

# GOOD CORPORATE GOVERNANCE ALWAYS PAYS OFF

*Infosys among top three companies on IFC India scorecard despite recent controversies*

BY VLADISLAVA RYABOTA



**C**orporate governance principles do not follow a one-size-fits-all approach. That would elude the local contexts in which companies operate, which are key to understanding practices and behaviours as well as expectations of investors. This is important because each country's legal framework is built on historical choices and subsequent developments. No system is better than any other. However, local and national specifics cannot ignore the trends of globalisation, the free and immediate flow of information, as well as the resulting access for investors and stakeholders. Events in one part of the world can have global consequences and impact any economy. Every time an economic crisis unfolds, investors learn to their expense that some companies they invested in did not follow good governance principles. Thus, investors realise that financial data alone cannot give the full picture to provide the comfort that the company not only talks the talk, but also walks it. Therefore, over the years, corporate governance has become a predominant topic in discussions related to investments, joint ventures and partnerships.

Companies worldwide recognise these changing trends and act on them. They recognise the opportunities that come with

embracing good governance. For one, this allows them to attract more investors. But good governance also enables companies to gain reputation, which brings with it access to talent, new customers and public recognition.

Some companies in India have been at the forefront of corporate governance for years. The Securities and Exchange Board of India and institutional actors, such as the Bombay Stock Exchange and the Institutional Investor Advisory Services, have also played an instrumental role in raising awareness among market players to help understand the importance of corporate governance. International Finance Corporation (IFC) has been partnering with many to participate in this journey of increasing India's economic footprint in the world. One of such partnerships has materialised in the Indian Corporate Governance Scorecard, which was first launched in 2016 and is now celebrating its second edition.

A scorecard is a tool that serves to measure levels of corporate governance for listed companies. Out of the realm of the regulatory world, it is a voluntary action that serves to benchmark practices on different topics related to governance and provides useful information for companies, investors, regulators and stakeholders. Of course, scorecards have their own

limitations: A high score should not be seen as an indicator of current or future financial performance. The scores also do not indicate the permanency of governance practices: A company's governance may improve or deteriorate from the date of the scoring. Nevertheless, scorecards have been used worldwide and have helped in improving practices of individual companies and markets in general. IFC has played a key role worldwide in such an exercise and we are proud to have contributed to the development of the two editions in India.

The Indian Scorecard is built around 70 questions, covering four essential areas: Rights and equitable treatment of shareholders, role of stakeholders, disclosures and transparency and responsibilities of the board. While the driving principles have been those of the G20/OECD Principles of Corporate Governance, the questionnaire has been adapted to India's legal and regulatory framework. Therefore, while the scorecard provides information that can serve the needs of investors and stakeholders worldwide, it also provides a fair representation of whether the Indian private sector is in line with global and national requirements.

From 2016 up to today's report, we already see a growing interest in the scorecard. We initially started with



30 companies and reached 100 in 2017. For the first time, we published the names of companies with highest scores which, we hope, will boost interest and generate knowledge-sharing among companies. We are confident that next year's edition will cover a higher number and attract even more attention. But it is not only about the number of companies we scored. Changes have happened at the level of practices and this shows when comparing results of both years.

In 2016, out of the 30 scored companies, 50 percent reached an overall ranking of either 'leadership' or 'good' with the remaining ranking either 'fair' or 'basic'. For 2017, the proportion of 'leadership' or 'good' reached 60 percent even with the sample size rising from 30 to 100. This is impressive by all accounts and demonstrates the seriousness of Indian economic actors in the field of corporate governance. Interestingly, two companies (HDFC and Infosys) that made it to the 'leadership' category in 2017 were there in the 2016 exercise too. One of the factors for this, in addition to high level of governance, is that they engaged with their stakeholders proactively and maintained processes and systems to manage them. For Infosys, the scoring has factored in the controversies around disclosure practices. Yet, on a broader comparable landscape, its governance practices remain high enough to make it to the top three. We were also happy to see a sharp increase in Wipro's score. This happened due to improved disclosures on board evaluation, succession planning and leadership, areas that remain insufficiently covered by many listed companies.

It is worth noting that this year our results showed a clear correlation between high scores on the scorecard and financial ratios among banks: Those scoring the highest, see a gain of more than 1.5 percent on return on assets as compared to banks scoring the least. Additionally, banks scoring



the highest also see a better ratio of gross non-performing assets, with a staggering difference of 12 percent.

Overall, given the regulatory requirements and the need for Indian companies to attract capital, most companies score better in the category of disclosure and transparency. In the remaining three categories, the score range is wide. For example, in the category of 'rights and equitable treatment of shareholders' the highest score was 80, and the lowest 28. The two categories that need improvement are 'role of stakeholders' and 'responsibilities of the board'.

What the scorecard shows is that it pays to abide by good corporate governance principles. Regulators and investors understand that poor governance standards can add negative impact on cost of doing business, hence their push for better standards. Indian companies understand this as well, as our results show. We could observe more

## POOR GOVERNANCE STANDARDS CAN HAVE A NEGATIVE IMPACT ON COST OF DOING BUSINESS

companies providing shareholders with detailed transcripts of the previous annual general meetings, enabling shareholders to ask questions in advance, or even participate via video or tele-conferencing. Although the number of such companies is still in the single digits, it is clear that they can score higher should they give it a priority. Evaluation across the four categories shows that there are companies that achieved an 80 percent score in one area. Next year, we hope to see companies who get equally high scores across all categories.

As they embark on this new journey, companies need to avoid box-ticking, adopt changes that go beyond compliance to really embrace corporate governance in its key component, namely behaviours and practices that truly live by the principles of corporate governance. These are accountability, fairness, transparency and independence.

The IFC, and its India partners, will keep promoting good corporate governance and intends to remain as a long-time and trusted partner for the development of the private sector. **F**

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ILLUSTRATION: SAMEER PAWAR



# THE INDIA INC SCORECARD

Key findings from IFC's second year of rating the country's companies

COMPILED BY AVEEK DATTA  
INFOGRAPHICS & ILLUSTRATION BY SAMEER PAWAR

**T**he Indian economy is expected to become the fastest growing major economy in the world in 2018 and the interest that Indian businesses is generating among foreign investors shows no signs of abating. However, while willing to commit growth capital to Indian businesses, a key measure

of performance that global investors are factoring in is the standard of corporate governance. Increased scrutiny by regulators such as the Reserve Bank of India, and Securities and Exchange Board of India (Sebi), and increased vigilance by minority and institutional shareholders have also led Indian companies to improve

their corporate governance standards.

The annual Indian Corporate Governance Scorecard by the International Finance Corporation, BSE, and Institutional Investor Advisory Services for 2017 highlights corporate governance standards among top Indian companies (BSE 100). Here are its key findings:



## SENSEX TRENDS

In December 2016, a study was conducted on the S&P BSE Sensex 30 companies. For comparability, the first part of the assessment in the 2017 study was conducted on the same set of index companies. The trends highlight a broad-level improvement in critical governance parameters for these index constituents.

■ 2017 ■ 2016



## TRENDS

Companies which had adequate disclosures on business segment information



Companies which had women directors who were not part of the promoter family



Companies which separated the roles of the chairperson and the CEO



## STELLAR PRACTICES

Companies which provided detailed transcripts or minutes or a webcast of the previous AGM



Companies which facilitated shareholder participation via video or tele-conferencing or via advance question submissions

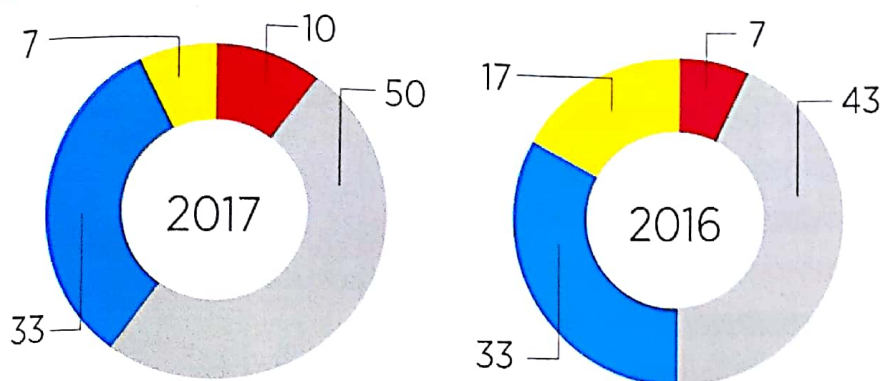


Companies which had detailed disclosures on succession planning



## PERCENTAGE OF FIRMS IN EACH GOVERNANCE CATEGORY

LEADERSHIP GOOD FAIR BASIC



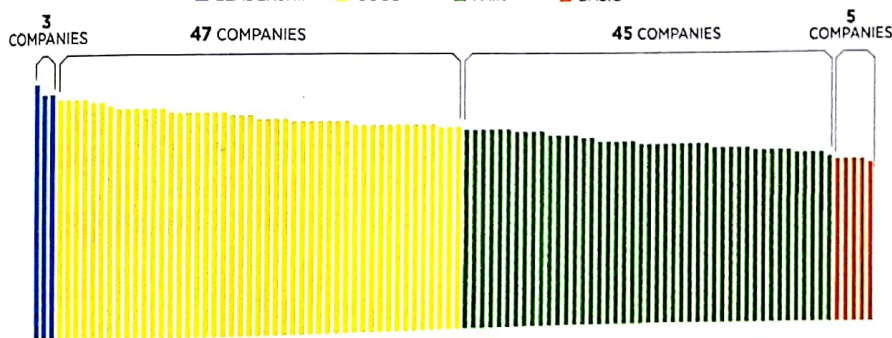
In 2017, three companies had a Leadership grade, as compared to two companies in 2016. The distribution of scores improved, with 60% of the Sensex companies now falling in the 'Leadership' or 'Good' categories (50% in 2016). Two firms were classified in the 'Basic' category.

As per the scorecard methodology, based on the final score, companies have been grouped into the following buckets:

BUCKET	SCORE RANGE
Leadership	$\geq 70$
Good	60 - 69
Fair	50 - 59
Basic	$< 50$

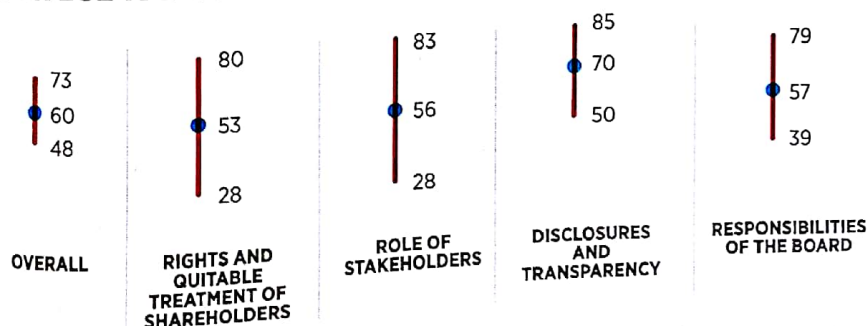
## GOVERNANCE SCORES FOR BSE 100 COMPANIES

LEADERSHIP GOOD FAIR BASIC



Of the BSE 100 companies, three companies were in the 'Leadership' category with a score of 70 and above. These three companies form part of the Sensex index and were part of our previous scorecard. The largest proportion of companies were in the 'Good' category (47%), followed closely by those in the 'Fair' category (45%). Five companies had a score of less than 50, in the 'Basic' category.

## CATEGORY-WISE MEDIAN, MAXIMUM AND MINIMUM SCORES FOR BSE 100 COMPANIES



This shows the maximum, median and minimum percentage scores in each governance category, and on an overall basis. The overall scores for the BSE 100 companies ranged between a maximum of 73 and a minimum of 48, with a median score of 60. The largest variance in scores was in the second category, 'Role of stakeholders', with scores ranging between 83 at the upper end and 28 at the lower. The highest category scores were observed in the 'Disclosures and transparency' category with the scores ranging between 85 and 50. The median score of 70 in this category was the highest among all categories.



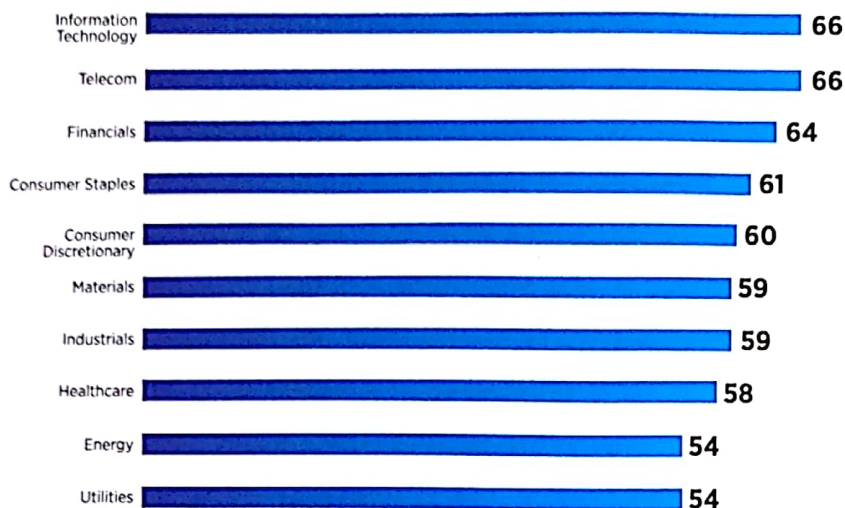
## COMPANIES WITH THE HIGHEST CORPORATE GOVERNANCE SCORE

HDFC BANK	CROMPTON GREAVES CE
INFOSYS	HUL
WIPRO	M&M
BHARTI AIRTEL	M&M FINANCIAL
BOSCH	MARICO

Infosys and HDFC Bank, which were in the Leadership category even in the earlier exercise, continued to top the list. The sharpest increase in scores from these top 10 was observed for Wipro, where the score increased due to better disclosures on the website, and in the annual report, on aspects of board evaluation, leadership experience, and succession planning.



## SECTOR-WISE CORPORATE GOVERNANCE SCORE OF BSE 100 COMPANIES

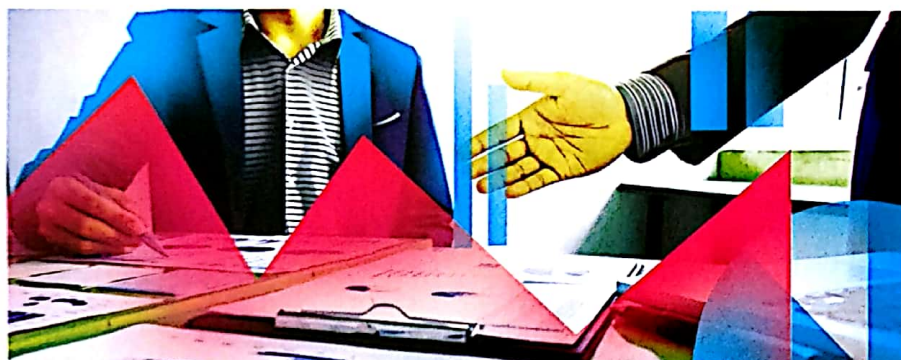


Companies in the services-focussed sectors tend to have a better score than other companies in the index. Part of this may be attributed to the stronger governance requirements demanded of them by stakeholders.

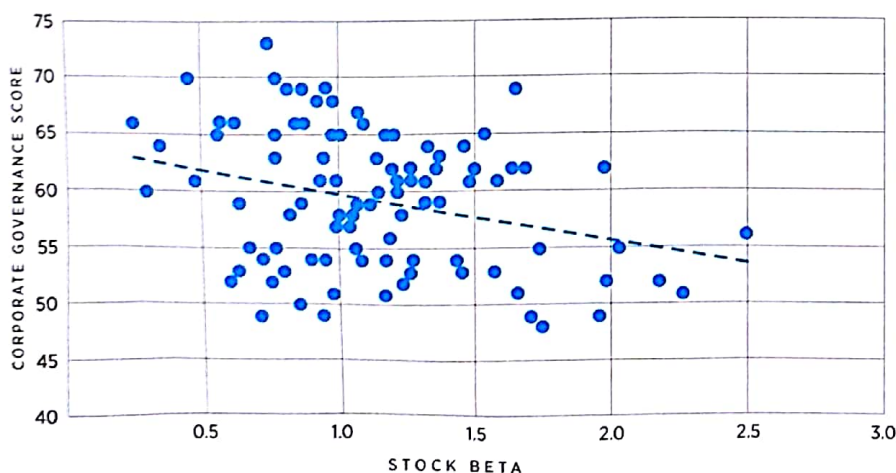
## CORPORATE GOVERNANCE SCORE OF BSE 100 COMPANIES BASED ON OWNERSHIP PATTERN



Institutionally owned and widely held companies tend to have better governance scores.

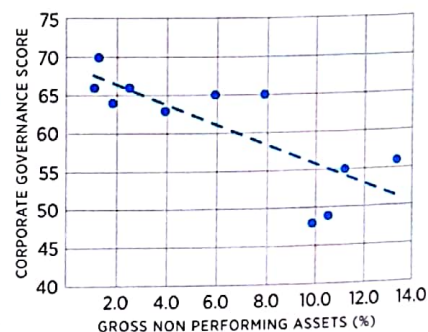
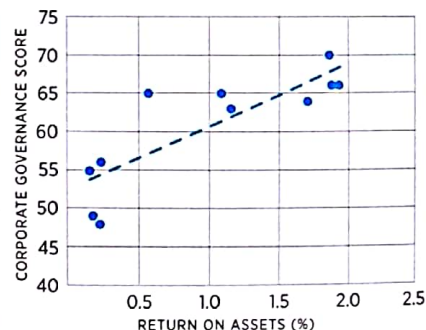


## CORRELATION BETWEEN CORPORATE GOVERNANCE SCORE AND STOCK PRICE VOLATILITY



There is a negative correlation between the corporate governance score and the one-year stock beta, implying that better governed companies tend to have less stock price volatility.

## CORRELATION BETWEEN CORPORATE GOVERNANCE SCORE AND FINANCIAL PERFORMANCE OF BANKS



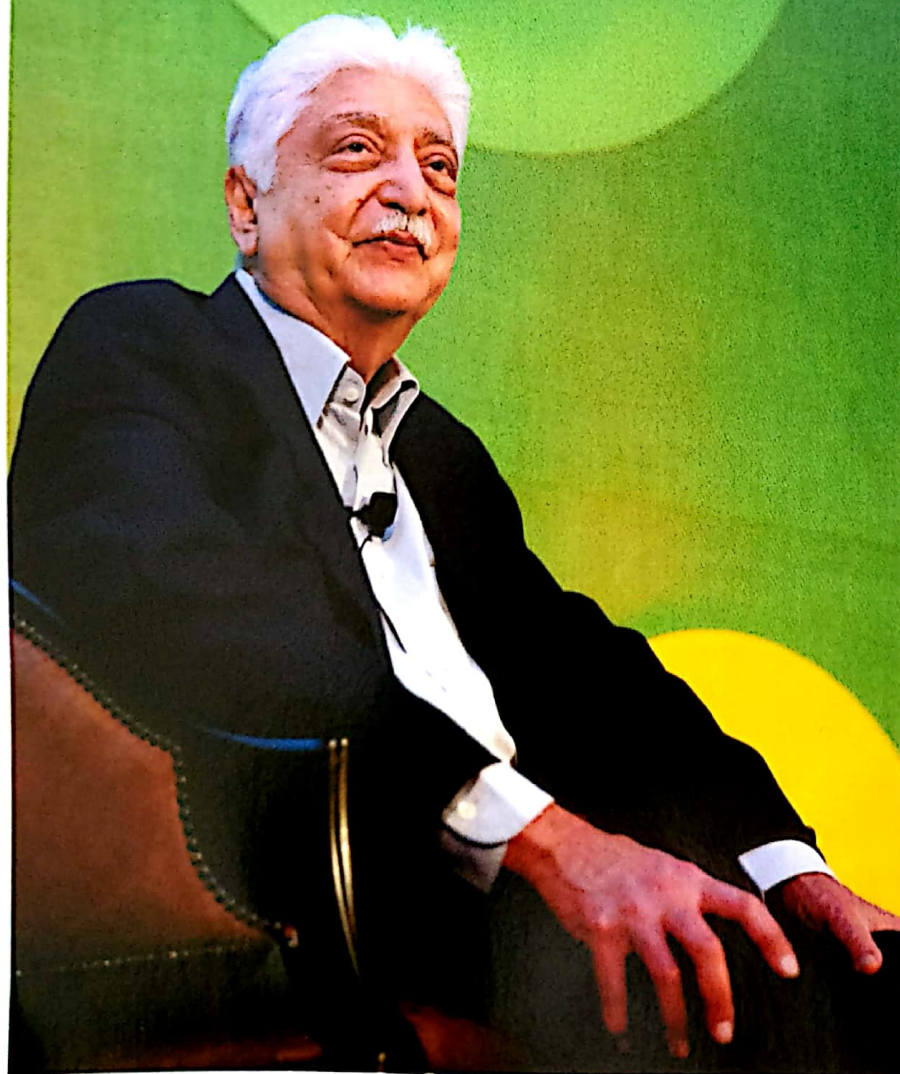
The correlation with financial performance is particularly strong in the banking sector, especially with the return on assets ratio and gross non-performing assets (NPA) levels.



# THE RIGHT PATH

*How the Premjis of Wipro are showing that majority ownership need not come in the way of good governance*

BY HARICHANDAN ARAKALI



**I**t was a sunny winter Saturday morning, the kind people still like Bengaluru for, notwithstanding the devastating loss of trees and water bodies the city has suffered in parallel with its rise as India's tech capital.

An interesting no-holds-barred exercise was underway at IT services company Wipro's headquarters: School and college students from as far away as Arunachal Pradesh, Kerala, Goa and Chhattisgarh were quizzing Wipro Chairman Azim Premji. "How can one become like you?" or "Are you happy with all that you've done?" and "How can companies pay attention to sustainability in the competitive commercial world?" were some of the questions.

That last question evoked the following response from the 72-year-old billionaire, India's second richest man: "I think too many issues of sustainability are being deprioritised because of commercial interests, and one has to make commercial interests secondary, behind sensitivity for the environment, which doesn't always happen."

It was a session organised as part of the 7th annual Wipro Earthian programme to recognise school and college projects that raise awareness about the environment among local communities. Premji continued: "I think government policy should be directed towards it and there should be proper enforcement of such a policy on an ongoing basis. And it requires pushback from people such as you, because you represent the population."

Just as management guru Peter Drucker once asserted that there is no such thing as business ethics, but just ethics, Premji's credo for himself—which boils down to doing the right thing under any given circumstance—is difficult to separate from the values he set down for Wipro decades ago.

That was back in 1972, Wipro's



Chief Sustainability Officer Anurag Behar says, and those principles live today in Wipro's various codes of conduct—from the formal ones for employees and managers to the ones that articulate the underlying philosophy, such as the 'Spirit of Wipro' and 'Wipro Beliefs'.

It is also reflected in corporate governance, which translates into an honest and transparent enterprise that does right by all its shareholders.

Wipro, Infosys and HDFC Bank are the three best-governed companies among the Bombay Stock Exchange's 100 biggest companies in the Corporate Governance Scorecard for 2017, backed by the World Bank's International Finance Corporation and India's BSE.

Wipro's rise on the scorecard shows that owning a majority of a company need not come in the way of doing the right thing. Its score saw the "sharpest increase", the authors of the report point out, from 2016, when the first edition of the study was conducted.

The reasons include better disclosures on the website and in the annual report, aspects of board evaluation, leadership experience, and succession planning.

On that last count, Wipro has done very well with no fanfare, points out Shriram Subramanian, founder and managing director of InGovern Research Services, a proxy advisory services firm in Bengaluru. Rishad Premji (41), the elder son of Azim Premji, is now well respected in the industry as chief strategy officer, and a member of the board of directors of Wipro, he adds.

"At Wipro, from that perspective, they have done very well; they have been able to groom Rishad into a role where he has the acceptance of all senior executives," says Subramanian. "His credibility within Wipro and in the industry, too, has grown and his capabilities are also now tested and accepted."

In fact, Rishad served on a



Rishad Premji, chief strategy officer and member of the board, Wipro Limited.

committee constituted by Securities Exchange Board of India, the country's capital markets regulator, to recommend ways of further improving corporate governance standards in India. The committee, named last June, was led by Uday Kotak, chairman of Kotak Mahindra Bank.

Wipro's CFO Jatin Dalal says corporate governance is about remaining on the right path, irrespective of the circumstances. That Wipro has survived and thrived for more than 50 years irrespective of the environment—through India's license raj, for instance—shows that the 'Spirit of Wipro', and integrity at the core has mattered, he says.

Just saying the company is honest doesn't quite cut it, and one has to be willing to do the difficult, often unglamorous work that is essential. For instance, Wipro set up an audit committee in 1986, when it was not mandatory, Dalal adds.

Establishing such a committee, and giving it teeth by including high-calibre members, created a "sharp and thriving" audit function within the

company. The present-day committee comprises philanthropist and noted former banker N Vaghul, Ireena Vittal, a former McKinsey and Co partner, and MK Sharma, non-executive chairman of ICICI Bank Ltd.

In the early '90s Wipro started publishing segmental accounting and consolidated books of account. Segmental accounting became an accounting standard much later. Be it publishing data as required by the SOX 404 (the Sarbanes Oxley Act, after the Enron debacle) or section 302 certification of financials, when the norms first came out, Wipro was among the first in India to implement the practice of disclosures under those rules, recalls Dalal.

With regard to the governance of the board, "all our committees are made up of only independent directors," he says, irrespective of whether the laws require it or provide flexibility. "Every time we provide more information, you'll also ask more questions, but we have never shied away from sharing information that investors ought to get."

One important recognition at Wipro is corporate governance is about grassroots-level vigilance and change. Dalal gives a simple example of 'proxy-swiping'.

If a Wipro staffer got a colleague to swipe his or her access card, "there will be only one outcome.

**"THEY'VE GROOMED RISHAD INTO A ROLE WHERE HE HAS THE ACCEPTANCE OF ALL SENIOR EXECUTIVES."**

—Shriram Subramanian



We won't look at the financial pain to the company, we'll still pay the person's salary. The person may have been able to stay longer at the end of the day and work, but we look at the intent behind doing something wrong in the first place." The reason is, if allowed leeway, the same attitude might proliferate into something bigger down the line, with much more serious consequences.

"I went to engineering college in the mid-'80s, when IT was a happening field," recalls Behar, who joined Wipro straight out of college.

Behar remembers how there were two pieces of feedback about Wipro from his seniors who had joined IT companies. "You can't give a 50-paise bribe, even if you're losing a ₹50-lakh order. Lose the order, but no way you can actually bribe anybody. That was one of the critical things that remained in our heads." The other thing was that Wipro had a reputation for being a real tech company. "It wasn't spiel, it was feedback from our seniors: If you wanted to be a tech guy, go to Wipro," he says.

In 2002, Wipro also set up an Ombuds process to provide a formal channel to report concerns of any wrongdoing at the company "independent of line of management", as its website puts it. Behar credits Premji Senior's behaviour as a leader for providing much of the groundwork for the company's structured and codified practices as it became larger.

He recalls a small anecdote about a former colleague who had joined the company in 1973 or 1974. "What fascinated me about the company was that on their application form, on the front, they basically had nothing else but a statement from Peter Drucker, saying integrity is everything," the colleague had said.

Such ideas got systematically communicated, Behar says, while Dalal adds that Premji would personally handle employee sessions on Wipro's values, nearly into the late '90s. To this day, at Wipro's training

## ROAD TO GOOD GOVERNANCE

**1985** First Indian corporate to present segment-wise and consolidated results

**1986** Amongst the first Indian corporates to set up an audit committee

**1998** First Indian Internal Audit Function to get ISO 9002 certified

**2002** First Indian Internal Audit to Win International Award from IIA, USA. Among the first to voluntarily adopt SOX 302 certification

**2004** Ranked No 1 in investor relations in Institutional Investor Survey. Highest rating of SVGI by ICRA (associate of Moody's) Shareholder Value

## CREATION & GOVERNANCE

**2004** Excellence in Corporate Governance Award by Institute of Company Secretaries of India

**2007** Fully compliant with SOX

**2008** Rated AAA by ICRA, the highest rating possible

**2010** One of the three Indian companies to be part of the Dow Jones Sustainability Index

**2015** Excellence in Corporate Governance Award by Institute of Company Secretaries of India

**2017** Rishad Premji invited to join SEBI committee on corporate governance

programme for its senior leaders, he continues to make it a point to talk to them about his values, Behar says.

All this underscores the need for doing mundane but absolutely essential work of repeatedly reinforcing the right behaviour. It helps to remember the loftier underlying value: "How do you encourage right behaviour? You do it by driving meritocracy, encouraging people to speak up, providing the right channels to funnel their concerns," Dalal says.

Even with Premji Senior, the company's executives won't hold back just because they may have a different point of view

on a subject, and will walk away from a discussion "completely confident" that speaking up is what is expected of them, he adds.

Good corporate governance and a well-earned reputation for such behaviour has real business benefits, Dalal says. It helps the company better navigate changes in the outside world; a large investor will more likely give a patient hearing in any situation, or a banker will more likely lend on better terms or a potential target will more likely consider an acquisition favourably or a vendor will be happier to work with the company.

This idea is validated by experts who have researched corporate governance. "There is adequate research to show that a well-governed company can raise capital at lower cost-equity capital or debt," says Krishnamurthy Subramanian, associate professor at Indian School of Business. "Even in instances where a company makes a mistake or a judgmental error, investors aren't that harsh with well-governed companies, so there are long-term benefits."

It also helps to keep front and centre the knowledge that core human values and nature hasn't changed much—even as society has better rules. "We are still grappling with the same issues that we grappled with during the *Mahabharat*," Behar says.

Dalal speaks of a simple test of right or wrong that Premji asks everyone to apply to any choice: "You should be able to explain it to your parents, your spouse and your children. If you think you won't be able to explain it, then it's the wrong choice." That applies to businesses too, he says. "After 15 years, we should be able to explain why we took a certain decision."

One other approach that many leaders recognise as making a constant difference is 'there is so much more to be done'. That is why, the student who asked Premji if he was happy with all that he had done got the reply: "No. No I'm not happy, and that is the feedback I give to my leaders as well." **F**