

THE INFOSYS INVESTIGATION NEEDS A BROADER AMBIT

Relevant for: Ethics | Topic: Corporate governance

The software major has been rocked by whistleblower charges that need a probe. The company has initiated one. But its scope should include fresh questions that have arisen

Some two years ago, when Infosys Ltd. co-founder Nandan Nilekani returned to the company as chairman after the exit of then chief executive officer (CEO) Vishal Sikka amid concerns of corporate governance lapses, its shareholders thought the worst was behind them. Little did they expect half a trillion rupees of the software major's market capitalization to be wiped out in a single day, as happened on Tuesday, the first day of domestic trading after it was rocked by allegations of scandalous behaviour at the top. No charge has been proven yet, but in the eye of the latest storm are its current CEO Salil Parekh and chief financial officer Nilanjan Roy. An anonymous complaint, purportedly filed by a group of employees by means of a letter to its board dated 20 September, accuses Parekh and Roy of demanding "unethical accounting practices" designed to overstate quarterly profits and revenues and thereby prop up Infosys's share price. Not only were accounts being fudged, the whistleblowers allege, but deprecatory words were also used by top executives for a few non-executive board members. In a statement issued on Tuesday, Nilekani said that Infosys had placed the letter before its audit committee, which had started consultations with an independent internal auditor to probe the matter.

What's true and what's false would take time to determine. However, given the high levels of transparency expected of Infosys, whose success is an integral part of India's entrepreneurial story, it would be best if the investigation broadens its scope to include other questions that have arisen. While a delayed response to the blow of a whistle is understandable, since a large number of such incoming messages are frivolous, there is a long gap between the receipt of the complaint on 30 September by a board member, as Nilekani's statement dates this event, and it being turned over to the audit committee, which was done on 10 October. Stock exchanges were informed even later, on 21 October. Prima facie, this seems to be in accordance with legal principles on how to proceed in such cases. The gravity of the charges was for Infosys to determine, and the firm has stated that it did not receive any corroborative material by way of emails or voice recordings. Yet, for the sake of investor confidence, the probe should examine whether its public disclosure took longer than it ought to have.

The timeline assumes importance for the reason that the information had the potential to influence the market price of the company's stock. Moreover, all listed firms are required to keep the public informed of such developments. Delays create space for suspicions of insider trading. There has been some speculation among traders on social media over allegedly unusual positions taken on Infosys shares. Attention has been drawn to some put options—which let traders make gains off a price slide in the future—said to have been bought in advance. These could simply be part of a regular trading strategy, but if data patterns warrant a closer look, then these may need to be probed as well. It is not in the interest of Infosys shareholders alone to attain clarity on this episode. With its founders serving as role models for entrepreneurs across the country, every citizen qualifies as a stakeholder in this case. Infosys has bounced back from a crisis before and we expect it to do so again.

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