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# Corporate governance and disclosure practices in listed information technology (IT) companies in India

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**Abstract**

The concept of Corporate Governance is of utmost importance in recent times. Although Corporate Governance is a relatively recent phenomenon, its roots are deeply firmed into the business world. With the Progression of time, the concept is gathering further relevance and importance. Corporate Governance is looked upon as a distinctive brand and benchmark in the profile of corporate excellence. It is an attempt to create powerful systems by which corporate bodies can be directed and controlled by making them more accountable to the shareholders in particular and stakeholders at large. The present paper attempts to analyze the level of disclosure on corporate governance practices among the biggest IT companies in India.

**Keywords:** corporate governance disclosure practices, information technology, listed companies

## Introduction

The years since liberalization have witnessed wide-ranging changes in both law and regulations driving corporate governance as well as general consciousness about it. Traditionally, the main medium for communicating Corporate Governance Practices (CG) has been through company annual reports. The internet now provides an additional communication tool to augment traditional corporate reporting practices. Corporate disclosure is a process through which a corporate entity communicates business and financial information to their stakeholders. A strong, informative and transparent system of corporate disclosure is of paramount importance for the efficient and effective allocation of resources as well as integrity of financial markets. High-quality corporate disclosure helps investors and other capital market participants by enabling them to make proper assessment of the potential risks and rewards of alternative investments. With more and more business organizations attaining a global edge and expanding in size, and with retail and institutional investors are entering into capital markets, the corporate disclosure practices have assumed added importance in the recent past. Led by these changes, companies listed on stock exchange have been forced to disclose the minimum information in their annual reports as set out by the statutory requirements. Reporting information voluntarily has become a norm for large companies.

This suggests that annual reporting plays a central role in legitimating the company's existence. Corporate annual report is the most important, vital and popular source of information in the arena of corporate word and investment market which is the focal point of corporate disclosure mechanism. Annual report today is not simply a means of communication; it is now being used as a vehicle of building and enhancing corporate image. Disclosure also improve public understanding of the structure and activities of companies, their policies and performance with respect to environmental and ethical standards and their relationships with the communities in which they operate.

**The main persons involved in corporate Governance are:**

a) The CEO
b) The board of directors
c) The shareholders

The concept of corporate Governance gained further momentum after the sudden crash of Xerox, Lehman and brothers and the Crisis of Satyam one of the biggest frauds in India's corporate history. Good corporate Governance will also help to survive in an increasingly competitive environment through mergers, acquisitions and partnerships.

India also reported the biggest fraud at Satyam perpetrated over several year. Only to explode in 2009, these developments also led to the appointment of various committees among them. Progressive firms in India have voluntarily put in place system of good corporate Governance since a long time ago. Internationally also, while this topic has been accepted for a long time, the financial crisis in emerging markets has led to renewed discussions and are focused on the issue of corporate governance.

In view of increasing realization of the importance of corporate governance, various reports have been prepared at different points of time in India to look at the issue of corporate governance in the organizations & are listed below:

**Various Reports are listed below**

| | |
|---|---|
| 1. Report of the Committee on Corporate Governance in Listed Entities – amendments to clauses 35B and 49 of the Equity Listing Agreement | (SEBI, Aug 30, 2013) |
| 2. Report of the Committee on Company law | (May 31 2004, headed by Dr.Irani) |
| 3. Report on the Committee on regulation of private Companies and Partnership | (Naresh Chandra Committee-July2003) |
| 4. Report of the SEBI Committee on Corporate Governance | (SEBI, Feb8, 2003, Headed by N.R. N.R. Narayana Murthy) |
| 5. Report of the Committee on Corporate audit and Governance) | (SEBI, Dec 23, 2002, headed by Naresh Chandra) |
| 6. Report of standing Committee on International Financial Standards | (RBI, March 24, 2001) |
| 7. Report of Kumar Mangalam Birla) On Corporate Governance | (Dept. of Company affairs, Nov.20, 2000 |
| 8. Desirable Corporate Governance | (Confederation of Indian Industry, April 1998) |

**Review of Literature**

In this section, an attempt is made to review various studies carried out by the experts in India and International:

Standard & Poor's (2004) [8]: This study assessed the disclosures regarding corporate governance practices among the largest listed companies in Indonesia, Singapore, Malaysia, Thailand Hongkong using the score card developed by Standard & poor's. It highlighted the companies with highest standards of disclosure on their corporate governance practices. They found considerable variation among the sample companies and finally they compared the disclosure practices with top five companies in each of the country.

Bala. N. Balasubramanian (2009): studied the corporate governance practices of firms in India prior to the clause 49 of listing agreement made mandatory to all listed companies. He provided a detailed overview of the practices of publicly traded firms in India, and identified areas where governance practices are relatively strong or weak.

Bernard S. Black (2009): examined the corporate governance practices of Brazilian public companies to identify areas where their governance is relatively strong and weak. Many firms have small boards, comprised entirely representatives of the controlling family. Even some very large firms have no independent directors.

Sanjay P.S. Dessai and Dr. Bhanumurthy (2010): in their study, they made an attempt to evaluate the corporate governance and disclosure practices followed by 30 SENSEX companies by examining the annual reports for financial year which ended by 31st march 2009. The major thrust of this study is on composition of Board of Directors, audit Committee and shareholders.

Arijit Sen (2011): this study sought to determine the extent to which Indian listed companies disclose their corporate governance practices by examining the annual reports of 50 listed companies. Also, the determinants of disclosures have been looked into. They concluded that there is substantial scope for improvement in the corporate governance practices and the size of the company is a significant determinant of disclosures.

Swami Patel, Rashesh Patel (2012): attempted to analyze the level of corporate governance norms been adhered to by major IT companies of India as per the guidelines of International Financial Corporation and the Corporate Governance norms of SEBI. The sample was selected on the basis of market specialization for the assessment year 2011-12. The authors found varied levels of differences in disclosures and transparency level of Indian IT Companies.

**Objectives**

The present study purports to assess the corporate Governance and Disclosure practices in select listed Information technology Companies in India.

1. To study corporate governance practices in IT Companies.
2. To dwell upon Corporate Governance disclosure practices in IT companies in India.
3. To identify the factors to improve the corporate governance.

**Corporate Governance Disclosure Practices in Sample IT Companies by Using Score Card**

The Asian financial Crisis in 1997 and the recent global corporate scandals, such as those involving Enron, Worldcom, Parmalat and Satyam, have highlighted the importance of good corporate governance for the long-term survival of companies. The method applied here for evaluation of the standard and quality of good corporate governance practices in the sample IT companies has considered all the relevant conditions of Corporate Governance stipulated by Clause 49 of the Listing agreement as well as the provision of the companies Act, 1956. In order to ascertain how far these companies are complying of governance standard, a score card has been developed by the standards & poor's, whereby an adequate weight age in terms of score has been provided to these conditions according to their importance.

**Requirements of the Clause 49 of the Listing Agreement included**

a) Minimum percentage of independent directors (50% or 33% depending on whether the Chairman was an executive director).
b) Mandating the number of board meetings per year
c) Developing a code of conduct
d) Imposing limits on the number of directorships a director could simultaneously hold.
e) Tightening up the definition of "independence".
f) Certification by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of overall financial and overall responsibility for internal controls.

In this study, It is observed that out of the total 129 scores, 46 scores have been assigned to board related matters namely frequency of the board meetings disclosed, attendance of

BODs, 29 scores assigned to remuneration related matters, 26 to audit related matters, 21 scores to nomination related matters, 5 scores assigned to communication with shareholders and 2 scores to statement of company.

**Table 1:** Selected key Governance Parameters

| Governance Parameters | Scores Assigned |
|---|---|
| Statement of Company philosophy on Code of Governance | 2 |
| Board matters | 46 |
| Nomination Matters | 21 |
| Remuneration Matters | 29 |
| Audit Matters | 26 |
| Communication with shareholders | 5 |
| Total | 129 |

Compliance of Corporate Governance Standards, Score Card wise Sample IT companies

**Table 2**

| Year | TCS | Infosys | Wipro | HCL | Tech M | Mphasis | Total Assigned Score |
|---|---|---|---|---|---|---|---|
| 2004-05 | 94 | 114 | 110 | 90 | 85 | 90 | 129(100) |
| 2005-06 | 93 | 115 | 101 | 90 | 85 | 85 | 129(100) |
| 2006-07 | 107 | 115 | 101 | 90 | 85 | 88 | 129(100) |
| 2007-08 | 107 | 114 | 101 | 90 | 85 | 88 | 129(100) |
| 2008-09 | 105 | 114 | 109 | 106 | 90 | 90 | 129(100) |
| 2009-10 | 108 | 114 | 111 | 109 | 90 | 85 | 129(100) |
| 2010-11 | 108 | 114 | 111 | 105 | 90 | 88 | 129(100) |
| 2011-12 | 106 | 114 | 111 | 105 | 95 | 88 | 129(100) |

***Source***: researcher Compilation

**One Way ANOVA: TCS, Infosys, Wipro, HCL, Tech M, Mphasis**

| Source | DOF (K-1) | SS | MS | F-Value | P-Value |
|---|---|---|---|---|---|
| Factor | 5 | 4454.9 | 4454.9/5 | 33.85 | 0.00 |
| (between | (6-1) | | = 891.0 | | |
| sample) | | | | | |
| Error | 42 | 1105.6 | 1105.6/42 | | |
| (within | (n-k) | | =26.3 | | |
| sample) | 48-6=42 | | | | |
| Total | 47 | 5560.5 | | | |

The table 2 reveals the corporate governance score card wise sample of the IT companies. It is observed that F value 33.85 is highly insignificant. So the top 6 companies behave very differently with respect to corporate governance and it supports that the ANOVA models best suit this data

Most of the scores clustered between 85 and 115, which denotes high disclosure standards among the companies in the sample. However, there are some companies with extremely low scores, notably, except one of the companies with scores below 85. In the year 2004-05, corporate governance disclosures in sample IT companies were 94, 114,110, 90, 85 and 90 in all companies respectively. Infosys had scored high score i.e. 110 (85.27%) out of 129 (100.00%) and tech Mahindra scored only 85 (65.89%) out of 129(100%). It is found that in between the years from 2005-06 to 2010-11, there were plenty of changes taken place in terms of corporate Governance Disclosures practices in their annual reports. It is also observed that among the sample IT companies, Infosys, Wipro, TCS and HCL scored high score i.e. more than 100 and Tech Mahindra and Mphasis scored low score i.e. less than 96 in corporate governance disclosure practices. In fact, Infosys reports have set a benchmark for other corporate houses to follow in improving their standards of corporate governance with respect to quality, transparency, full disclosure and in-depth reporting.

**Board Related Matters**

The board of directors plays an important role in corporate governance for the best interest of the company. The board is accountable to shareholders and should remain independent of management. The board of directors should have leadership, vision and independence in making decisions for the best interest of the company and all shareholders. The board should clearly separate its roles and responsibilities from those of management and monitors the company’s operations to ensure that all activities are conducted in accordance with relevant laws and ethical standards.

**Board related Matters in Sample IT companies**

**Table 3**

| Year | TCS | Infosys | Wipro | HCL | Tech M | Mphasis | Total Assigned Score |
|---|---|---|---|---|---|---|---|
| 2004-05 | 40 | 38 | 37 | 36 | 34 | 39 | 46(100) |
| 2005-06 | 40 | 38 | 37 | 36 | 34 | 34 | 46(100) |
| 2006-07 | 40 | 38 | 37 | 36 | 34 | 34 | 46(100) |
| 2007-08 | 40 | 38 | 37 | 36 | 34 | 34 | 46(100) |
| 2008-09 | 39 | 38 | 37 | 36 | 39 | 39 | 46(100) |
| 2009-10 | 40 | 38 | 37 | 36 | 39 | 34 | 46(100) |
| 2010-11 | 39 | 38 | 37 | 36 | 39 | 34 | 46(100) |
| 2011-12 | 39 | 38 | 37 | 36 | 39 | 34 | 46(100) |

**One Way ANOVA: TCS, Infosys, Wipro, HCL, Tech M, Mphasis.**

| Source | DOF (K-1) | SS | MS | F-Value | P-Value |
|---|---|---|---|---|---|
| Factor | 5 | 97.44 | 97.44/5 | 19.49/2.13 | 0.00 |
| (between | (6-1) | | =19.49 | =9.16 | |
| sample) | | | | | |
| Error | 42 | 89.37 | 89.37/42 | | |
| (within | (n-k) | | =2.13 | | |
| sample) | 48-6=42 | | | | |
| Total | 47 | 186.81 | | | |

Table 3 reveals that Board related matters in Sample IT companies. It is observed that the F ratio for this data is 9.16 which not significant and P value is also zero. It gives the idea that IT companies are behaving differently at Board related Matters.

The board related matters in sample IT companies in the year 2004-05 were 40, 38, 37, 36, 34, 39 in all companies respectively. It is observed that the majority of the companies had good board practices and out of the 46 all the sample companies scored between 34 and 40.

It is found that all sample companies are disclosing effectively all the information relating to the frequency of board meetings.

### Audit Related Matters

Audit committee, being one of the mandatory board committees, is the main pillar of corporate governance, the success or failure of which, largely depends upon the effectiveness of the audit committee functioning in the companies. There should be adequate disclosure of audit committee charter and terms of reference in annual report. Moreover, there should be clear transparency in the composition of audit committee, compliance regarding minimum number of independent directors in the committee.

**Table 4**

| Year | TCS | Infosys | Wipro | HCL | Tech M | Mphasis | Total Assigned Score |
|---|---|---|---|---|---|---|---|
| 2004-05 | 25 | 25 | 25 | 25 | 23 | 25 | 26(100) |
| 2005-06 | 25 | 26 | 25 | 25 | 24 | 25 | 26(100) |
| 2006-07 | 25 | 26 | 25 | 25 | 24 | 25 | 26(100) |
| 2007-08 | 25 | 25 | 25 | 25 | 24 | 25 | 26(100) |
| 2008-09 | 25 | 25 | 25 | 25 | 24 | 25 | 26(100) |
| 2009-10 | 25 | 25 | 25 | 25 | 24 | 25 | 26(100) |
| 2010-11 | 26 | 25 | 25 | 25 | 24 | 25 | 26(100) |
| 2011-12 | 25 | 25 | 25 | 25 | 24 | 25 | 26(100) |

**One Way ANOVA: TCS, Infosys, Wipro, HCL, Tech M, Mphasis**.

| Source | DOF (K-1) | SS | MS | F-Value | P-Value |
|---|---|---|---|---|---|
| Factor | 5 | 10.00 | 2.000 | 25.85 | 0.00 |
| (between | (6-1) | | | | |
| sample) | | | | | |
| Error | 42 | 3.250 | 0.0774 | | |
| (within | (n-k) | | | | |
| sample) | 48-6=42 | | | | |
| Total | 47 | 13.250 | | | |

It is observed that f value is 25.85 which is very highly insignificant. From this value, we can decide that there are significant differences between audit related matters. It also supports that the ANOVA model is the best model for the data.

The audit related matters of the sample IT companies in the year 2004-05 were 25, 25, 25, 25, 25, 23, 25 in all sample companies respectively. It is observed that all the sample IT companies have been disclosing the audit related matters effectively for ensuring the good corporate governance. It is also found that all the sample companies had more than 80% of attendance in the audit committee meetings.

### Communication with Shareholders

Disclosure and transparency are the uppermost cornerstones of corporate governance in any company. The board of directors should ensure that all important information relevant to the company, financial and non- financial is disclosed correctly and accurately and on a timely basis. Important information includes financial reports and non-financial information specified in the regulations of SEBI as well as any other information such as the summary of the tasks of the board of directors and its committees during the year, corporate governance policy, environmental and social policies etc.

**Table 5**

| Year | TCS | Infosys | Wipro | HCL | Tech M | Mphasis | Total Assigned Score |
|---|---|---|---|---|---|---|---|
| 2004-05 | 05 | 05 | 05 | 05 | 05 | 05 | 05 |
| 2005-06 | 05 | 05 | 05 | 05 | 05 | 05 | 05 |
| 2006-07 | 05 | 05 | 05 | 05 | 05 | 05 | 05 |
| 2007-08 | 05 | 05 | 05 | 05 | 05 | 05 | 05 |
| 2008-09 | 05 | 05 | 05 | 05 | 05 | 05 | 05 |
| 2009-10 | 05 | 05 | 05 | 05 | 05 | 05 | 05 |
| 2010-11 | 05 | 05 | 05 | 05 | 05 | 05 | 05 |
| 2011-12 | 05 | 05 | 05 | 05 | 05 | 05 | 05 |

The above Table reveals that the communication with shareholders about the financial and non- financial information of all the sample companies. It is observed that all the sample companies had a copy of their annual reports available to the public for viewing / downloading on their web-sites. The annual reports of all the companies were also available on the Securities and Exchange Board of India Web site.

## Conclusion

In sum, to improve the usefulness of corporate governance disclosures, regulators could avoid requiring vague information and work towards clarifying exactly what type of disclosures are required. For example, regulators can integrate within a corporate governance code an annual questionnaire that specially asks companies about their compliance with elements of the code.

Similarly, regulators can issue a comprehensive listing of disclosure requirements to assist enterprises in preparing their reports and help investors in understanding what information can be expected from companies. Both methods provide enterprises with detailed guidelines on specific corporate governance disclosure requirements and would remove any confusion among companies about what they are expected to report, as well as providing an easy reference point for investor and other stakeholders.

Regulators could also consider implementing such things as annual disclosure questionnaires for firms through the internet and presenting the results of such disclosures in an orderly way via a searchable internet database. Such measures can increase the viability and further facilities investor access to corporate governance data.

Therefore, all the countries should make a serious effort for designing appropriate corporate governance mechanisms and disclosure practices. It is hoped that these measures would certainly go a long way in reshaping the corporate world. Ultimately, it will reflect on strengthening the corporate performance, shareholders confidence, wealth maximization and consumer protection as well.

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