International Journal of Business and
General Management (IJBGM)
ISSN(P): 2319-2267; ISSN(E): 2319-2275
Vol. 4, Issue 6, Oct - Nov 2015, 63-70

International Academy of Science, Engineering and Technology
Connecting Researchers; Nurturing Innovations
IASET

EXPOSURE OF CORPORATE GOVERNANCE PRACTICES BY IT INDUSTRY COMPANIES IN INDIA

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ABSTRACT

Purpose: Government is trying to make Indian firms follow right corporate governance policies as practice for long term sustainable growth of businesses. The purpose of this paper is to study the CG practice: in the form of various CG initiatives and parameters; in IT industry in India as this industry is one of the fastest emerging industries in India and is a dominant industry in global markets.

Design/Methodology/Approach: A descriptive research is done with the help of tables and chart to briefly introduce Corporate Governance in Indian and global scenario along with regulatory requirement of CG practice by corporate. Corporate Governance are studied on various parameters: Independent Directors, No. of meetings, shareholding pattern, Grievance committee meetings, compensation policy, risk management committee and its meetings and transparency in CG report; for IT companies in India by giving an overall scenario of IT industry in India.

Findings: The companies in IT industry appreciate and practice corporate governance and comply with various clauses of corporate governance in different proportion and keep transparency in their governance whereas all the mandatory norms are followed and non- mandatory norms are practiced to some extent.

Research Limitations and Implications: Since the information available on CG practices are collected from annual reports of companies only and the time frame taken is FY 2013-14, SO window dressing could not be removed from it. The descriptive analysis based on secondary data would have its own limitation.

Practical Implications: These days Corporate talk about responsibility of business community towards every stakeholders and that they are following right governance practice but it is very important to study what is the actual scenario. This study raise a very important issue of negligence of CG non mandatory norms practice by corporate through studying current CG practices in companies in IT industry in India.

Originality and Value: This study has made an original attempt to trace out the CG practices in Information Technology IT industry in India in financial year 2013-14. Not all of them are meeting the regulatory requirement of CG practices as per The Company's Act, 2013.

KEYWORDS: Corporate Governance (CG), Firm Performance, IT Industry

INTRODUCTION

Corporate Governance comprises of the mechanisms, processes and relations by which the companies are controlled and directed. Governance structures recognize the distribution of rights and responsibilities amongst different participants in the corporation (such as the board of directors, shareholders, creditors, managers, auditors, regulators, and other stakeholders) and comprises of the rules and procedures for making decisions in corporate affairs. The processes through which corporations' objectives are set and pursued in the context of the regulatory, social and market environment are included in Corporate Governance. Governance mechanisms embrace monitoring the policies, actions, and decisions of corporations and their agents. In attempts to align the interests of stakeholders, Governance practices are affected. The guidelines to direct and control the company so as to fulfill its goals and objectives and add value to the company are provided by Corporate Governance and this also benefits all the stakeholders; such as board of directors, management, employees, shareholders, customers and society; in long term. Good governance means better monitoring, greater transparency and public disclosure between investor and manager which increases the investor's interest and decreases managers's discretion. Well governed firms are supposed to have more efficient operations and reduced auditing and monitoring cost and are less risky.

The corporate governance framework consists of:

- Explicit and implicit contracts for distribution of rights, responsibilities and rewards between the company and the stakeholders.
- The procedures for reconciling the conflicting interests of stakeholders according to their duties, privileges, and roles.
- The procedures for supervision, control and information-flows to serve as a system of checks-and-balances.

Scenario of Corporate Governance

Corporate scandals of 2001-02 of various forms have created public and political interest in the regulation of corporate governance. In the U.S., the demise of Enron and MCI Inc. (formerly WorldCom) is associated with the U.S. federal government passing the Sarbanes-Oxley Act in 2002, intending to restore public confidence in corporate governance. Similar failures in Australia (HIH, One.Tel) are associated with the passage of the CLERP 9 reforms. Recent managerial misbehavior like accounting manipulations, self-dealing behavior etc. has drawn much attention towards Corporate Governance. In 2002, Sarbanes Oxley act was adopted in US to enhance corporate responsibility and combat corporate and accounting fraud.

Corporate Governance as defined by the Securities and Exchange Board of India (SEBI) Committee is, the "acceptance by management of the absolute rights of shareholders as the true owners of the corporation. It is about ethical business conduct, commitment to values, and about making a distinction between personal & corporate funds in the management of a company."

Committees on Corporate Governance

Due to the formulation of various laws throughout the world and constitution and formation of various committees the theme of Corporate Governance has got recognition.

In order to give due prominence the Associated Chambers of Commerce and Industry (ASSOCHAM), Confederation of Indian Industry (CII), and the Securities and Exchange Board of India (SEBI) established committees to recommend initiatives in Corporate Governance. Some of the Committees with its formation are given under the following table 1:

Table 1: Committees on Corporate Governance

S. No.	Committee	Country	Year of Submission
1.	Cadbury	England	1992
2.	Greenbury Report	UK	1995
3.	King Committee	South Africa	1994 & 2002
4.	CII	India	1996
5.	Hampel	England	1998
6.	Turnbull Committee	UK	1999
7.	Kumar Mangalam Birla	India	2000
8.	SEBI	India	2000
9.	Sabanes-Oxley Act, 2002	USA	2002
10.	Narayana Murthy	India	2003
11.	Higgs and Smiths Reports	USA	2003
12.	Naresh Chandra Committee,2003	India	2003
13.	OECD Principles,2004	OECD	2004
14.	MCA Voluntary Guidelines on CG	India	2009
15.	Adi Godgej Committee by MCA	India	2012
16.	Companies Act (Rules pertaining to CG	India	2014
17.	CG-Amended Norms by SEBI	India	2014

However in India, the recommendations of the Kumar Mangalam Birla Committee and N. R. Narayana Murthy Committee constituted by SEBI, Naresh Chandra Committee, constituted by Ministry of Corporate Affairs; are more prominent. Also, there are OECD principles and reviews by various other corporate bodies like FICCI, KPMG, ICSI etc. on the CG practices in India.

Corporate governance initiatives in India began in 1998 with the publishing of voluntary code of Corporate Governance by CII and the first formal regulatory framework specifically for corporate governance for the listed companies, established by the SEBI in 2000 followed by recommendations of Kumar Mangalam Birla Committee report.

The key **mandatory recommendations** as given by Narayana Murthy Committee, focus on improving the quality of financial disclosures, including those related to party transactions and proceeds from initial public offerings; strengthening the responsibilities of audit committees; introducing responsibilities on boards to adopt formal codes of conduct; requiring corporate executive boards to assess and disclose business risks in the annual reports of companies; the position of nominee directors; and stock holder approval and improved disclosures relating to compensation paid to non-executive directors.

While**, Non-mandatory recommendations** include instituting a system of training of board members; moving to a regime where corporate financial statements are not qualified and the evaluation of performance of board members.

The **CII** took a first ever institutional initiative on CG in 1996 regarding promotion of transparency within business and industry, the need to move towards international standards in terms of disclosure of information by corporate sector, protection of investors and to develop high level of public confidence in business and industry.

The OECD Principles released in 1999 are one of 12 key standards for international financial stability and form the basis of Corporate Governance. As per revised OECD Principles of 2004, they promote transparency and efficient markets and clearly articulate the division of responsibilities among different regulatory and enforcement authorities, protect and exercise shareholder's rights, promote equitable treatment of all shareholders, encourage active co-operation between corporations and stakeholders in creating wealth and jobs, ensure timely and accurate disclosure on all material matters like financial situation, performance, ownership and governance of the company and ensure strategic guidance of the company and effective monitoring of management by the board.

Clause 49 of the Listing Agreement to the Indian stock exchange has been formulated with the vision of improvement of Corporate Governance in all listed companies, which came into effect from 31 December, 2005.

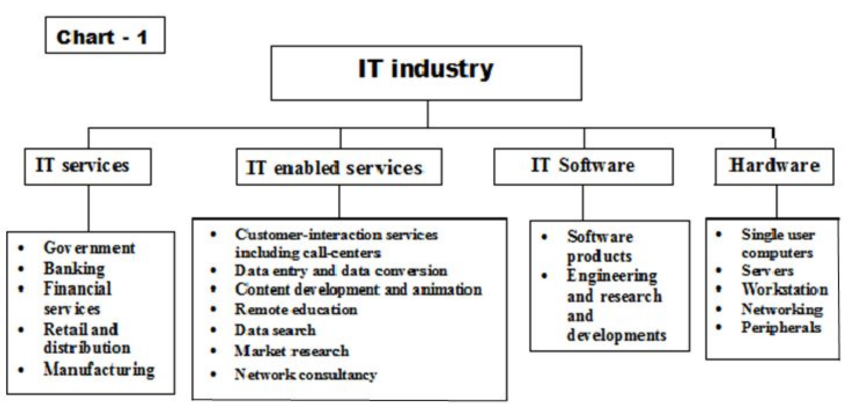
- As per Clause 49, at least 50 per cent of the board should comprise independent directors for a company with an Executive Chairman whereas for a company with a non-executive Chairman, at least one-third of the board should be of independent directors.
- Also, it would be essential for chief executives and chief financial officers to create and sustain internal controls and implement risk mitigation and remediation towards deficiencies in internal controls, among others.
- Clause VI (ii) of Clause 49 necessitates all companies to submit compliance report quarterly to stock exchange in the prescribed form along with a separate section on Corporate Governance.
- It is obligatory for a company to obtain a certificate regarding compliance of conditions as stipulated, either from auditors or practicing company secretaries and annex the same to the director's report.
- The clause also makes the composition of an audit committee mandatory and one of the directors is required to be "financially literate".

Overview of IT Industry

Information Technology (IT), Services such as Software support, computer systems design and data processing facilities are provided by the companies in IT sector. The major companies in IT industry, at global level, include Xerox, Computer Sciences Corporation and the technology consulting arms of Hewlett-Packard and IBM (all based in the US), along with Fujitsu (Japan), Tata Consultancy (India), Cap Gemini (France) and NTT Data (Japan).

India is one of the fastest-growing IT services markets at global level and largest sourcing destination in the world, accounting for approximately 52 per cent of the USD 124-130 billion market. India's cost competitiveness in providing IT services continues to be its USP in the global sourcing market.

According to NASSCOM, the Indian IT-BPM industry is probable to add revenues of USD 13-14 billion to the prevailing revenues by FY15. The industry grew at compound annual growth rate (CAGR) of approximately 13% during FY08-13



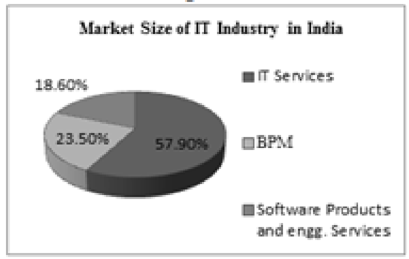


Figure 1

Total exports from the IT-BPM sector (excluding hardware) were estimated approximately USD 75 billion during FY13. The major contributor has been the export of IT services, accounting for 57.9 per cent of total IT exports (excluding hardware) in FY13 whereas BPM accounted for 23.5 per cent of total IT exports during the same financial year. It is expected to see exports of IT outsourcing sector grow by approximately 14% during FY15.

Above that, the sale of personal computers (PC) in India has registered significant growth from 2.03 million units sold during January-June, 2013 to 2.55 million units sold in the corresponding period of 2014.

Also, E-commerce space is expected to grow above 20% over the next 2-3 years in terms of jobs, salaries and growth, which sequentially could create approx. 1.5 lakh jobs in India. Currently, the estimated size of the industry is about Rs. 18,000 crore (USD 2.91 billion) and is anticipated to reach Rs. 50,000 crore (USD 8.08 billion) by 2016.

Key Players in IT Industry in India

- **Tata Consultancy Services (TCS):** TCS started its business in 1968 and was the first software service company of India. It has set its footsteps in global marketplace and is among top 10 technology firms in the world. Currently it is listed on BSE and NSE in India.
- **Wipro:** Wipro Ltd started its business in 1945 as Western India Vegetable Products Ltd at Maharashtra, India. Currently, it is a global information technology, consulting and outsourcing company with approximately 1.5 lakh employees serving across different continents in the world. The company earned revenue of USD 7.3 billion in FY 14. Presently it is listed on BSE, NSE in India and NYSE.
- **Infosys:** INFOSYS was established in 1981 and today it provides consultation and IT services globally. With market capitalization of USD 33 billion and more than 1.5 lakh employees, it has grown leaps and bounds from capital of USD 250 to become USD 8.095 billion company. Along with its listing in BSE and NSE in India, it is also listed in NYSE and is the first IT company from India to be listed on NASDAQ.
- **HCL Technologies Ltd:** HCL Technologies was established in 1991. The enterprise consists of HCL Technologies and HCL Info systems, both listed in India. It is an IT services company which provides services like business process outsourcing, business transformation, infrastructure management and engineering services.
- **Tech Mahindra:** Tech Mahindra was established in 1986 in India and is multinational provider of IT services, business support services and networking technology solutions to the telecommunications industry. It is a part of Mahindra Group and employees approximately 1.8 lakhs of people across number of countries. Currently it is listed on NSE and BSE in India.

- **ITC: ITC Limited** or **ITC** is an Indian corporation which was established in 1910 as Imperial Tobacco Company of India Ltd. which was renamed as Indian Tobacco Company Ltd. in 1970 and further to ITC Ltd. in 2001.

Table 2: Capital Market Financial Data of Companies in IT Industry in India

S. No.	Company	Market Cap (Rs. in Cr.)	Total Assets (Rs. in Cr.)	Gross Revenue (Rs. in Cr.)	Net Profit (PAT) (Rs. in Cr.)	Price Over Book Value	Debt Equity
1.	TCS	3,77,093.72	51,328.28	81812.51	19331.87	11.62	0.0
2.	Infosys	1,73,159.20	44,935.00	50133.00	10,656.00	4.80	0.0
3.	Wipro	1,16,848.58	37,960.20	43,431.70	7,990.90	4.82	0.2
4.	HCL Tech.	75,941.57	21,555.32	32,143.66	6,507.76	7.42	0.1
5.	Tech Mahindra	30,957.83	11,708.80	18,831.40	3,062.40	7.22	0.1
6.	ITC	2,69,517.60	27,856.89	49579.66	8990.62	10.7	0.0

Table 3: Corporate Governance Practices in Companies in IT Industry in India

Sr. No.	PARAMETER	TCS	INFOSYS	WIPRO	HCL-TECHNOLOGIES	TECH MAHINDRA	ITC
1.	Board of directors (no.)	11	13	13	11	10	14
2.	No Independent directors (no.)	6	7	10	7	5	7
	a) Proportion (%age)	54.55	53.84	76.90	63.63	50	50
3.	Board meeting (annual) (no.)	7	7	4	7	N/A	6
4.	Grievance committee meetings (no.)	1	4	4	N/A	2	37
5.	Shareholding pattern : (%age) a) Public	3.93	42.67	1.93	2.54	17.47	10.55
	b) Promoter	73.90	15.90	73.40	61.50	36	0
	c) FII(Foreign institution investor)	16.11	11.93	10.13	28.85	39	19.48
6.	CGR in annual report (pages) (no.)	13/192	11/130	29/236	25/178	14/200	14/240
	a)Proportion (%age)	6.77	8.46	12.28	14.04	7	5.83
7.	Compensation policy	N/A	Yes in CGR	Yes but not in CGR	N/A	Yes	N/A
8.	Voting rights of Shareholders	N/A	Yes	Yes	Yes	N/A	Yes
9.	Risk Management Committee /Framework	Yes	Yes	No	Yes	Yes	Yes
	a) Meetings(no.)	5	4	N/A	N/A	N/A	N/A
10.	Transparency	Yes	Yes	Yes	Yes	Yes	Yes
11.	Vision & Mission in CGR (vice versa)	Yes	Yes/No	No	No	N/A	No
12.	No. Of subsidiaries (no.)	64	78	64	62	42	27
13.	Revenue (Cr.)	83446.10	52797	45340.20	25948.29	19064.4	36400.77
14.	Profit (Cr.)	25401.79	14728	10114.30	5269.89	3814.70	13051.55
15.	Net Profit (Cr.)	19,331.87	10656	7990.90	4044.58	3062.40	8990.62
16.	Dividend given	6267.33	3618	1959.50	835.06	467.00	4771.91
	a) Proportion	32.41%	33.95%	24.5%	20.64%	15.24 %	53.07 %

Result Analysis

On the parameter of Independent Directors under CG Practice it was found that all the companies are fulfilling the clause of having at least 1/3 Independent Directors in the Board whereas out of 6 companies, Wipro has maximum percentage of Independent directors i.e. 77% which shows its transparency in CG Practices whereas ITC has minimum number of Independent Directors. Normally the company having more Independent Directors will be taking care of all the stakeholders and will have transparency in Corporate Governance. Looking on to the parameter of Board meetings, Minimum 4 meetings are compulsory and there should not be gap of more than 120 days between two consecutive meetings. As per the observations, 3 companies out of 6 had maximum number of meetings i.e. 7 whereas Wipro is just fulfilling the clause of having 4 meetings while Tech-Mahindra didn't even bother to mention about the meetings held.

The next parameter is Grievance committee meetings, which is needed to be mentioned in CG report. All the companies have mentioned about Grievance committee meetings except HCL-Technologies. Highest no. of meetings was held in ITC and lowest in TCS. Number of Grievance committee meetings shows the concern of the Board towards the problems of the employees. The next parameter is the proportion of number of pages of CG Report in Annual Report which shows the importance paid to Corporate Governance by the company. HCL-Tech has maximum proportion of pages of CG report in annual report whereas ITC has the lowest proportion. Looking forward to the next parameter of Transparency, all the companies have transparency in their annual reports. The next parameter is Risk management committee. All the companies have formed the committee except Wipro. TCS and Infosys have even mentioned about the Risk management committee meetings.

The other important parameter is Shareholding pattern. The paper focuses on 3 major shareholders that affect the market position of the company i.e. Public, Promoter and FII. As per SEBI guidelines maximum percentage of promoter holding will be 75%. Out of all 6 companies maximum percentage of shares with promoters is seen in TCS (73.90%) followed by Wipro (73.40%) and the HCL-Tech (61.50%) whereas low percentage of promoter holding is seen in Tech-Mahindra (36%) and Infosys (15.90%) while ITC has 0% promoter holdings indicating no clear promoter groups and thus no one in particular exercises significant influence in decision making. Large institution holdings indicate the confidence of seasoned investors in future prospects of the company. Tech-Mahindra has highest FII holding of 39% whereas Wipro has the lowest i.e. 10.13%. The next parameter is Compensation Policy. Out of 6 companies, only 3 companies paid emphasis on Compensation policy which is Infosys, Wipro and Tech-Mahindra. Emphasis on compensation policy depicts transparency in a company.

When efforts are made to establish the relationship between the comparable better corporate governance polices practice and financial performance, it is found that the IT companies are in the following ranking: TCS, INFOSYS, ITC, HCL-Tech, WIPRO and TECH-Mahindra.

CONCLUSIONS

A good system of governance allows the board of directors, shareholders and the top management team to track with one another in order to make company sustainable in long term. An organization need to have a board of directors who work well together, make right decisions and know what to do and that what makes good Corporate Governance. The directors should have adequate skills, know about financial condition and should understand their role. They should be aware of all the possible risks and should value the rights of all the stakeholders.

The long term objective of the company or the vision of the company should be clear to major stakeholders of the corporation. A good system of governance has to create a framework with some goals and objectives to which all the stakeholders must agree. The company should have an integrated vision which means that both the objectives of board of directors and the top management team and shareholders should align one way or the other so as to develop some mechanisms, design a compensation system and control system for the company that could maintain transparency in the governance. The people governing a company at the top management should not only take into account their preferences, but also the objectives agreed with the board of directors announced that the board of directors have taken into account the expectations of shareholders; then only there is good and transparent governance in the company.

Further, it is also concluded that financial firm performance and right corporate governance practice are highly correlated. The corporate governance practice does affect the firm financial performance.

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