Code of Governance**

The Corporate Governance Practices in **Infosys Limited** are based on the following broad principles:

- Satisfy the spirit of the law and not just the letter of the law. Corporate governance standards should go beyond the law.
- Be transparent and maintain a high degree of disclosure levels. When in doubt, disclose.
- Make a clear distinction between personal conveniences and corporate resources
- Communicate externally, in a truthful manner, about how the Company is run internally
- Comply with the laws in all the countries in which we operate
- Have a simple and transparent corporate structure driven solely by business needs
- The Management is the trustee of the shareholders' capital and not the owner

The corporate governance practices in **TCS** are as under :

Corporate governance helps to serve corporate purposes by providing a framework within which stakeholders can pursue the objectives of the organisation most effectively. Corporate governance signifies acceptance by management of the inalienable rights of shareholders as the true owners of the organisation and of their own role as trustees on behalf of the shareholders.

By combining ethical values with business acumen, globalisation with national interests and core business with emerging business, the Company

aims to be amongst the largest and most respected global organisations. The Company will continue to focus its resources, strengths and strategies to achieve its vision of becoming a truly global leader in software services, while upholding the core values of excellence, integrity, responsibility, unity and understanding, which are fundamental to the Tata companies.

The **Wipro's** philosophy on corporate governance encompasses achieving the balance

The spirit of wipro represents the core values of wipro. The three values encapsulated in the spirit of Wipro are :Intensity to win, Act with Sensitivity, Unyielding Integrity.

This has been articulated through the company's code of business conduct and ethics, corporate governance guidelines and charter of various subcommittees.

Corporate governance philosophy is put into practice through the following four layers namely, Shareholders, Board of Directors, Sub-committee of Board of Directors and the Management Process.

The **HCL's** philosophy on Corporate Governance is driven by

- Satisfy the spirit of the law and not just the letter of the law. Corporate Governance standards should go beyond the law.
 - Be transparent and maintain a high degree of disclosure levels. When in doubt, disclose.
 - Make a clear distinction between personal convenience and corporate resources.
 - Communicate externally, in a truthful manner, about how the Company is run internally.
 - Have a simple and transparent corporate structure driven solely by business needs.
 - Comply with the laws in all the countries in which we operate.
 - Management is the trustee of the shareholders' capital and not the owner
- Board of Directors / Board Issues

We examine various aspects of the board of directors viz. Board Structure, Board Strength and size, directors' attendance and a few other in the following paragraphs.

- Board Structure, Strength and Size

The board structure, strength and size of, Infosys, TCS, Wipro and HCL Is indicated in Table 2

Table: 2 Board structure, strength and size

| Categories | INFOSYS | WIPRO | TCS | HCL |
|--|---------------|---------------|-----------|------------|
| 1. Total No. of Directors | 9 | 9 | 9 | 12 |
| a. No. of Executive Directors (EDs) | | | | |
| (i) Promoters | 1(c) | 1(c) | 2 | 1 |
| (ii) Others | 2 | 1 | | |
| b. No. of Non Executive Directors (NEDs) | | | | |
| (i) Promoters | | 1 | 2(c) | 2 (C) |
| (ii) Independent (IDs) | 4 | 6 | 5 | 9 |
| (iii) Nominee | | | | |
| (iv) Others | 2 | | | |
| 2. Total Number and Percentage of : | | | | |
| (i) Executive Directors (EDs) | 3 (33.33%) | 2 (22.22%) | 2(22.22%) | 1(8.33%) |
| (ii) Non Executive Directors (NEDs) | 6 (66.66%) | 7 (77.78%) | 7(77.78%) | 10(91.66%) |
| (iii) Independent Directors | 6 (66.66%) | 6 (66.66%) | 5(55.55%) | 9(75.00%) |

Observation from Table 2

1. Infosys, WIPRO and TCS have same board size.
2. Infosys and TCS have a non promoter Executive chairman in the board, while Wipro and TCS have promoter chairman on the board.
3. HCL have large percentage (91.66 %) of non – executive directors followed by TCS, Wipro (77.78 %) and Infosys (77.77 %).
4. The percentage of independent directors is highest in HCL.

However, according to prevailing provisions,

- (i) The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.
- (ii) Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.

Table: 3 Meetings of Board of Directors and Directors' attendance

| Categories | INFOSYS | WIPRO | TCS | HCL |
|--------------------------------------|---------|-------|-----|-----|
| 0 | | | | |
| 1 | | | 1 | |
| 2 | | | 2 | |
| 3 | | | 1 | |
| 4 | | 3 | | |
| 5 | | | 1 | |
| 6** | 2 | 6 | 7 | |
| 7* | 7 | | | 1 |
| 8 | | | | 2 |
| 9*** | | | | 9 |
| Last Annual General Meeting Attended | 8 | 9 | 8 | 12 |

* Total No. of board meetings held at Infosys and TCS is 7 during the year 2020-21

** Total no. of Board meetings held in Wipro is 6 and during the year 2020-21.

***Total no. of Board meetings held in HCL is 9 during the year 2020-21.

Observation from Table 3 : It is indicated that all four companies have called sufficient number of board meetings and most of directors have attended last AGM.

However, all Four companies met the prevailing norms and provisions of Act and Regulations.

• **Disclosure of Stakeholders' Interest.**

Here the focus is on the reports provided by some other companies, which include the various initiatives and measure taken by them on the following items to meet the commitments, expectations and interest of stakeholders ;

- Environment, Health and Safety
- Human Resources Development
- Corporate Social Responsibility
- Industrial Relations.

All companies indicated various steps taken by them for the above mentioned areas. The steps taken in these areas neither falls under the corporate governance report nor are a part of the clause 49 of the listing agreement.

Infosys, in its annual report describes the projects initiated by the company for social development in various parts of the countries. The annual report also mentions that it continued to involve itself in social welfare initiatives across the Country, both through charity and social investment around issues like education, health and upliftment of the underprivileged.

Similarly, other companies have also provided details of various steps taken by them as a social responsibility.

Table : 4 Criterion for Evaluation of Governance Standard for the year 2020-21

| No. | Governance Parameters | Points / Score Assigned |
|-----|---|-------------------------|
| 1 | Directors Related Disclosure | 25 |
| 2 | Board committees related disclosure | 25 |
| 3 | Transparency Related Disclosure | 25 |
| 4 | General Information and Share holder related disclosure | 25 |
| | T O T A L | 100 |

Evaluation of Governance Standard.

After analysis of governance structure, process and disclosures made on corporate governance, the question comes to mind is what is the standard and quality of governance that has been achieved by Infosys , Wipro , TCS and HCL

Considering the fact that there have been certain genuine difficulties because of non availability of inside information, no scope for discussion with key officials of these companies, their auditors – internal auditors, directors and major shareholders etc. as an alternative, it is developed as a working method, which is described in table 4. It was designed on the basis of Clause 49 of the listing agreement. This point based method gives weight-age to various components and ultimately, each of these companies has been awarded different points on key parameters.

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

Results

It has been observed that amount the Four renowned companies, Infosys scores highest 81 points. The TCS followed scored 78 points, HCL scored 77 points and Wipro scored 68.

Conclusion

In spite of some limitations, of the study viz. dependence on the secondary sources of information etc. the study helps us to pinpoint the effectiveness of corporate governance practices in these companies. From This perspective the study has its own importance and relevance.

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