



Corporate Governance in Indian IT sector

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Abstract:

Corporate governance in relation to a company is defined as the various policies adopted by the Board of Directors or by those who are in real control of companies to govern its matter or to give a direction to the organization. Corporate governance issues may arise in any type of industry or any form of business organization though India has recently seen the biggest corporate scandal ever in the history of its corporate culture-the demise of Satyam Computers Software Limited. Indian IT sector is one of the most prominent sectors of the country not only from the point of view of its size & momentum but also from world prospective The term paper, therefore, gives an insight of as to what corporate governance is all about with a reference to Indian IT Sector wherein five IT companies are chosen viz. TCS, HCL, WIPRO, INFOSYS, and TECH-MAHINDRA. A study of these five companies will help us determine the strength of governance in Indian IT sector.

Keywords: Corporate Governance, HCL, INFOSYS, IT sector, TCS, WIPRO

1. Introduction

The structure of the paper is as follows, the first section that is the present section talk of the need of corporate governance in IT sector, methodology employed & a brief literature overview. The second section gives an insight of Indian IT sector, Chapter three is the core section that takes care of Corporate Governance in IT sector, and Conclusion & suggestions are entailed in section four followed by references in section five.

2. Relevance of the study

The present study is a reflection on the biggest corporate failure that India has ever encountered that is Satyam. With the downfall of Satyam the entire IT sector as a whole came under a mild suspicion as to the governance practices followed by the companies in the sector. Though, Satyam was a case in its own kind & various studies was conducted on the scandal no study provides a comprehensive picture of the entire sector. The present work is a step in that direction.

3. Methodology Employed

The study is based on the information collected from various secondary sources such as articles published in leading journals, research work done in past, newspapers, websites, books & company documents available online.

4. Literature Overview

Professor JP Sharma in his paper on what went wrong with Satyam concluded that there is need to reform corporate governance in India by taking harsh policy measures. Corporate governance

mechanisms cannot prevent unethical activity by top management completely, but they can at least act as a means of detecting such activity before it is too late.¹ Joanna L. Y. HO, Anne WU, and Sean Xin Xu in their study on corporate governance and returns on information technology investment: Evidence from an emerging market assessed the role of corporate governance in a specific investment activity, rather than linking it directly to overall firm performance. These directions may lead to fruitful areas of future inquiry for improvement of governance in the sector.²

Ron Blitstein in his paper on IT Governance: Bureaucratic Logjam or Business Enabler, assessed that In the absence of good governance, the IT playing field becomes highly fragmented and fraught with frustration for all parties-IT professionals on one side and countless business professionals with horizontal priority lists on the other.³

A standards Australia thought leadership paper on the value in governance of information technology assessed that Information technology is essential. It organizes, communicates and creates the life-blood of a modern organization: business critical data. Increasingly pervasive, IT eliminates barriers and boundaries-enabling innovation but risking security, even the organization's survival, if mishandled.⁴

Steven De Haes and Wim Van Grembergen in their paper An Exploratory Study into IT Governance Implementations and its Impact on Business/IT Alignment assessed that it is easier to implement IT governance structures compared to IT governance processes. It also appeared that relational mechanisms are very important in the beginning stages of an IT governance implementation project and become less important when the IT governance framework is embedded into day to day operations.⁵

5. The Indian IT Sector

The IT sector in India has played a very crucial role in making sure that India gets a global presence. The IT industry as a whole has helped the country to change itself from a rural & agricultural economy to a knowledge based economy.

Information Technology has made possible information access at gigabit speeds. It has made tremendous impact on the lives of millions of people who are poor, marginalized and living in rural and far flung topographies. Internet has made revolutionary changes with possibilities of e-government measures like e-health, e-education, e-agriculture, etc. Today, whether its filing Income Tax returns or applying for passports online or railway e-ticketing, it just need few clicks of the mouse. India's IT potential is on a steady march towards global competitiveness, improving defense capabilities and meeting up energy and environmental challenges amongst others.⁶ One of the major contributors of GDP information Technology in India consists of two main components: first is the IT services & the second being BPO that is Business Process Outsourcing. The sector in India generates direct employment to the extent of 2.5 million & all major players are present in India. The industry continues to be a net employment generator - expected to add 230,000 jobs in FY2012, thus providing direct employment to about 2.8 million, and indirectly employing 8.9 million people.⁷ The major IT hubs in India include cities like Bangalore, Chennai, Hyderabad, Mumbai, Delhi, Pune, Kolkata,

¹[http://www.iodonline.com/Articles/Inst%20of%20Directors-WCFCG%20Global%20Covention Paper%20Prof%20J%20P%20Sharma-What%20Went%20Wrong%20With%20Satyam%20new.pdf](http://www.iodonline.com/Articles/Inst%20of%20Directors-WCFCG%20Global%20Covention%20Paper%20Prof%20J%20P%20Sharma-What%20Went%20Wrong%20With%20Satyam%20new.pdf)

²http://merage.uci.edu/Resources/Documents/HoWuXu_SMJ_2011.pdf

³<http://www.cutter.com/promotions/bitu1210/bitu1210.pdf>

⁴<http://www.standards.org.au/Documents/SA-Value-in-Governance-in-IT.pdf>

⁵www.researchgate.net

⁶ http://www.ficci.com/sector/21/Project_docs/FICCI_website_content_-IT.pdf

⁷ <http://www.nasscom.in>

Bhubaneswar, Thiruvananthpuram & Kochi. Bangalore is also referred to as the “Silicon Valley of India”.

6. Top 20 players in IT Services as of 2012-2013⁸

S.No	Company Name	S.No	Company Name
1	Tata Consultancy Services Ltd	11	Genpact India Pvt Ltd
2	Infosys Ltd	12	MindTree Ltd
3	Wipro Ltd	13	Robert BOSCH Engineering and Business Solutions Ltd
4	HCL Technologies Ltd	14	KPIT Technologies Ltd
5	Tech Mahindra Ltd	15	Polaris Financial Technology Ltd
6	iGate	16	Hexaware Technologies Ltd
7	Mphasis Ltd	17	Infotech Enterprise Ltd
8	L&T Infotech Ltd	18	NIIT Technologies Ltd
9	Syntel Ltd	19	Zensar Technologies Ltd
10	CSC, India	20	CGI Information Systems & Management Consultants Pvt Ltd

Note: This list does not include some companies whose corporate headquarters are located outside India, but have significant India-centric delivery capabilities, and have not shared their India-centric revenue figures. Had they been ranked based on their India revenues, companies such as Accenture, Cognizant, HP, Capgemini, Oracle and IBM and would also have appeared in this ranking.

7. Governance in IT sector

Though India has not seen much corporate scandals or to say that IT industry in India was immune to such failures before Satyam. So Satyam initially can be categorized as an exceptional case but it will be really early to arrive at such a conclusion before undertaking a study of major players of the industry. Certain variables representative of good corporate governance practices have been identified for each of the selected companies & all the variables are studied for the five companies viz. TCS, HCL TECH, INFOSYS, WIPRO, TECH-MAHINDRA to judge the extent of their loyalty towards the corporate governance practices in the country. The study & the findings are presented in a tabular manner which is preceded by the company profiles. Company profile includes the historical background of the company in very brief along with their say on corporate governance.

Name of the Companies						
Sr.	Variable	TCS	HCL TECH	INFOSYS	WIPRO	TECH-MAHINDRA
1	Whether Corporate Governance Voluntary Guidelines exist?	Yes exists & complied with	Yes, exists & complied with.	Yes, voluntary codes issued by MCA are also complied with.	Yes. Comprehensive codes & guidelines exist. Also the company complies with the national voluntary guidelines issued by MCA & also complies with the requirements of UNGC.	Yes exists in terms of voluntary codes as approved & adopted by board of directors.
2	Code for prevention of Insider trading	Yes	Yes, The Company has comprehensive guidelines	No information available.	Yes. Codes are in compliance with SEBI guidelines.	Yes, In compliance with the provisions of SEBI (Prohibition of

⁸ <http://www.nasscom.in/industry-ranking>

			on prevention of insider trading in line with the SEBI (Prohibition of Insider Trading) Regulation, 1992.			Insider Trading) Regulations, 1992
3	Anti-bribery policy & Anti-corruption policy	Yes, strong codes exists & are monitored closely	Yes & the policy covers matters relating to hospitalit, offset obligations, employment of relatives, guidance on gifts, political/charitable contribution, extortion/blackmail responses etc.	No specific policy. But confirms with the requirement of UNGC.	Not exclusively mentioned but incorporate in code of business conduct.	No such policy.
4	Whistle blower policy	Yes	Yes, the Whistleblower policy is in place to provide appropriate avenues to the employee, contractors, vendors, internal or external auditors, law enforcement/regulatory agencies or other third parties to bring to the attention of the management any issues which are perceived to be in violation or in conflict with the fundamental business principles of the Company.	Yes, in 2012 the board adopted the revised Whistleblower policy that adopts global best practices. A mechanism has been developed for employees to report concerns about unethical, actual or suspected fraud. Adequate safeguards have also been provided against the victimization of employees of employees.	Yes, Having a robust whistleblower policy that employees and other stakeholders can use without fear Wipro's Ombuds process is designed to be this and more. It allows and encourages any affected stakeholder to report breaches of the COBCE and any other matter of integrity.	Yes, In terms of this policy, all employees are encouraged to report any instance of unethical behavior, fraud, violation of the Company's Code of Conduct or any behavior which may otherwise be inappropriate and harmful to the Company.
5	Sexual harassment policy	Yes, zero tolerance. 9 complaints were received during the year 2011-2012 & all were	Yes, a mechanism is in place for employees to report any issues, abuse, etc. to a Council formed for	No such policy.	Yes, the Ombuds process provides a strong framework of assurance and protection to women employees.	No such policy.

		resolved.	this purpose. Any employee dissatisfied with the decision has a direct access to the CEO of the Company.			
6	Board size & composition of board	As on March 31, 2013, the Company has eleven Directors with a Non-Executive Chairman and a Non-Executive Vice Chairman. Of the eleven Directors, ten (i.e. 90.91%) are Non-Executive Directors and six (i.e. 54.55%) are Independent Directors.	As on June 30, 2013, the Board consisted of eleven members, of which, one is the promoter director and one is the Executive Director who. The other nine directors are Independent Non-Executive Directors. The Company has appointed one Non-Executive Director in its meeting held on July 29-31, 2013 and with the said appointment, the total number of directors has gone up to twelve.	As on March 31, 2013, the board consists of 14 members, six of whom are Executive or whole time directors & eight are independent directors, two of the executive directors are founders.	As of March 31, 2013, company had ten non-executive directors and three executive directors, of which one executive director is Chairman of the Board. All of the ten non-executive directors are independent directors.	As on March 31, 2013 The total strength of the Board of Directors is Twelve. The Company has a Non-executive Chairman who is a professional Director in his individual capacity and belongs to the Promoter Group and the number of independent directors is seven which is more than half of the total strength of the Board as required by the provisions of the Listing Agreement. The number of Non Executive Directors is ten which is more than 50% of the total number of Directors.
7	Whether the director have membership on other boards	Yes they do have membership on the boards of other companies & also occupy the position of chairman in other public companies but such facts are disclosed.	Yes they do have membership on the boards of other companies & also occupy the position of chairman in other public companies but such facts are disclosed.	Yes they do have membership on the boards of other companies & also occupy the position of chairman in other public companies but such facts are disclosed.	Yes they do have membership on the boards of other companies & also occupy the position of chairman in other public companies but such facts are disclosed.	Yes they do have membership on the boards of other companies & also occupy the position of chairman in other public companies but such facts are disclosed.
8	Existence of Audit Committee	Yes, constituted in lines with the requirements of clause 49 of listing agreement & Companies Act.	Yes, constituted in lines with the requirements of clause 49 of listing agreement & Companies Act.	Yes, constituted in lines with the requirements of clause 49 of listing agreement & Companies Act.	Yes, constituted in lines with the requirements of clause 49 of listing agreement & Companies Act.	Yes, constituted in lines with the requirements of clause 49 of listing agreement & Companies Act.

		Act.				
9	Existence of Compensation committee	Yes	Yes, All the members of the Compensation Committee are independent non executive directors.	Yes, he committee has the overall responsibility of approving & evaluating the compensation plans, policies & programs for executive directors & senior management.	Yes, to make sure that the compensation packages are competitive & are assigned with the overall responsibility of approving & evaluating compensation plans.	Yes by the name of compensation & nominations committee & its function include determining the terms and conditions including the remuneration payable to Managing Director and Executive Vice Chairman of the Company As well as the Employee Stock Option Plans (ESOPs) of the Company.
10	Existence of investors grievance committee	Yes, The Company has a Shareholders / Investors Grievance Committee of Directors to look into the redressal of complaints of investors.	Yes by the name of shareholder's committee.	Yes	Yes by the name of Administrative/shareholders & investors grievance committee which is also empowered to oversee administrative matters along with handling investors' grievances.	Yes by the name of investor grievances cum share transfer committee.
11	Existence of nomination committee	Yes, The Nominations Committee is responsible for making recommendations regarding the composition of the Board	Yes, making recommendations on composition of boards reviewing the company's corporate governance guidelines periodically.	Yes, the purpose of the nomination committee is to oversee the company's nomination process for the top level management & specifically to identify, screen & review individual's qualifications to serve as executive directors.	Yes, the committee exists in collusion with the Board governance & compensation committee.	Yes in collusion with the compensation committee.
12	Compliance with clause 49 of listing agreement	Yes	Yes	Yes	Yes	Yes
13	Fines imposed/penalties for any non-compliance	No penalties imposed during the last three years for any non-compliance.	The Company has complied with the requirements of the Stock Exchanges, SEBI and other statutory authorities on	There have been no instances of non compliance with any legal requirements, nor have been there ant	The Company has complied with the requirements of the Stock Exchanges, SEBI and other statutory authorities on all matters relating to capital markets during the last three years. No penalties or strictures have been imposed on the Company by the Stock	The Company has complied with all the requirements of regulatory authorities. During the last three years, there were no instances of non-compliance by the

			all matters relating to capital markets during the last three years. No penalties or strictures have been imposed on the Company by the Stock Exchanges, SEBI or any other statutory authorities	strictures imposed by any stock exchange, SEBI over the last three years.	Exchanges, SEBI or any other statutory authorities	Company and no penalty or strictures were imposed on the Company by the Stock Exchanges or SEBI or any statutory authority, on any matter related to the capital markets.
14	Green initiatives, going digitals & paperless	Yes, various green initiative include green building, green IT.	Yes, supports the green initiative issued by MCA, The Company sends the communications to the shareholders by electronic mode.	Yes, recognizing the spirit of circular issued by MCA.	Yes, supports the green initiative issued by MCA, The Company sends the communications to the shareholders by electronic mode.	Yes, recognizing the spirit of circular issued by MCA.
15	Number of complaints received	323 complaints were received during the year 2012-13, from various stakeholders; 89.9% of these were satisfactorily resolved.	27 complaints (of which 17 were directly from investors) were received during the year 2012-2013& all were resolved.	619 complaints were received relating to dividend or annual report of which all were attended.	788 complaints were received of which all were replied. Complaints received includes non-receipt of securities & annual reports, correction of dividend warrants, SEBI complaints etc.	95 complaints were received of which all the complaints were resolved.
16	The ownership model	73.90 % of promoters holding as on July 2014. Intact ownership model. ⁹	61.64% including Indian & foreign promoter holding. Intact ownership model. ¹⁰	16% of promoters held shares, flawed ownership model. ¹¹	78.41% of shares are held by promoter, intact model of ownership. ¹²	70.82% promoters holding, intact ownership model. ¹³
17	Corporate governance ratings	No information available.	No information available.	CGR 1 by ICRA & GVC level 1 By CRISIL.	SVG 1 by ICRA ¹⁴	No information available.
18	Compliance certificate on corporate governance	Yes obtained from CA	Yes obtained from CA	Yes obtained from CA	Yes obtained from CS.	Yes obtained from CA.

⁹http://profit.ndtv.com/stock/tata-consultancy-services-ltd_tcs/holdings

¹⁰http://profit.ndtv.com/stock/hcl-technologies-ltd_hcltech/holdings

¹¹http://profit.ndtv.com/stock/infosys-ltd_infy/holdings

¹²http://profit.ndtv.com/stock/wipro-ltd_wipro/holdings

¹³http://profit.ndtv.com/stock/tech-mahindra-ltd_techm/holdings

¹⁴This rating implies that the Company belongs to the Highest Category on the composite parameters of stakeholder value creation and management as also Corporate Governance practices.

	from auditors.					
19	Ethics & compliance committee	Yes	No ethics committee.	No ethics & compliance committee.	No ethics committee but there exist a compliance committee.	No
20	Expenditure on CSR activities.	.51% of PAT	N/A	.11% OF PAT(calculated)	.25% of PAT	1.5% of PAT every year.

8. Conclusion

No doubt corporate governance has come a long way in its journey & as far as IT sector is concerned there appear strong practices of corporate governance in each of the selected companies complying with almost each of the chosen variable. But this does not necessarily imply that the degree of corporate governance is very high. This is due to the fact that all these variables were quite favorable for Satyam Computers too & the company even though resulted in a massive corporate governance failure. It is not always possible to peep into the internal working of the company. As an investor, stakeholder or as a researcher we can only rely on the information which is made public but there is no surety as to hundred percent correctness of such disclosed information. We can say that there exist a very strong & vigilant governance practices across the IT sector & this might the reason why Indian IT companies are at forefront of world trade in the area despite of stiff competition.

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