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THE IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE IN INDIAN IT FIRMS

Dr. Prathima V
Associate Professor and HOD, Dept. of Commerce & Management,Vidya Vikas Institute of Engineering and Technology,Mysore ,Karnataka, India.

Abstract
The goal of this research is to see how corporate governance, as measured by board performance, affects the financial performance of a few Indian IT companies. The purpose of this study is to see if there is a link between the board committee (BC) and the board composition (COB) and the ROA and ROCE of the selected IT businesses. Currently, India's corporate governance reforms are at a fork in the road, and while the intentions behind the changes are admirable, there is a need to find a comprehensive solution that addresses country-specific issues in the Indian context. In order to keep up with international advancements, India implemented measures to improve corporate, social, and environmental disclosures. Following corporate governance practices has improved significantly in all of the sectors studied as a result of the reforms. The study, which is backed up by a significant body of literature, clearly shows that the importance of the board cannot be overlooked. The board's activities should be closely monitored and regulated. The corporation should not aim to keep the board size the same only to comply with the legislation; instead, the board should have the correct number of competent executive and independent directors who can actively perform their roles. Governance ratings have a favorable and considerable impact on firm financial success, according to our findings. However, like any other research, the current study has limitations that should be taken into account when using the findings, and future researchers should try to address these constraints. The relationship between corporate governance and company performance in Indian listed IT companies is investigated in this article. The variables of board independence and board diversity of corporate governance, as well as return on assets (ROA) as a measure of business success, are included in the study. For this study, panel data from Indian IT companies was used.

Keywords: IT companies, Return on Assets, Corporate Governance.

Introduction
After the Satyam fraud, the issue of corporate governance has become a hot topic in India. The set of structures, rules, and processes that govern a firm are referred to as corporate governance. “The mechanism by which firms are directed and controlled,” according to corporate governance. It covers the regulatory framework as well as management's, the board of directors', shareholders', and stakeholders' roles and obligations. Companies, like artificial humans, are unable to do or do things or actions independently. The board of directors is the first permitted and responsible person for lifting the corporate veil. Any company's board of directors (BOD) can be viewed as a critical component in the mechanism and control of corporate activity [1]. The BOD is made up of two types of people: outside and inner directors. Some experts and institutional investors believe that outside or independent directors, who are not employees of the firm, are the most important corporate governance contraption for monitoring managers. Corporate governance has created a lot of room and rules for the board of directors. The board of directors has received significant attention and importance from regulatory organizations all across the world. Even without instilling corporate governance norms of conduct in their organization, the corporation can make a profit. However, in order to run a corporation with multiple stakeholders, strong standards of corporate governance are essential, which the stakeholders

may rely on. Good corporate governance entails a more efficient deployment of corporate resources by the firm, resulting in improved firm performance. Suppliers and employees will want to be affiliated with such a company and will want to retain a longer connection with them if their system is fair and transparent, and investors will be more interested in investing in these companies. Two crucial corporate governance variables, board independence and board diversity, are the focus of this research. The impact of board independence and diversity on business success is examined in this study. If a board is made up of the "right individuals" and has "the proper chairman," it will work efficiently. Furthermore, the board should be supported by the company's management, external auditors, and other employees having the "correct" mindset and approach. Comparisons of male and female board members have an impact on the board's performance.

Every entity differs from the others in terms of its characteristics. As a result, corporate governance codes must be updated and converged from entity to entity in order to have the same effect. In a country like India, where the economy is still developing, things will become more challenging. However, SEBI has done an excellent job in developing Clause 49 of the listing agreement for listed businesses, which states that the listed company must meet the requirements stated. Many major BOD norms are also included in the Indian Companies Act 2017 revisions.

The primary goal of any type of business is to maximize profit while also increasing the wealth of all of its stakeholders. The corporation must make a profit without jeopardizing the interests of any parties involved in the enterprise. To protect the interests of all stakeholders, the firm's financial performance, as measured by profitability, must be magnified through the yacht of corporate governance. The interests of shareholders play a significant role in how a firm works. The board of directors, on the other hand, is in charge of strategic management. As a result, proper harmony between all stakeholders and the board of directors should be maintained. Investing money in any organization necessitates a significant level of confidence and faith. Any company's operating procedures should be properly revealed in order for shareholders to have confidence in it. Corporate governance can be viewed as a significant tool for assessing the effectiveness of a company's board of directors [2].

SEBI and Corporate Governance Norms

Corporate governance is described as "the framework through which enterprises are managed and governed" (Cadbury Report, 1992). Corporate governance is a subjective tool that allows investors in companies to feel confident about their returns. In 2004, the OECD published a wide definition of corporate governance based on its principles. "Corporate governance" is defined by the Organization for Economic Co-operation and Development (OECD, 2004) as "a set of interactions between a company's management, its board, its shareholders, and other stakeholders." Corporate governance also refers to the process by which a company's goals are established, as well as the methods for achieving those goals and monitoring performance. Good corporate governance should offer appropriate incentives for the board and management to achieve goals that are in the company's and shareholders' best interests, as well as permit effective monitoring." There is broad agreement on the goal of excellent corporate governance, which is to maximize shareholder wealth without jeopardizing anyone's interests. "The goal of excellent corporate governance is to maximize the long-term value of the company for its shareholders and any other interested partners," according to the Securities and Exchange Board of India (SEBI). Corporate governance integrates the company's financial and non-financial activities in order to maximize performance while also protecting the interests of linked parties and the economy." Corporate governance is concerned with ethical standards. In addition, ethics is a set of beliefs and principles that allows a person to select between right and wrong [3]. The corporate governance code was introduced by SEBI through clause 49 for listed businesses. Figure 1 depicts the timeline of the development of SEBI corporate governance norms and principles.

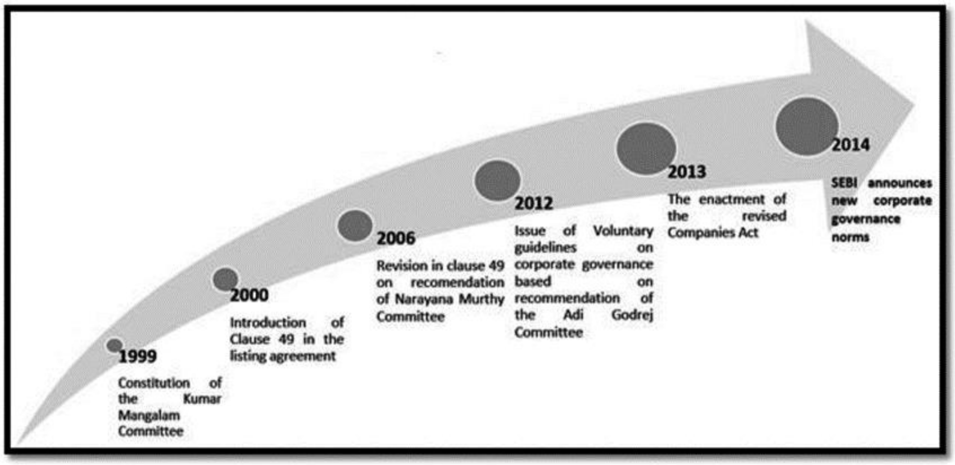

Figure 1. Corporate Governance Standards Have Change period

SEBI has included the changes made by the new Companies Act 2013 in Clause 49 of the listing agreement in the current adjustments. According to SEBI's updated clause 49, an independent director must analyze all genuine compliance reports prepared by the firm on a regular basis, as well as any essential steps taken by the company to treat any blot. Companies that are required to comply with the terms of SEBI clause 49 are now required to submit a quarterly compliance report to the stock exchange under the new clause 49. The analysis of annual reports of selected IT companies was conducted in this article on the basis of updated SEBI clause 49, which was enacted after the new Companies Act 2017 provisions were enacted.

Board Size

Executive, non-executive, and independent directors make up the majority of the board of directors. It is critical to have an adequate number of directors on the board, both executive and non-executive. There are various viewpoints on the size of a company's board of directors. According to some research, a higher board size implies that the board has all of the essential capabilities, but others believe that a greater board size only raises the cost of the company by paying their salaries and has an adverse effect on shareholdings. According to the literature, the optimal board size for function board effectiveness is seven to eight directors. (For sub- variables, refer Figure 2).

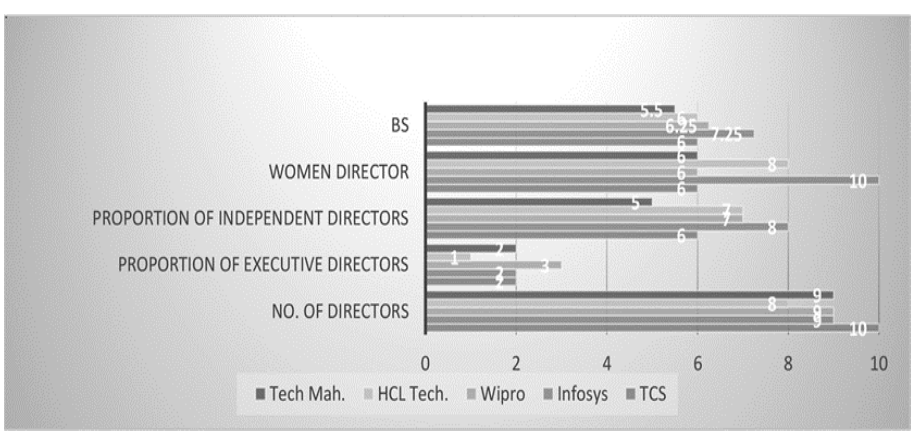

Figure 2. Comittee size

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Board of Directors

The board of directors is made up of both dependent and independent directors. A previous study found that board size is meaningless until board independence is taken into account. Outside directors (independent directors) will be brought into the board to maintain the board's independence. For the preservation of stakeholders' interests, independent directors can oversee the actions of executive (inside) directors and other critical people. Independent directors essentially function as a check on executive directors. As a result, the correct proportion of dependent and independent directors is needed on the board to support successful board management. Stakeholders should be informed about the board member's selection and relevant policies. The directors' competence is also something that needs to be considered. The director should be chosen based on his or her experience, skill, knowledge, and credentials. It is not enough to just meet the quorum requirements in order to comply with the law [4]. On an annual basis, all board members and senior management key individuals must affirm conformity with the code. A statement to this effect should be included in the company's Annual Report, signed by the CEO. (See Figure 3 for sub-variables).

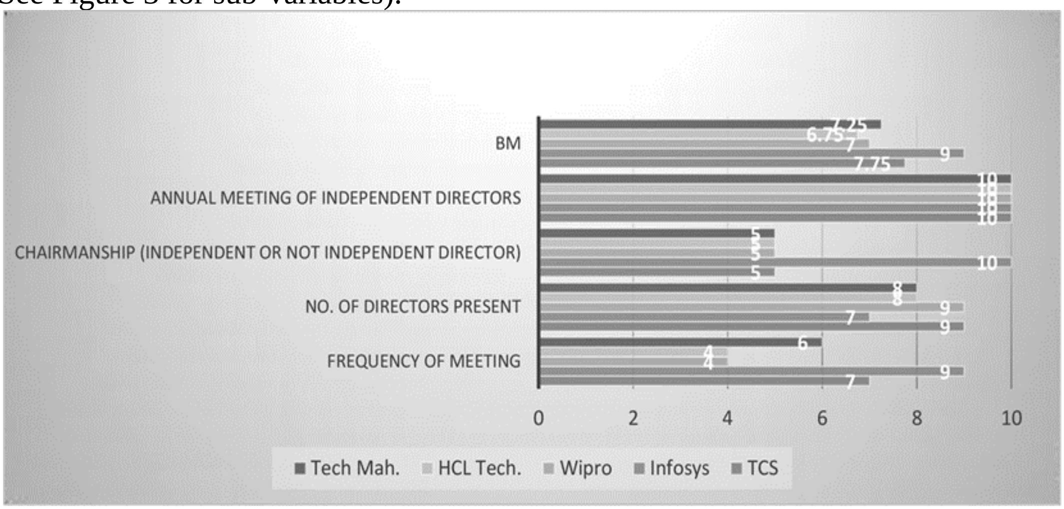

Figure 3. Board of Directors

Meeting of the Board of Directors

The board must meet at least four times per year, with no more than four months between meetings. According to previous research, organizations that had more frequent board meetings had better performance. The number of times the board meets; agendas relevant to the company's operation and performance will be discussed. (See Figure 4 for sub-variables).

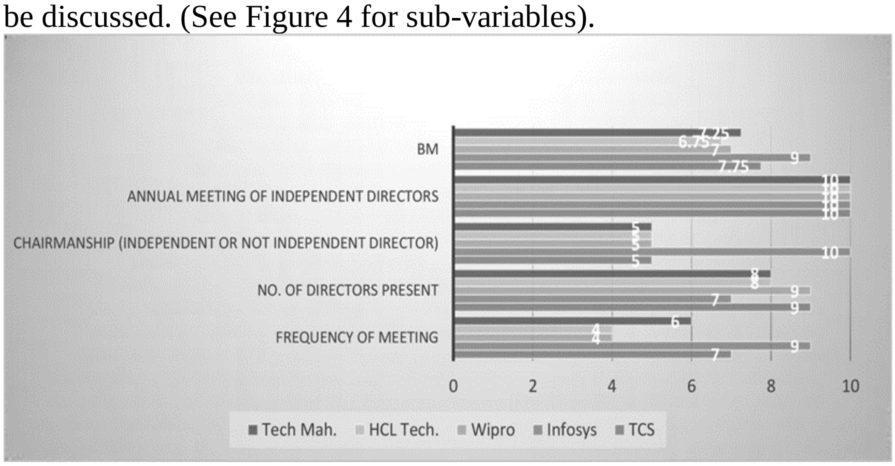

Figure 4**.** Meetings of the Board of Directors are held on a regular basis.

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Committee of the Board of Directors

Diverse board committees consist of various members of the board of directors who carry out specific programmes or functions as directed by the board. Certain key functions and responsibilities have been delegated to Board Committees by the Board of Directors. Audit Committee, Nomination and Remuneration Committee, Risk Committee, Corporate Social Responsibility (CSR) Committee [5], Stakeholders Relationship Committee, and so on are examples of these committees. The impact of board committees on company financial performance will be investigated in this research paper. The number of board committees, compliance of committees with SEBI clause and Companies Act 2013, audit committee board composition and effectiveness, remuneration of directors, board committee meetings and quorum, and CSR committee engagement will be the subject of the study. A recent analysis of the literature reveals that the board committee's role has been expanded and is having a substantial impact on company performance. The audit committee's responsibility is to ensure that the company's compliance with the law has been prompted and stimulated [7]. (See Figure 5 for sub-variables).

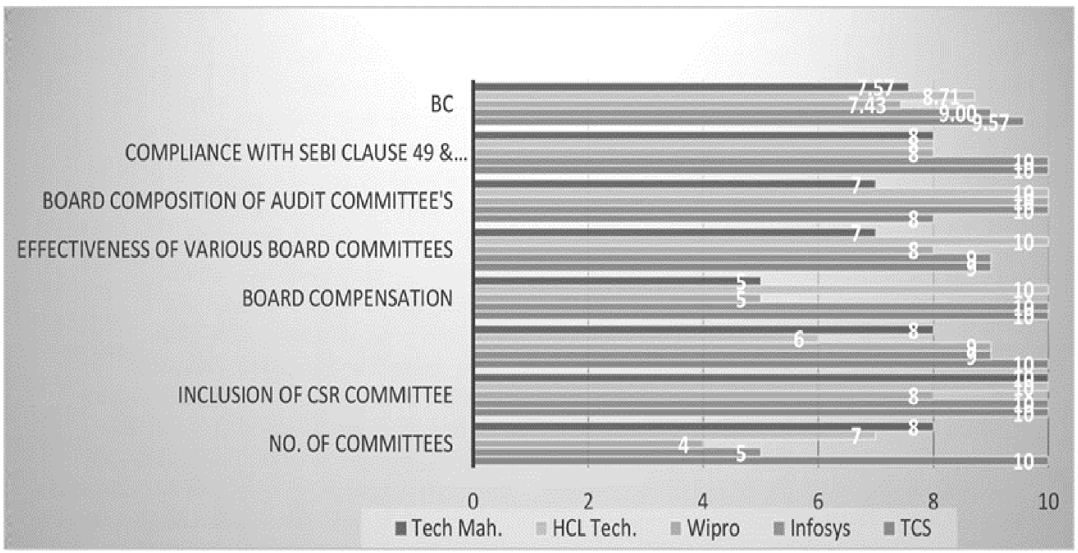

Figure 5. Committee of the Board of Directors

Firms in the sample disclosed their activities

One of the most fundamental elements of corporate governance is transparency. Listed firms are required to provide their stakeholders with a true and fair picture of their financial and non-financial operations. A robust disclosure system is a necessary component of market-based corporate governance and is critical to shareholders' capacity to exercise their voting rights effectively. Disclosure of all financial and material non-financial operations is necessary for encouraging company behavior and protecting investors in nations with big and active equity markets. A robust disclosure principle can help to recruit money and maintain investor confidence in capital markets [8]. Stakeholders want regular, trustworthy, and comparable information in sufficient depth in order to assess the company's management and make decisions on the firm's valuation and voting rights [9]. Inadequate or ambiguous information can stymie market functioning, raise capital costs, and result in an inequitable distribution of resources. (See Figure 6 for sub-variables).

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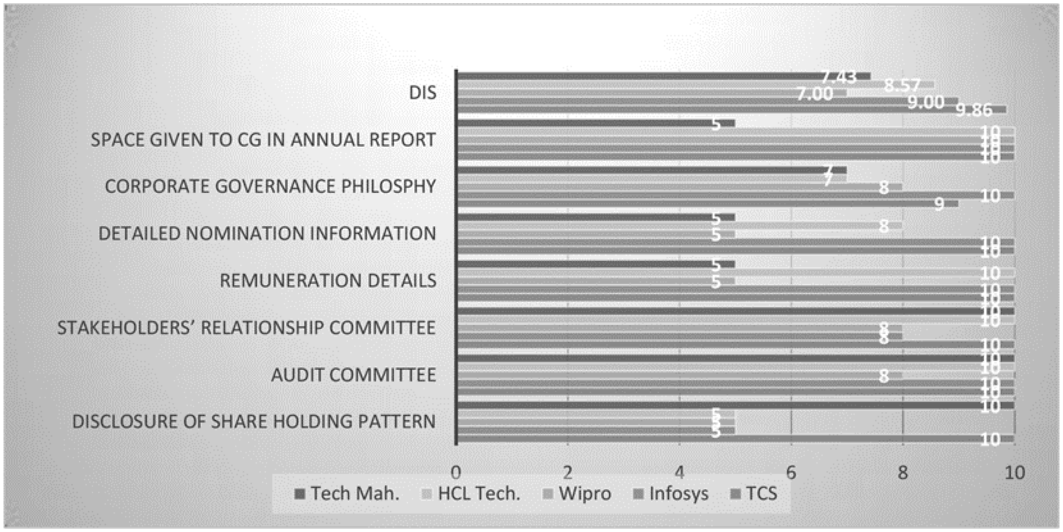

Figure 6. Firms in the sample disclosed their activities

Research Objectives

1. The purpose of this study is to see if there is a link between board independence and firm performance.
2. The purpose of this study is to see if there is a link between board diversity and firm performance.
3. To make recommendations to the companies under investigation in order to help them improve their performance.

Research Methodology

Design Flow

The correlation, regression, and Anova study research designs are used to investigate the significant relationships and causal effect of board size, board meeting, board committee, board composition, and disclosure practices as independent variables with return on assets and return on capital as the dependent variables to achieve the study's objectives. In order to determine the causal effect relationship between board governance score and MNC financial performance, the same approach is used.

Information Gathering and Analysis Duration

With IT corporations playing such a large role in almost every industry, the research paper examines the top 5 India-based Information Technology MNCs based on their net worth. TCS, Infosys, Wipro, HCL Technologies, and Tech Mahindra are among the selected MNCs. The study's data comes from the annual reports of the selected MNCs for the years 2019 and 2020. Because corporations began implementing new revised SEBI clause 49, which encapsulates some of the most critical requirements of the Companies Act, 2013, from 2017 onwards, the paper is limited to a one-year research period.

Outcomes and Investigation

Under the title importance of study, Figures 2 to 6 show independent variables with their sub variable indices. Figure 6 depicts the return on assets, return on capital employed, and the combination of the two as a barometer for the financial performance of the aforementioned IT firms (TCS; Infosys; Wipro; HCL Tech; Tech Mahindra.). For ease of understanding, the indices of all dependent and independent variables have been depicted in the charts. The indices for dependent variables are shown in Figure 7 of ROA, ROCE, and financial performance.

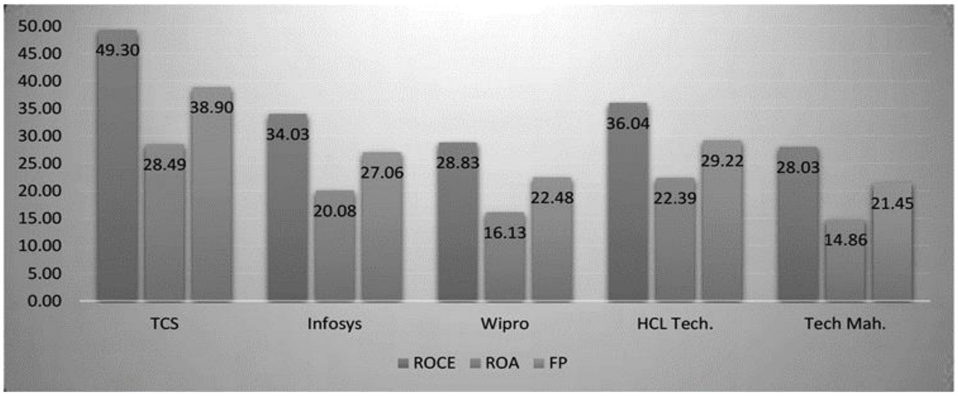

Figure 7. Sample Firms' Financial Performance

Conclusion

In light of previous literature reviews, the study concludes that board governance has a significant impact on the financial performance of the organizations studied. It has been found that nearly all selected organizations have revealed and implemented their corporate governance standards, however the methods used to do so vary. In this regard, Infosys outperforms the competition in terms of CG practice. Many firms are currently using Infosys' corporate governance policies as a benchmark. The other four corporations each have their own corporate governance practices. Aside from the necessary provisions set forth in SEBI clause 49, the company has focused on disclosing the majority of the non-mandated provisions. The study also claims that the composition of the board (COB) and board committee (BC) have a strong link with return on assets (ROA) and return on capital employed (ROCE). However, only the board committee (BC) has demonstrated a strong association between ROA and ROCE, demonstrating its impact on financial performance (FP) factors. As a result, it is reasonable to infer that the board governance index and the board committee as a whole have a considerable impact on company financial performance. As a result, the board's function cannot be overlooked. The majority of the literature implies that COB has a considerable impact on company financial performance. Because of the subjective aspect of creating a governance index, the outcomes of this article varies for COB. When creating disclosure indexes [10], suggest that subjectivity cannot be totally eliminated. The size of the board should also be considered. A board of directors with one-half independent directors is seen to be more efficient. In addition, the company with the most executive directors gets a higher performance rating than the others. As a result, a board with the correct proportion of eminent dependent and independent directors is deemed more realistic while also complying with the law.

Scope for Further Research

Despite the foregoing constraints, it would be extremely interesting to perform another study in the same area of research, with additional companies and industries included, to provide a more integrated conclusion to the issue and better utility to the interested parties and management. The board's performance in relation to the financial performance of Information Technology businesses can be examined over a longer period of time. To determine the impact of board performance on financial performance, a study incorporating many other components and characteristics of the board of directors would be fascinating. A comparative analysis of numerous business industries is also possible.

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