Corporate Governance in IT Sector: A Comprehensive Study

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Abstract:

The most important factor in economic growth of an organization and development of economy is ensuring effective governance. The distinction between ownership and management is what drives the need for corporate governance. With a strong governance framework in place, resources can be put to use effectively and efficiently. Thus, corporate governance promotes efficient use of scarce resources and achieves the dual objective of streamlined process marking and wealth creation. Corporates enable pooling of resources and putting them to requisite use. These resources pooled by the corporates flow into those sectors or businesses where there is a well-managed production/ supply of goods & services wherefrom the return generated is sufficient to meet the needs of the investors. In this day and age, technology is the driving force of an economy. The pandemic has increased the pace of technology adoption across the globe as companies and their clients are moving to a digital environment. Even industries that were traditionally not IT-driven or had little dependence on IT are now adapting their businesses to the new normal as they too are feeling the need for more agile digital solutions. It is difficult to exaggerate the importance of information technology in today's business environment. No matter what industry a company belongs to, its lifeblood in today's economy is the information that makes it possible for it to conduct business. IT services and therefore IT companies are an essential element of any economy. The IT sector in India has played an important role in allowing India to achieve global presence. Good governance of the IT sector is therefore crucial since it has far reaching socio-economic impacts and is a critical element to the preserve growth and development of the economy as a whole. The purpose of the current study is to evaluate the effectiveness of corporate governance practices in the Indian IT sector. The paper consists of both aspects, namely, to study relevant literature and to study ideas from those employed in IT Sector.

Keywords: Corporate Governance, Information Technology (IT) Sector, Shareholders, Stakeholders

Introduction

Corporate governance has gained importance largely due to the emergence of economic reforms that are characterized by independence and separation of control & ownership. According to the Organization for Economic Co-operation and Development (OECD) policy, Corporate Governance involves a set of relationships between the company's management, its board, its shareholders, and other stakeholders. Corporate Governance also provides a framework in which company objectives are set, and mechanisms for achieving those objectives and monitoring performance are determined. Current business management practices of good governance were set in 1992 with the Cadbury Committee report being released by the committee on the financial aspects of Corporate Governance in the England. The committee was set up since the sponsor i.e. London Stock Exchange were concerned about the the seeming low level of confidence both in financial reporting and in the ability of auditors to provide the safeguards which the users of company reports expected. The low confidence was a result of the collapse of many high-profile companies and sponsors were thus deeply concerned about protecting unempowered and scattered shareholders from self-interested directors and managers. Corporate Governance germinated & took roots in India under the statesmanship of Confederation of Indian Industry (CII). In December 1995, the CII formed a coalition to form a voluntary code of corporate governance. The final draft of this code was widely distributed in 1997 for consultation and comments. In April 1998, this code was released as recommendations called "Desirable Corporate Governance: A Code"

Meaning of Corporate Governance

Corporate Governance comprises of the mechanisms, structures and overarching frameworks through which the corporate machineries are controlled and directed. Corporate Governance is a combination of rules or procedures which allow the business to achieve an equilibrium on the aspects of investors' wealth maximization and ratio of risk & reward. The term encompasses internal and external factors that affect the interests of the company's stakeholders including its shareholders, customers, regulators, Government, suppliers and society in which it operates. The

Board of Directors is tasked with developing a corporate governance framework that allows a best fit of business ethics and objectives. Ethics and transparency are the cardinal principles of corporate governance. Business management involves a system in which regulatory institutions and all other organizations interact with their communities and stakeholders to improve their lives (ATO, 2002). Proper business management is therefore important to ensure transparency, accountability and impartiality in corporate reporting. In this regard of business management, corporate governance is not only concerned with corporate performance, but also about company's strategies and the development over the life cycle (Mayer, 2007). Consideration is also given to ways in which interest-seeking ensure that management and other insiders use a stakeholder protection strategy (Ahmadu and Tukur, 2005). Corporate governance depends on the level of culpability of the companies in terms of accountability, transparency and ethical standards.

Corporate governance in IT sector

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 IBM, Microsoft, Oracle, Accenture, HP, TCS, Capgemini, etc. India is one of the fastest-growing IT services markets at global level and largest sourcing destination in the world, accounting for approximately 55% market share of the USD 200-250 Billion global services sourcing business in 2019-20 as per IBEF data. India's cost competitiveness in providing IT services continues to be its USP in the global sourcing market. The IT sector has catalysed the transformation of India from an agrarian economy to knowledge-based economy. The business management function in IT sector in India & globally is peculiar and different from other organizations. Among management of the IT sector, it is noteworthy that what is also important is IT governance- The IT Governance Institute (ITGI) formed by ISACA, a global body of information security professionals, in 1998 defines IT governance as the board's ability to direct and control the enterprise's use of IT resources in line with strategic goals. It is a highly comprehensive definition which launches the link between IT resources and entity's strategic ends. Prodding complexities of business model and service offerings make their functions not easy to understand. Therefore, current business functions, recently explored arenas and future plans are difficult for shareholders and lenders to understand & monitor. Economically, the situation becomes more solemn when a large part of the share capital is privately held. The interest in IT sector management is higher due to the ongoing need for the organizations to focus on fundraising efforts to meet with the objectives and to better manage the performance of those responsible for building this value for the benefit of all stakeholders. While most of the major IT sector companies are listed, it is a given that those are in compliance with SEBI’s listing agreement (clause 49) and hence disclosure norms are being followed. However, the question to ask is what do the companies do to create confidence among the investors and what are the factors that the stakeholders expect from the IT companies.

Review of literature

Nishant Sharma (2015) Corporate governance is defined as the various policies adopted by the Board of Directors or those actually managing companies to manage their own affairs or provide direction to the organization. Corporate governance issues can arise from any type of industry or parts of business organization even though India has recently seen the biggest scandal in its corporate history - the end of Satyam Computers Software Limited. India's IT sector is one of the world's leading sectors not only in terms of size and intensity but also in the future of the world. TCS, HCL, Wipro, Infosys, and Tech-Mahindra. A study of these five companies will help us gain management power in the Indian IT sector. There is no doubt that corporate governance has come a long way in its journey and in the case of the IT sector there are strong corporate governance practices in each selected company that is consistent with almost every selected variance. But this does not mean that the level of co-management is too high. This is because all of these changes have been very appealing to Satellite Computers as well as the company despite the result of major corporate governance failures. It is not always possible to see the company's internal performance. As an investor, stakeholder or as a researcher we can only rely on the information that is made public but there is no certainty as to how 100% of the information is accurate. We can say that there are strong and prudent governance practices in the IT sector and this may be the reason why Indian IT companies are leading the world in local trade despite fierce competition.

Satish K Mittal (2015) A good governance system allows the board of directors, shareholders and the senior management team to follow through to keep the company afloat. The organization needs to have a board of directors who work well together, make the right decisions and know what to do and what makes good corporate governance. Directors must be competent, financially sound and must understand their role. They should be aware of all potential risks and should appreciate the rights of all stakeholders. The government is trying to get Indian firms to follow proper corporate governance principles as a practice for long-term business growth. One needs to study the practice of Corporate Governance in the form of various programs and parameters in the IT industry in India as this industry is one of the most developing industries in India & is a leading industry in global markets. Companies in the IT sector value and use corporate governance and adhere to the various categories of corporate governance in a separate manner and keep things transparent in their administration and all mandatory policies are followed and non-mandatory procedures are performed to some extent. These days Corporates talk about commitment of business community to all stakeholders & that they follow the right governance process but it is important to study what the real situation is.

Objectives of the Study:

1. To study the current status of corporate Governance in IT sector
2. To review the existing literature of Corporate Governance in IT sector

Hypotheses of the Study:

H_o -The percentage of respondents having positive perception towards Corporate Governance in IT sector is 50%

H_1- The percentage of respondents having positive perception towards Corporate Governance in IT sector is more than 50%

Research Methodology of the Study:

As far as perception for Corporate Governance in IT sector is concerned, following factors are taken into consideration, namely, division of responsibilities, working matrix and practices, risk identification, monitoring and controlling, Internal audit and compliances, Disclosure and transparency, etc.

The methods used are

1. Observation: Naturalistic method of observation to enable the study of the participants in their environment.
2. Survey Method: In this method the participants answer questions administered through interviews & questionnaire.
3. The secondary data was collected from various articles, research papers from websites, journals and books.

Research Area

Researchers has selected employees of the IT sector from Mumbai. Sample size of 150 IT sector personnel has been reckoned under study. Researcher collects data through Primary and Secondary sources. Researcher distributed 150 questionnaires among the respondents.

Data Analysis

In research study theoretical framework has several variables of interest and one has to reach to sample size by considering all the factors of the study. Researcher prepared & distributed the questionnaire among the respondents & on receipt of completed questionnaire, researcher analysed the questionnaire.

Table No 1
Information of questionnaire

Sr. No	Questionnaires distributed	Questionnaire received	Questionnaires rejected (due to incomplete, wrongly filled etc)	Net Sample size for study
1	150	147	3	144

Testing of Hypothesis

H_0: The percentage of respondents having positive perception towards Corporate Governance in IT sector is 50% i.e. Perception that IT sector companies do not follow Corporate Governance.

H_1: The percentage of respondents having positive perception towards Corporate Governance in IT sector is more than 50% i.e. Perception that IT sector companies do follow Corporate Governance.

Mathematically,

$$H_0: p=0.5$$
$$\text{vs}$$
$$H_1: p\neq 0.5$$

Sr No	Aspects	Proportion of respondents who stated the aspects as very important or important	S.D.	Z Cal	p_Value	Decision
1	**Risk identification, monitoring and controlling**	0.89	0.03	14.96	0.0000	**Reject H_0**
2	**Responsibilities**	0.85	0.03	11.76	0.0000	**Reject H_0**
3	**Working structure and practices**	0.81	0.03	9.48	0.0000	**Reject H_0**
4	**Internal audit and compliances**	0.77	0.04	7.70	0.0000	**Reject H_0**
5	**Disclosure and transparency**	0.72	0.04	5.88	0.0000	**Reject H_0**

Here, the confidence interval is considered at 95% i.e. level of significance is 0.05.

Thus, the null hypothesis, that the percentage of respondents having positive perception towards Corporate Governance in IT sector is 50% is rejected. Alternatively, we accept our alternative hypothesis that percentage of respondents having positive perception towards Corporate Governance in IT sector is more than 50%.

Findings

1. The most vital factor from the respondents' perception is, **'Risk identification, monitoring and controlling'** which signifies the existing of corporate governance in the company.
2. Another important issue that the analysis has revealed is that the respondents are either confused or not fully convinced about the aspect of **'Disclosure and transparency'** despite the general perception that there is good implementation of Corporate Governance.

Conclusion

Corporate Governance has become increasingly important for all organizations. Companies which do not have a management strategy face greater risk and those which do. While the best practice for corporate governance vary from country to country, fundamentally these are: accountability, impartiality, openness and transparency. Studies reviewed in this paper have focused on the effects of corporate governance practices in IT sector and it is found that 'disclosure & transparency' is broad gig where every stakeholder has different expectations while broadly everyone expects the company to review and monitor risks. It is suggested that corporate governance should be further applied through policies, effective internal control system, better customer service and sufficient automation to achieve transparency, efficiency and increasing stakeholder wealth. Stakeholder confidence is the foundation stone on which the corporate sector thrives; corporate governance needs to be therefore strengthened in substance and not just in its form, to protect the integrity of corporate sector and retain stakeholder confidence – IT sector is no exception.

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