

Case 1

Corporate Governance in Infosys

Read the case carefully and answer the following questions:

Q1. On July 31, 2006, Murthy said that Infosys was started with a vision of global delivery. Analyze Infosys vision statement in terms of ethical issues involved while developing the vision statement?

Q2. Infosys has majority of the board structure and compensation, nomination, investor grievance and audit committees, which are comprised of independent directors. Discuss. Also discuss the other corporate governance initiatives taken by Infosys where it sought to be a global leader.

Chief Mentor N.R. Narayana Murthy is as well known as a promoter of corporate governance reform and excellent corporate workplace ethical practices, as he is as the co-founder of Infosys Technologies Ltd., the Mysore-based company that is one of India's new technology leaders. Murthy, who turned 60, is relinquishing key executive positions in the company he co-founded in 1982 to become the enterprise's Chief Mentor. Much like Bill Gates at Microsoft, Murthy has pioneered a technology revolution and as his corporation has become firmly established and very successful, so he has distanced himself from day-to-day operations.

Infosys, which employs over 58,000 people worldwide, provides consulting and IT services. It is one of the pioneers in strategic offshore outsourcing of software services. Murthy is a fervent believer in globalization, a major influence on the thinking of author Tom Friedman (*The World Is Flat: A Brief History of the Twenty first Century*) and a leader of India's technology revolution. His approach to corporate governance and workplace values has been no less influential on the most dynamic and successful technology companies in India. Infosys highlights its perspectives at www.infosys.com.

On July 31, 2006, Murthy opened the NASDAQ market from his corporate headquarters in Mysore. He said, "Twenty-five years ago, we founded Infosys with a vision of the global delivery model. That vision has been validated as the tide of globalization has swept across

the world and businesses are dramatically changing how they run their organizations. Opening the NASDAQ market from India is not only a great honor for Infosys, but also illustrative of the emerging new world.”

The Company’s Vision is: “To be a globally respected corporation that provides best-of breed business solutions, leveraging technology, delivered by best-in-class people.” And, its Mission is: “To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large.”

Infosys has built a state of the art office complex in Bangalore with all modern facilities which helps in giving its employees a sense of belonging. While offering stock options to its employees, it ensures that the workforce has a stake in its overall growth. Actions speak louder than words and leaders must speak in a way that inspires integrity and a vision for the company.

Corporate Governance is an area of critical importance to Infosys and one where it has sought to be a global leader. It is seeking to use its model example to promote far higher standards in India and Murthy has been one of the most vocal and influential advocates of corporate governance reform in his country.

The company states: “We believe that sound corporate governance is critical to enhance and retain investor trust. Accordingly, we always seek to ensure that we attain our performance rules with integrity. Our Board exercises its fiduciary responsibilities in the widest sense of the term. Our disclosures always seek to attain the best practices in international corporate governance. We also endeavor to enhance long-term shareholder value and respect minority rights in all our business decisions.”

The Infosys corporate governance philosophy is based on the following 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 the company operates.
- Have a simple and transparent corporate structure driven solely by business needs.
- Management is the trustee of the shareholders' capital and not the owner.

Infosys stresses that at the core of its corporate governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the company. It states: "We believe that an active, well informed and independent Board is necessary to ensure the highest standards of corporate governance.

Majority of the Board, 9 out of 16, are independent members. Further, Infosys has compensation, nomination, investor grievance and audit committees, which are comprised of independent directors."

"As a part of our commitment to follow global best practices, we comply with the Euro shareholders Corporate Governance Guidelines 2000 and the recommendations of the Conference Board Commission on Public Trusts and Private Enterprises in the U.S. We also adhere to the UN Global Compact Programme." To promote corporate social responsibility the company established a philanthropic foundation in 1996, which is mostly engaged in social, health and education programs in India.

Murthy is the chairman of the governing body of the Indian Institute of Information Technology, Bangalore and the Indian Institute of Management, Ahmedabad. He was the Chairman of the Committee on Corporate Governance appointed by the Securities and Exchange Board of India (SEBI) in 2003. He is a member of the Board of Overseers of the University of Pennsylvania's Wharton School; Cornell University Board of Trustees; Singapore Management University Board of Trustees; INSEAD's Board of Directors and the Asian Institute of Management's Board of Governors. He is also a member of the Advisory Boards and Councils of the William F. Ahtmeyer Center for Global Leadership at the Tuck School of Business, the Corporate Governance initiative at the Harvard Business School, and the Yale University President's Council on International Infosys Foundation, the

philanthropic arm of Infosys Technologies Ltd., came into existence on 4th December 1996 with the objective of fulfilling the social responsibility of the company by supporting and encouraging the underprivileged sections of society. In a short span of time, the Foundation as implemented numerous projects in its chosen areas. The Foundation has undertaken various initiatives in providing medical facilities to remote rural areas, organizing novel pension schemes and in aiding orphans and street children. It has undertaken a large rural education program titled “A library for every school” under which 5500 libraries have been set up in government schools spread across many villages. Other activities include the reconstruction of old school buildings, setting up of rural Science Centers and schemes to provide support to dying traditional art and culture forms.

Case 2

Read the following case and answer the questions given at the end.

Ethical Dilemma

Unethical practices have become rampant throughout the world and are now considered to be a serious problem. Earlier the responsibility was collective; more reliance on norms laid down by religion, laws and codes of conduct. Principles of Ethics lay down norms for good behaviour by distinguishing between virtues and vices. Values and ethics are interrelated closely. Without values, ethics have no base to stand on. But, distinction between principles and practices in ethics is vital. To be ethical in one's life when it is accepted that all ethical tenets are relative and all ethical practices are situational, one has to learn to take ethical decisions with full awareness. Ethical problems present themselves as conflicts, dilemmas and paradoxes. The need for all is to realise the principles which lay down 'right' and 'wrong' practice distinguishes between 'good' and 'bad'. Moreover it is not always the choice between the good and bad, but it can be

- between more good and less good
- between more bad and less bad.

The old approach was essentially regulatory in nature:

- Religious, legal and political, based on ideas of sin, crime and we are now more interested in positive ideas such as courage and corrupt in trust. Moral courage is the best type of courage. The man who possesses it has to take more risk and act boldly with a high degree of confidence. Further our acceptability in our own organisations and in our own societies depends on trust others have in us.

The emphasis now is shifting towards individual responsibility:

- Ethical choices, good compromises, moral courage, right to information, transparency and accountability. They have'nt produced satisfactory results, mainly because the process of implementation is dominated more by avoidance than by compliance.

Look at this story below:

Story by Bimalkar-Published in Katha Prize Stories.

Raghunath is running a small shop in a small town is content with earning his frugal living. He is religious in outlook and compassionate towards others. One afternoon, when it was raining, an old man, a poor vendor of herbs named Satyadas comes to his shop. He is running a high temperature. Raghunath provides him food and shelter. In the morning, the visitor is again provided hospitality. He then leaves for another destination leaving behind a pouch containing six gold coins and a ring studded with gems. Raghunath waits for him for several months to return and then on the persuasion of his wife Jamuna, he sells the contents of the pouch one by one, sets up a bigger shop, and builds a comfortable house for him to live in. He starts life with dignity in society.

But one fine day, suddenly Satyadas makes his appearance. Raghunath is shocked. He is not as hospitable as before. On the contrary, he thinks as if a devil has turned up and wishes he leaves quickly. As Satyadas is about to leave, conscientious Raghunath asks: "Did you leave behind something here when you visited last time ?" Satyadas says: "I don't know. God knows everything."

Questions:

1. In your opinion, Raghunath was with deep sense of guilt and Remorse? If so, how and why?
2. Do you find the three imaginary characters are created for three conflicting aspects of a single mind? Morality, Guilt and Greed. Discuss these three characters based on your thinking.
3. Why could Raghunath not have the moral courage to practice transparency and tell Satyadas : "On your previous visit you left behind some gold coins and a ring. I waited a long time for you to return. Only then I sold them to invest in my business and in building a house. I want to repay you. Let us work out a repayment schedule. Comment.
4. How are morals different from values in this situation?

Case 3

Discuss the following case fully.

New Finance Controller

Outline of the case you are a recently qualified accountant and have accepted a job as financial controller for a well-established family business which supplies equipment to photographers, both by mail order and from its warehouse outlet. Its customers range from enthusiastic amateurs through to part-time professionals and owners of busy studios. The customers' payment methods reflect their diversity. There are credit card transactions and customers with 30-day credit business accounts. There is also a surprisingly large number of customers who collect their goods from the warehouse and pay in cash. You are told that cash payment probably reflects the nature of the customers' own receipts, as some photographers will often be paid in cash for weekend wedding assignments. In your first week at the company, the sales director (the principal shareholder's son) brings to you a cheque in settlement of the account of a major customer. He explains that the cheque (which appears to clear the amount due) is in fact an overpayment, as the balance showing on the sales ledger is before allowing bulk discount (which is calculated retrospectively). The sales director shows you his calculations and the agreement as authorised by the board. The sales director states that the customer's managing director has come to collect the discount in cash. He says that this is not an unusual occurrence for some of the company's better customers. It helps to maintain a good relationship with those customers, which leads to purchasing loyalty. Another benefit of this arrangement is that it gives the sales director regular face-to-face meetings with the senior staff of those customers. It also reduces the high charges that the bank makes for handling cash. You ask the sales director why the customers prefer to receive a refund in cash, rather than simply pay the net amount needed to settle the account. He replies, with a smile, that it is not for him to question their motives. Key fundamental principles Integrity: You and the sales director have suspicions about the motives of some customers who regularly overpay the company and receive refunds in cash. Are you acting with integrity if you do not question those motives? Objectivity: Being new to the company, you are likely to feel intimidated by the directors, who are all members of the same family. Can you ensure that the intimidation threat does not adversely affect your ability to make ethical decisions? Confidentiality: You should consider whether you have a responsibility to discuss the practices of the company and its major customers with third parties, once all other

reasonable steps have been taken. Professional behaviour: You must comply with relevant laws and regulations and not assist others to act illegally or unethically. You must not do anything that may discredit you or the accountancy profession.