

# Corporate Governance and Corporate Social Responsibility: The Case of Three Indian Companies

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**Abstract—This study analyzes the corporate governance (CG) practices of three prominent Indian firms, based on four parameters namely, 'Approach to Corporate Governance', 'Governance Structure and Practices', Board Committees' and corporate social Responsibility Activities. Three companies, namely ITC Ltd., Reliance Industries Ltd, and Infosys Technologies Ltd., were chosen, as they represent different ownership and control patterns among the private sector companies. The study finds that though the CG practices are exemplary, there exist differences in the way the companies adopt the CG practices.**

## I. INTRODUCTION

CG and Corporate Social Responsibility (CSR) have become buzzwords in the post millennium corporate culture of India. This case describes the CG and CSR practices of the three Indian private companies namely ITC Ltd., Infosys Technologies Ltd., and Reliance Industries Ltd. These three companies were chosen as they represent three distinct categories among the Indian private companies. ITC Ltd is one of the very few Indian companies which does not have an identified promoter and is fully managed by professionals (Though, a foreign company has around 32% stakes in the company, it is not identified as a promoter as it does not control the company). Reliance Industries is at the other end of the spectrum, with one family and their stake is only around 16% (all the shareholding levels were as on march 31, 2007). Hence, a study of CG and CSR practices of these companies will throw light on the differences among the private companies with different management control and shareholding patterns.

## II. APPROACH TO CORPORATE GOVERNANCE

ITC official believes and propagates 'commitment beyond the market'. It is also one of the pioneers to put in place a formalized system of Corporate Governance. ITC defines CG as a systematic process by which companies are directed and controlled in order to enhance their wealth generating capacity. This definition reminds one of Milton Friedman who says that businessman should concentrate only on profits and nothing more. However, that is not the case. ITC also believes that the growth process should ensure that these resources are utilized in manner which meets the stakeholder's aspirations and societal expectations. What the company calls as the development of the 'triple bottom line' includes the nurture and regeneration of nation's economic, ecological and social capital. ITC also seems to believe that CG must simultaneously empower the executive management of the company while ensuring adequate checks and balances. The cornerstones of ITC's

CG philosophy are trusteeship, transparency, empowerment, accountability, control and ethical corporate citizenship.

Trusteeship among these is predicted on the responsibility to ensure equity which essentially means that the rights of all the shareholders, large and small are protected. The board of directors has to protect and enhance the shareholders' value as well as protect the interest of other shareholders. Transparency could mean making appropriate levels and as close to the scene of action as feasible. Control is meant to prevent the misuse of power and is exercised within a framework of checks and balances. ITC believes unethical corporate citizenship' because, unethical behavior ultimately corrupts organizational culture and undermine stakeholder value.

Reliance is the only private sector fortune 500 Indian companies and whether it is breakup of the empire, a new venture or its cg practices, corporate India are all ears to the latest happenings from this company. Reliance believes that good governance practices stem from the culture and mindset of the organization. Reliance official policy says that the firm is unequivocally committed to all its stakeholders-employees, costumers, shareholders, investors, vendors and policy planners. At reliance, every team member is encouraged to ensure that stakeholders interests are uppermost. Reliance has a well defined policy framework in this regard consisting of values and commitments, code of ethics, business policies, prohibition of insider trading, program of ethics and mangement.

Infosys always seems to believe that the best cg attracts the best investors. Aryan mirth's vision for infuses envisages a place where people of different genders, nationalities, races and religious beliefs work together in an environment of intense competition but with the utmost harmony, courtesy and dignity. Infosys is the first Indian company to get it listed on the NASDAQ and the first to benchmark its organizational practices to global standards. As C K Prahlad rightly points out the infosys ecosystem of meritocracy, wealth creation and CG has made an impact across Indian industry in terms of raising confidence and aspiration levels. Again as Mark Mobius of Franklin Templeton Emerging Markets fund points out the focus of Infosys on CG not only brought global visibility to the company, but also created pressure on other Indian firms to raise their governance standards. Infosys' CG practices at CGR and CRISIL GVC Level 1 rating to them. Infosys has also complied with the Narayana Murthy committee recommendations on CG. Infosys is also Sarbanese- Oxley act compliant. Infosys' Cg philosophy is based on satisfying the spirit of law and not just its letter, transparency to the highest degree (which other company will normally come out with a policy of 'when in doubt, disclose'), making a

clear distinction between personal conveniences and corporate resources, communicating externally about how the company is internally complying with the laws in all countries in which the company operates, and having at all the times a firm belief that the management, and not the owner, is the trustee of the shareholders' capital.

### III. GOVERNANCE STRUCTURE AND PRACTICES

ITC has three-tier governance which includes strategic supervision by the BOD, strategic management by the corporate management committee and executive management by the divisional/ SBU chief executives.

Looking at the board composition one can find that ITC has a blend of executive and non-executive directors that include independent professionals. Executive directors including the chairman do not generally exceed one third of the total strength of the board. One third of the directors retires by rotation every year and are eligible for reelection. There does not seem to be any separate position of a managing director in the company. The following was the composition of the board as on March 31, 2005:

### IV. MEETINGS AND ATTENDANCE

The ITC's policy requires the board to meet at least six times a year. The intervening period between two board meetings is always within the three months period in line with the Clause 49 of the listing agreement. Board meetings at ITC are structured by the members, in consultation with the chairman, may raise any matter for board's consideration. Agenda papers are generally made available seven working days prior to the meeting of the board. The information placed before the board is the normal mix of statutory and voluntary matter. It included quarterly performance, half yearly summary of the long term borrowings, bank guarantees issued and investments made, internal and external audit management reports, policy on shareholders' disclosures, write-offs/ disposal (fixed assets, inventories, receivables, advances, etc.) on a half yearly basis, product liability of a notices from revenue authorities including exposure that exceeds 1 % of the company's net worth and the like. The details of the board meetings for the financial year ended March 31, 2005 reveals that out of the eight meetings held, three had a complement of 12 members which is the total strength. The numbers never went below nine. The chairman, Y C Deveswar, attended all the eight meetings thus setting a standard.

category	No. of directors	Percent of total number of directors
Executive directors	4	33
Non-executive independent directors	6	50
Other non-executive directors	2	17
Total	12	100

Reliance's CG enforcement system is based on the following principles:

- Constitution of a BOD of appropriate composition, size and commitment to discharge its responsibilities and duties;
- Ensuring timely flow of information to the board and its committees to enable them to discharge their functions effectively;
- Independent verification and safeguarding the integrity of the company's financial reporting;
- A sound system of risk management and internal control;
- Timely and balanced disclosure of all the material information concerning the company to all its stakeholders;
- Transparency and accountability;
- Compliance with all the applicable laws and regulations; and
- Fair and equitable treatment of all its stakeholders including employees, customers, shareholders and investors.

The role of the Independent Directors, as per the CG practices of Reliance, is to oversee the performance of the management, ensure accuracy of accounts, review the remuneration package for executive and non-executive directors, recommend the appointment of new members on the board and on the company's senior positions, etc. Reliance also has the position of a Lead Independent Director who presides over all the meetings of Independent Directors. It is interesting to note that the positions of the chairman and that of CEO are vested in the same person in both ITC and Reliance.

The article of association of company permits up to 14 directors. As on March 31, 2007, Reliance board had 12 directors, of which seven are independent directors. If one looks at the composition of the board one gets as picture as follows:

category	No. of directors	Percent of total number of directors
Executive directors	4	33.33
Non-executive independent directors	0	-
Non-executive non-independent directors	1	8.33
Other non-executive directors	7	58.33
total	12	100

A comparison of the board composition at Reliance and ITC reveals that in both the companies the percentage of executive directors to the total number is 33%. Other non-

executive directors make up 67% of ITC board, of which 50% are independent ones. This figure is 58% in Reliance, indicating that the 50% requirement as per clause 49.1 (A) of the listing agreement requirement is fully met. The board discourages any kind of transaction, material or otherwise, with the independent directors. Clause 49.1 (A) of the national stock exchange (NSE) listing agreement defines 'independence' as "absence of any material pecuniary relationship, apart from receipt of directors' remuneration, either with the company or its promoters or its management or its subsidiaries, which in the judgment of the BOD of the company may affect the independence of judgment of the director". Reliance also circulates among the board members the disclosures/ declaration to be given by board members under sections 264, 297, 299, 305, 308 of the companies act 1956, as well as under section 13 (2) 10 (d), 10 (e) and 13 (4) regarding 'prohibition' of insider trading' and clause 49 of the listing agreement. There is also the regulation 15 of the reliance code of business conduct and ethics for directors and senior management personnel. The reliance board does not believe that it has to restrict the number of times an individual may serve as a director and also believes that the nomination committee can take care of the requirement of reflecting and accommodating diverse views. As a typical family-owned enterprise, the CMD is not subject to the requirement of retirement. The reliance CG manual also quotes from section 317 of the companies' act 1956 wherein a period of five years is fixed for a managing director who can be reappointed for further periods, each period not exceeding a span of five years.

Section 255 and 256 of the companies act provide a method for appointment of directors who shall be liable to retire by rotation. Section 255 provides that two thirds of the BOD is considered to be directors liable to retire by rotation of which one third shall retire at every annual general meeting of the company with an option for reappointment. Both ITC and Reliance seem to be following section 255 in letter and spirit. In Reliance, there is a position of the lead independent director who acts as the spoken person of the independent directors. There is no corresponding position in ITC.

The board at reliance meets at least six times a year and the agenda for the board meeting is very similar to that of ITC. For the year ended on March 31, 2006, there were 11 meetings held and four had the full complement of 12 members. The least number was eight. CMD Mukesh Ambani attended all the 11 meetings.

The CG practices of Infosys technologies are well admired among the practitioners and researchers. The company has a well defined board charter which defines the scope of the board. As for the board composition, nine out of 16 directors are independent directors. This is something one does not notice in the case of both ITC and Reliance where, arguably, the accent has been on compliance with clause 49.1 (A) of the listing agreement requirements. Truly, Infosys seems to believe and practice that CG standard should go beyond the law. The annual report of the company also gives additional data like relationship with other directors, directorships held in other companies both in India and abroad, etc.

One can make a look at the Infosys board:

The maximum age for retirement of all executive directors is 60 years. As per this policy Narayana Murthy, in August 2006, ceased to be the executive chairman. There were five board meetings held during the fiscal year 2006 and Murthy was present in all the five.

## V. BOARD COMMITTEES

ITC currently has four board committees—the audit committee, the compensation committee, the investor committee and the nominations committee. The terms of reference of the board committees are typically fixed by the board from time to time. Meetings are convened by the chairman and signed minutes are placed before the board. A look at some of these committees are as follows.

The audit committee of the board reassures the board that a proper internal control mechanism is in force. The audit committee is empowered to investigate any activity that falls within its terms of reference and seek any information from any employee.

Among other roles, the committee also oversees the company's financial reporting—process reviews changes in accounting policies, major accounting entries, qualifications in the draft audit report, compliance with stock exchange and legal requirements, related party transactions involving top management or their relatives, etc. it also reviews, with the management and the internal and external auditors, the adequacy of the internal control systems. The audit committee comprises of three non-executive directors all of whom are independent directors. Then, there is the remuneration committee called the compensation committee and this committee recommends to the board the compensation terms of executive directors. The compensation committee consists of five non-executive directors of whom three are independent directors and the chairman of the committee is a non-executive independent director, the remuneration is largely market led. The chairman and executive directors are entitled to performance bonus for each financial year up to 85% and 75% respectively of their consolidated salary.

ITC also has an employee stock option scheme and in the year ending on March, 2005 the company granted 857,208 options to eligible employees. There is also an investor's grievance committee comprising of three directors of whom two are independent directors, and where the chairman is also an independent director. Then, there is the nominations committee which makes recommendations on appointment to the board, corporate management committee and the senior most level appointment to the board, corporate management committee and the senior most level of executive management one level below the board. The nomination committee comprise of the chairman and all the non-executive directors of the company. The chairman of the company is also the chairman of this strategic management and comprises of all the executive directors and three or four senior member for the management. The ITC code of professional conduct has been replaced by the ITC code of conduct. The code is

derived from three inter-connected fundamental principles, viz, good GC, good corporate citizenship and exemplary personal conduct.

The board committee in the case of reliance comprises of the audit committee, shareholders'/ investors' grievance committee, remuneration committee, CG and stakeholders' interface committee, finance committee and the health, safety and environment committee. These committees seem to be playing a role very similar to those of ITC's. The duties and authority of committees in both the companies appear to be very similar and such a repetition is unwarranted. RIL has a finance committee to review the company's financial policies, strategies and capital structures. The corporate management committee of ITC seems to have been rechristened as the CG and stakeholders' interface committee (CGSI) in the case of reliance. The CGSI committee periodically identifies what reliance calls as the 'Competency gaps' and evaluates potential candidates for board appointment. It is interesting to note that the CGSI committee also considers candidates recommended by shareholders. Board members are encouraged to attend training programs/ discussion/ seminars forms to understand topical CG issues and make suggestions for improvement. The CGSI committee assists the board in determining the optimum board size.

Infosys board has six committees. These are—compensation committee, the nomination committee, the investor grievance committee, the investment committee and the share transfer committee. Unlike ITC or reliance, all the committee, not just the audit committee, consist entirely of independent directors except the investment committee and share transfer committee which have a fair representation of independent directors. An audit committee charter along the lines recommended by the blue ribbon committee is in vogue. This does not seem to be the case with either reliance or ITC. The responsibilities of the audit committee listed vide 2.1 and 2.26 for the annual report is far more exhaustive than those of either reliance or ITC. There are six independent directors in the audit committee. The compensation committee has four members and consists of compensation, audit or nominations committee reports are made available for public scrutiny by Infosys. The investor grievance committee at infosys consists of four directors and is headed by an independent director. The investment committee and share transfer the posts of the CEO and the chairman are clearly demarcated in the case of compliance with Naresh Chandra Committee, Kumar Mangalam Birla committee, clause 49 listing agreement, Euro shareholders CG guidelines 2000, OECD principles of CG, etc.

#### VI. CORPORATE SOCIAL RESPONSIBILITY PRACTICES

In 2005, ITC released its 'sustainability report' in accordance with internationally accepted global reporting initiative guidelines. ITC takes pride in the fact that it is a water positive company and aims to become a carbon positive company soon. ITC has made significant studies in natural resources management, sustainable livelihoods, community development, and social forestry and has been one of the major contributors to the prime minister's relief

fund at the time of Tsunami.

The e-chaupel initiative is a unique price recovery knowledge imparting initiative and reaches out to farmers in seven states. RIL is committed to quality and has won prizes in this category. For example, Shell Global services have conferred 42 Golden certificates on cumulative basis on RIL's Jamnagar facility for excellence in reliability certification. TQM has been introduced at all sites. State-of-art medical care facilities are provided to all the employees through occupational health centers located at various sites. RIL participates in national health programs like pulse polio, revised national tuberculosis control program, etc. The directors' committee on HSE monitors the status of safety performance, practices and systems. There is also a dedicated environment health and safety group reporting directly water to villages near its manufacturing sites. RIL also spends money on education and healthcare.

Infosys emphasizes the value of each and every employee and is one of the first Indian companies to bring human capital on its balance sheet. Integrity, fairness and transparency across operations are the operating philosophy of infosys. Infosys believes in spreading education and has specific programs in this regard—infosys fellowship program, rural research program, and catch them young program and train the trainer program, the infosys also takes part in community service initiatives.

#### VII. CONCLUSION

To conclude, one may say that all the three companies are doing well both on the CG and the CSR fronts although infosys seems to be doing much better than the other two. That all three companies are also adding 'long-term shareholder value' and almost equating it with 'long-term stakeholder value' is an indication of the passing away of the 'dog eats dog' policy of yester years.

#### REFERENCE

- [1] Annual report of ITC Ltd., reliance industries limited and infosys technologies ltd., for the financial years 2005-06, 2006-07.
- [2] The websites of the three companies as accessed on June 2007, [www.itcportal.com](http://www.itcportal.com), [www.ril.com](http://www.ril.com) and [www.infosys.com](http://www.infosys.com).