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Influence Of Various Corporate Governance Practices On Corporate Performance - A Study With Respect To Information Technology Industry

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Abstract
The present study on corporate governance deals with the rules, practices, and processes by which a company is directed and controlled. It comprehends the relationships among a company's board of directors, management, shareholders, and other stakeholders. This study was conducted among the managerial cadre employees of the organizations where they follow corporate governance practices. With 396 samples, identified through systematic random sampling method from the information technology companies situated in Chennai and Bangaluru, the study is conducted with the help of a well-structured questionnaire. Result of the study show that the independent variables taken for the study transparency and disclosure compliances, board composition, independence and governance, employee involvement, ethical behavior, sustainability initiative, utilization of IT, effective board and CEO operations, and executive remunerations significantly and positively influence dependent variable corporate performance individually.

Keywords: *Corporate Governance, Executive Remuneration, Corporate Governance Practices, Sustainability initiative, Ethical behavior, Corporate Performance.*

INTRODUCTION

Corporate Governance (herein abbreviated as CG) has been discussed under different context which may be Law, Account[1]ancy, Finance or Management. Such conceptual and contextual definitions about CG are restricted to the purposes based on which they have been propagated. However, authors describing CG from regulatory perspective have come out with much comprehensive meaning about the concept of CG. CG has been defined by Nandini and Zhang (2009) as "the act of externally directing, controlling and evaluating a corporation" while Jill (2007) describes CG as "The act of externally directing, controlling and evaluating an entity, process or resource". CG includes implied and express agreement binding the firm and its stakeholders for fairly distributing incentives, rights and obligations; Recognizing stakeholders' contradictory interests in the backdrop of their rights, obligations and responsibilities, and Mechanism for effectively supervising, communicating and controlling to ensure that irregularities are promptly identified and rectified.

Principles of CG have been enumerated through three major documents tabled after the 1990s. The British-based 1992 Cadbury Report, OECD (1999, 2004 and 2015) and the American 2002 Sardanes-Oxley Act engulfs the generally accepted principles of CG. Firms have to execute their business operations keeping in mind, these principles if they aspire to function as "businesses with good governance". The principles are Fair and unbiased Handling of Shareholders, Interests of other stakeholders, Responsibilities of the board,

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Integrity and ethical behavior, Disclosure and transparency, Principal-Agent Conflict, Principal-Principal Conflict, and Corporate Accountability.

Indian Companies Act of 1956 was in force for almost two-third of century. It was replaced by the 2013 Companies Act which has given extensive stress on CG norms to be complied by business firms. In addition, the Companies Rules of 2014 issued by the Ministry of Corporate Affairs and the Securities Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 have also laid down rules and regulations to be followed by firms in respect of CG.

The guidelines prescribed by SEBI for corporate governance are Composition of Board of Directors, Appointment of Independent Directors, Training of Independent Directors, Attending Meetings, Meeting of Independent Directors, Appraisal of Independent Directors' performance, Notice of Board Meetings, Filling-up of Board Vacancies, Audit Committee, Nomination and Remuneration Committee, Stakeholders Relationship Committee, Whistle Blower Mechanism, Related Parties Transactions, Subsidiary Companies, Disclosures in Website, and Compliance Reports.

REVIEW OF LITERATURE

The British East India Company is the first publically listed corporate entity in the world. During the 17th century, stockholders and managerial personnel of the company accorded serious attention to CG issues (David et at., 2016; Midanek, 2018). Furthermore, the 17th century witnessed the popularization of "Shareholder Activism" in the Dutch Republic (Hansmann & Pargendler, 2014). Durnev and Kim (2005) have put forth an interesting argument that business entities having good access to financial resources and utilising external sources of finance have better inclination towards implementing good CG practices. Beiner et al. (2006) have also indicated that implementation of good CG practices results in better firm value. They have revealed that a one percentage increase in CG implementation by a firm would result in a 12% hike in its net worth. Beiner et al. (2006) also exposed that good CG implementation by Chinese firms resulted in higher market value for them. Brown and Caylor (2004) also revealed that good CG compliance by firms augmented their performance and dividend for stockholders.

Ramachandran (2007) stressed that strict governmental regulations are indispensable for governing Fes as they are controlled by few persons. A cordial relationship between managerial personnel belonging and not belonging to the family results in constructive discussions which can better the performance of the firms. Colarossi (2008) studied 121 Italian Fes and found that small-sized Fes operated well in consistency with CG norms. Haslindar and Fazilah (2011) unearthed that Italian and Malaysian Fes respectively earned better returns on equity while their market value is lesser than the firms without family ownership. Hashim and Susela (2009) also found that Malaysian Fes during 2004 witnessed better profitability due to decreased agency cost. Brenes et al. (2009) surveyed 22 Fes managed partially by outside managerial personnel as well as family members and found that both outsiders and family members complement themselves well and this resulted in better profits for the enterprise.

However, Saravanan and Mayur (2017) studied 771 Indian firms listed in Bombay Stock Exchange during the five-year period of 2001-05 and found that family ownership in business enterprises failed to exert any substantial impact on their market value. Renato Giovannini et al. (2017) studied 56 Italian Fes listed in "Milan Stock Exchange" during 1999-2005 and found that external control of firms improves their performance.

RESEARCH GAP

Extensive publications have been made on evolution of CG, implications of CG and the impact of Different CG Parameters such as board size, board composition and diversity, AC, Duality of CEO and remuneration to executives on Firm's financial and market Performance. Studies on CG regulations and compliance and the implications of such adherence on performance of firms have been conducted and published in renowned Indian and foreign journals. However, all studies exploring the impact of CG parameters on firm performance have yielded mixed and inconsistent results. Further, all studies exploring the impact of CG parameters have been conducted using secondary data. Hence, there is a gap in the literature to explore the implications of CG implementation on firm performance through survey method to tide over the limitations associated with studies conducted using secondary data. This research tries to exactly fill this gap by exploring the extent of compliance of IT firms to different CG norms by conducting an extensive survey and assess the impact of such compliance on their performance.

STATEMENT OF THE PROBLEM

Despite presence of numerous statutory regulations, business firms are reluctant to comply with CG norms (Brenes et al., 2011). They have not constituted the necessary committees on Stakeholders relations, Auditing, Administration and Remuneration. They have not strictly complied to the regulations on appointing independent and functional directors in their board and filling vacancies of such directors within the mandatory period. Regarding transparency and disclosure compliance, Faccio et al. (2001) have pointed out that performance of the board largely depend on how transparent operations of the firms are and how well these enterprises are regulated by the laws. Succession plan is another issue that is related with corporate governance. Sometimes, a poor succession plan may result in discontinuity of the business as well as ruining of relationships within the families (Brenes & Madrigal, 2003).

NEED FOR THE STUDY

Many rules and regulations have been framed and implemented through various legislations to enforce corporate execute their social responsibility toward stakeholders. Firms are required to constitute different committees to ensure that their business is carried out in the most fair manner. However, it is a reality that corporate are reluctant to incorporate these good practices in their routine business despite the favourable consequences of CG execution. Adherence of CG results in the protection of management interest. It also safeguards interests of stockholders. CG adherence also triggers better economic growth of the country. Firms having good CG compliance record commands better loyalty and buoyancy of stockholders. Complying to CG norms such as sufficient independent directors in board instills confidence of investors which makes the firm’s stock popular in the financial market, thus boosting the firm’s value. In addition, the firm is capacitated to raise finance easily which will diminish its cost of capital. Further, CG compliance is looked upon as an important criteria by foreign investors. Hence, firms with good CG record can attract heavy foreign capital either as FII or FDI which is also good for boosting the economic growth of the nation. CG also strengthens the reliability of financial markets as unfair trade practices such as insider trading is eliminated. CG also inspires management to arrive at business decisions which will benefit all stakeholders and not exploit anybody. CG compliance importantly diminishes corruption, misconduct and negligence, risk and unnecessary wasting of resources. Firms with good CG record command good brand value in domestic and foreign markets. Adherence to good principles of self-control and self-regulation boosts stockholders value.

To add to these intrinsic and extrinsic benefits, studies have revealed that CG adherence by firms augments their financial performance and efficiency. Despite penalty provisions for failing to constitute various committees, many PSUs owned by government have not implemented these regulations. It will be interesting to find out the extent of implementation of the CG regulations by private corporates. This research has made an attempt to study these issues.

OBJECTIVE OF THE STUDY

Based on the above discussions, the objective framed for the present study is to analyze the influence of various corporate governance practices on corporate performance.

RESEARCH METHODOLOGY

The present study falls under the category of "Descriptive studies" as the nature of the problem is to determine the relationship among the different variables (Kothari, 2012). The research endeavour to take stock of the CG practices followed by companies surveyed and the existence of different committees to facilitate implementation of such practices. It includes Compliance of Transparency and Disclosure norms, conduct of general body meetings, Board Composition, functioning of board, performance appraisal of directors, Independence and expertise of directors, Criteria for Including Directors in Board and Governance practices of the board, employee Involvement in CSR Activities and Ethical Behaviour, sustainability initiatives of the companies, Utilisation of IT for E-Governance, Effectiveness of Board and CEO Operations, fixation of executive remuneration and Corporate Performance of the Company. Top level managerial personnels of IT companies located in the two cities of Chennai and Bengaluru constitute be the study population for this research. The two cities of Chennai and Bengaluru, considered as IT hub, has been selected as the sample frame for this research.

According to Krejcie and Morgan (1970), the desirable sample size for research involving study population of upto one million is 384 as the population of the study is unknown. Cochran's formula also suggests the same value for the unknown population, which comes to 384. In order to reduce the error rate an additional 10 percent of the sample is added with the 384 which result in 423 Considering this as the yardstick, the researcher approached 423 managerial personnel of IT companies in Chennai and Bengaluru. Researcher got permission from select companies and approached the HR manager and sought permission to carry out the research. Few companies denied permission while others accepted and permitted the researcher with the condition not to disturb the employees during the working hours. Researcher personally met the managers and obtaining their response. The respondents were given time to fill the questionnaire and return it back. The researcher again visited the personnel to get back the filled questionnaires. 414 managerial personnel returned the filled in questionnaires. After cleaning the data 18 questionnaire are found to be improperly filled and hence, they are discarded from the study.

Therefore, the final sample size got settled to 396, which satisfies the yardstick propagated by Krejcie and Morgan (1970). Purposive Sampling Technique was employed to select the desirable sample units for the research. The questionnaire was administered personally to top level managerial personnel of IT companies and the data so collected were suitably codified and analysed and interpreted to arrive at solutions for the research problems by testing the hypotheses. The Cronbach alpha coefficient values are found to be more than acceptable level of 0.7 as mentioned by Nunnally (1978), which shows that the items have relatively high internal consistency. Statistical analysis software of SPSS (Statistical Package for Social Science) has been used to analyze the data with the tools like descriptive statistics, and regression analysis.

ANALYSIS AND INTERPRETATION

Table: Regression – Influence of Study Variables on Corporate Performance

Model Summary					
Model	R	R Square	Adjusted R Square	F	Sig.
1	.812[a]	.660	.653	93.963	.000
a. Predictors: (Constant), Executive Remuneration, Transparency and Disclosure Compliance, Ethical Behaviour of employees, Employee Involvement, Effective Board and CEO Operations, Board Composition, Independence and Governance, Sustainability Initiative, Utilisation of IT for e-Governance					

Coefficients[a]				
Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
1	(Constant)	1.641	.271		6.053	.000
	Transparency and Disclosure Compliance	.467	.049	.191	9.481	.000
	Board Composition, Independence and Governance	.224	.021	.196	10.513	.000
	Employee Involvement	.128	.018	.145	7.009	.000
	Ethical Behaviour of employees	.602	.014	.811	41.957	.000
	Sustainability Initiative	.009	.010	.012	.924	.356
	Utilisation of IT for e-Governance	.089	.015	.126	5.971	.000
	Effective Board and CEO Operations	.073	.012	.095	6.051	.000
	Executive Remuneration	.033	.022	.033	2.446	.045
a. Dependent Variable: Corporate Performance						

Table shows the regression analysis for corporate performance as dependent variables and Transparency and Disclosure Compliance, Ethical Behaviour of employees, Employee Involvement, Effective Board and CEO Operations, Board Composition, Independence and Governance, Sustainability Initiative, executive remuneration, and Utilisation of IT for e-Governance are considered as independent variable. As far as corporate performance is concerned, in order to find out the influence of various study variables regression analysis was performed by considering corporate performance as dependent variable and the results are given in the above table.

Table represents the results of multiple regressions where the value of co-efficient of regression determination (R^2) is 0.660 which implies that 66.0 percent of the variation on the corporate performance is explained by the independent variable. To check whether this R^2 is statistically significant, ANOVA is performed. The F value obtained is 93.963 ($p < 0.001$) and hence it is ascertained that there is significant relationship between dependent and independent variables. It is concluded from the regression result that transparency and disclosure compliance ($t = 13.718$; $p < 0.001$), Board Composition, Independence and Governance ($t = 13.718$; $p < 0.001$),, employee involvement ($t = 13.718$; $p < 0.001$), ethical behaviour of employees ($t = 13.718$; $p < 0.001$), utilization of IT for e-Governance ($t = 13.718$; $p < 0.001$), effective board and CEO operations ($t = 13.718$; $p < 0.001$), and executive remuneration ($t = 13.718$; $p < 0.001$), significantly influence corporate performance. However, sustainability initiative does not significantly influence corporate performance ($t = 0.924$; $p = 0.356$).

Among the significant variables, ethical behavior of employees is rated as the first and foremost variable that influence corporate performance. The next variable that influence corporate performance is board composition, independence and governance, which is followed by transparency and disclosure compliance, employee involvement, effective board and CEO operations. The result shows that when all the variables increase, then the corporate performance will also be increased.

RESULT AND DISCUSSION

It is found from the result that ethical behavior of employees is rated as the first and foremost variable that influence corporate performance. The next variable that influences corporate performance is board composition, independence and governance, which is followed by transparency and disclosure compliance, employee involvement, and effective board and CEO operations. Sustainability initiative does not significantly influence corporate performance.

Transparency and disclosure compliance significantly influence corporate performance. Hence, it is suggested that the board should disclose and make transparent corporate governance policies and structures, by doing so, the company gives stakeholders, the regulators and the public at large a glimpse of how the company operates and the state of its finances. This will also increase public trust in the organizations and improves its credibility.

Result indicate that employee involvement significantly influence corporate performance. Hence, it is recommended that the board should encourage transparency and rapid flow of open communication and ideas between employees and executives, invite their employees to participate in business planning and decision making sessions, giving proper recognition to its employees, and focusing on their wellbeing.

As ethical behaviour significantly influences corporate performance, it is put forth that management should cultivate the culture of following ethical standards in their organizations like obeying company’s rule, effective communication, taking responsibility, accountability, professionalism, trust and mutual respect for colleagues at work, etc. Training and regular practice of following ethical standards will ease the process of creating a culture of ethical behaviour among the employees.

Finding confirms that utilization of IT for e-Governance significantly influence corporate performance individually. Therefore, it is suggested that information and communication technology tools have to be utilized in the Governance process particularly in the domains like value diversity, strategic alignment, performance management, resource management and risk management. Utilization of IT in these domains will enhance the corporate performance.

Result reveals that effective board and CEO operations significantly influence corporate performance. Hence, it is acclaimed that the board and CEO cooperate to promote the best interests of the company to reach improved corporate performance. The CEO manages the company’s executive team and pursues goals that are meant to drive the company forward, while the board sets those goals and gives counsel to the CEO. The CEO should make clarity that setting expectations about the relationship to ensure the board is a supportive force, developing transparency with the board of directors, and establishing clear avenues of communication which fosters a sense of engagement and can minimize ambiguity.

As, executive remuneration significantly influence corporate performance, it is recommended that compensation to executives has to be given fairly. Compensation should be a reward-based payment structure that firms use to incentivize executives. It has to be given as addition to their base salary, but not depend on performance. In some organizations, executive compensation is specifically designed for business leaders, senior management and executive-level employees of a company, which includes salaries, perks, inceptives, insurances, etc.

CONCLUSION

The present study on corporate governance deals with the rules, practices, and processes by which a company is directed and controlled. It comprehends the relationships among a company's board of directors, management, shareholders, and other stakeholders. Result of the study show that the independent variables taken for the study transparency and disclosure compliances, board composition, independence and governance, employee involvement, ethical behavior, sustainability initiative, utilization of IT, effective board and CEO operations, and executive remunerations significantly and positively influence dependent variable corporate performance individually. If companies properly practice the dimensions of corporate governance and educate its employees to have good ethical standards and involvement and also utilizing information technology in the governance process, then there is no doubt in the enhancement of corporate performance level.

Adopting foreign standards in corporate governance will also assists Indian companies to have a good governance practice at par with international standards.

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