AN INVESTIGATION INTO THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND CORPORATE SUSTAINABILITY: EVIDENCE FROM INDIAN IT SECTOR

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Abstract

Corporate governance is commonly understood as the way and practice to directing, organizing, and control the company. Corporate governance is the system designed to professionally direct the company based on good corporate governance principles. Good corporate governance principles are transparency, accountability, responsibility, independence, and fairness. In this paper, an attempt has been made to establish relationship between corporate governance and sustainability of selected IT Companies (TCS, Infosys, Accenture, IBM and ABB). It was found there is positive association between the dependent and independent variables**.** Study concluded that there is significant impact of corporate governance on sustainability of selected IT Companies.

Keywords: Corporate Governance, Transparency, Sustainability, Accountability.

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1. Introduction

Corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Good governance is responsive to the present and future needs of the organization, exercises prudence in policy-setting and decision-making, and that the best interests of all stakeholders are taken into account. Corporations pool capital from a large investor base both in the domestic and international capital markets. When an investor invests money in a corporation, she expects the board and the management, to act as trustees of this money and ensure the safety of the capital and also earn a rate of return that is higher than the cost of capital. In this regard, corporate governance provides framework for the "ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" **(Shamil, 2020).**

Corporate governance includes the activities of the Board and its relationship with the shareholders, managers, but also with external parties such as auditors, regulators and other corporate stakeholders ***(Atal AL 2019).*** The corporate governance structure specifies the distribution of rights and responsibilities among these different participants in the organization (such as boards, managers, shareholders and other stakeholders) and lays down the rules and procedures for decision-making. Generally speaking, the Board has the power to decide what direction a company will take and how. Therefore, it is a factor that significantly affects business performance. Corporate systems and procedures should ensure accountability and ethics behavior too. Corporate governance covers many areas including reporting to owners, managers and other stakeholders.41

IT Sector is the lifeblood of economic systems and the heart of twenty-first century markets. Its pumping means it is supporting and empowering innovation, growth and prosperity. IT Sector may not have a direct impact on environment and society, but they do possess the ability to do so indirectly by their choice of financing a particular business. Software companies can be successful in the long run when their ESG factors and financial performance complement each other. The corporate style of doing business also applies to IT Sector. Software companies possess the ability to influence the environment and society both directly and indirectly.

Review of Literature

Chakrabarti et al. (2021) besides family ownership, other forms of domination, such as domination by government or a foreign group, also exist in Indian organizations. Additionally, promoters of companies often exercise influence that is disproportionate to their actual shareholding in the firm.

McConnell (2019) Primary internal mechanisms are the equity ownership structure of the firm and board of directors, whereas primary external mechanisms are the legal system and the external market for corporate control (the takeover market). External and internal governance mechanisms are complementary to each other i.e. countries where market for corporate control are not that much prevalent and enforcement of corporate government regulations through legal system are weak, provides a strong case for internal governance mechanisms to be at the forefront for improving corporate performance. Hence, considering the development stage of Indian economy where market for corporate control is still developing and there exists a weak legal enforcement regime of corporate governance, it appears that internal governance mechanisms will have significant bearing on corporate performance.

Sheikh et al. (2018) The relationship between corporate performance and board size is impacted by two competing aspects; first, slow decision making process under large board and second, a large board providing more linkages to resources and stakeholders (in external environment) and wide experience. Some of the empirical studies indicate positive relation between board size and profitability and between board size and return on assets, earnings per share, and market-to-book ratio, whereas others indicated non-linear relationship between board size and earnings management.

Radhik et al. (2020) Institutional investors in large numbers will have the opportunity, resources, and ability to monitor and influence the manager. Shares and/or options ownership by directors and executive officers will encourage behavior that can increase the value of the firm, but will also encourage managers to use discretionary accruals to increase firm performance in the period around the sale of shares or the use of options, so as to improve the welfare of directors and the executive officer.

Caylor (2021) found no relationship between the independence of directors and Tobin's Q, but found a positive relationship between the independence of directors and ROE, profit margin, dividend yield, and stock repurchases and concluded that shareholder value is influenced by the proportion of outside directors as indicated by the positive stock price reaction during the announcement of the appointment of outside directors

Robert and Brown WL (2019) Involvement also includes board members' willingness and ability to advance useful questions and to intervene constructively in the board decision making process. Additionally, for making their involvement the board members' must be prepared for the board meeting which refers to their willingness and ability to participate in board meetings with a deep knowledge of the topics to be discussed in order to actively contribute to the decision making process. Hence, number of board meetings and effective participation of board of directors in those meetings are expected to impact firm performance positively.

Objectives of the Study

- To study the relationship between corporate governance and selected IT Companies
- To study the impact of corporate governance on sustainability of selected IT Companies

Hypothesis

H_1: There is no significant relationship between corporate governance and selected IT Companies

H_2: There is no significant impact of corporate governance on sustainability of selected IT Companies

2. Research Methodology

Study purpose we have collected secondary data. Present study covers 5 years, from 2017 to 2022. The samples were TCS, Infosys, Accenture, IBM and ABB software companies. The corporate governance parameters selected for this study are Board independence, Ownership type, Board meetings, Firm size and Age of the firm. ESG (environmental, social and Governance) used as independent variable. We used various statistical techniques such as mean, standard deviation, Skewness, kurtosis, correlation, regression to analyze our data. The data are analyzed with the help of statistical software's like MS Excel, SPSS 28.

Data Analysis

Table 1: Descriptive Statistics

Parameters	**Mean**	**S.D**	**Skewness**	**Kurtosis**
BI	10.43	0.91	-1.14	0.13
OT	11.90	1.88	-0.55	0.53
BM	13.77	0.73	0.92	-0.40
FS	9.34	1.01	0.34	0.65
FA	11.31	0.78	-1.26	-0.27
ESG	13.12	4.64	1.35	1.72

Source: Own Calculation

Table 1 shows the descriptive statistics analysis. ESG mean score has 13.12 with S.D of 4.64. Board size of the software companies members between 6 to 14 with an average of 8 on the board. Companies have conducted at least 5 board meetings with an average of 12 meetings. Software companies have minimum 6 and 20 board level committees. A board had no non-executive directors (BCOMP minimum = 0) and while at another point of time all the directors of a board were non-executive directors and Similar results were found in case of board independence. At a particular point of time a board had no independent directors but at some point, 90% of the board of directors are independent.

Table 2: Correlation Analysis

Variable	**ESG**	**BI**	**OT**	**BM**	**FS**	**FA**
ESG	1					
BI	0.015	1				
	0.00					
OT	-0.343**	0.091	1			
	0.000	0.004				
BM	0.212	0.021	0.130*	1		

	0.000	0.001	0.003			
FS	0.761	0.003	0.943	0.872	1	
	0.003	0.000	0.001	0.002		
FA	0.200**	0.198	0.732**	0.281**	0.839	1
	0.000	0.001	0.004	0.000	0.001	

Source: Own Calculation

The above table 3 explains about the co-relation between the Board independence, Ownership type, Board meetings, Firm size and Age of the firm and ESG. There is a positive correlation of between dependent and independent variables. Hence there is significant association between the variables. We rejected the null hypothesis.

Impact of corporate governance on sustainability of selected IT Companies

Present research paper is attempting to find the impact of corporate governance on sustainability of selected IT Companies. To measure the factors, the regression model is applied.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.883	.732	.812	2.12277

The regression model summary shows that the R value is 0.993 and adjusted R square value is 0.732 (73%). This indicates that 27% of the variation of Board independence, Ownership type, Board meetings, Firm size and Age of the firm. The result of ANOVA test is given below.

Table 5: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	193.102	4	117.418	108.381	0.000
	Residual	109.543	135	7.138		
	Total	302.645	139			

The ANOVA table shows the fitness of the model. The calculated F value (108.391) from the ANOVA test shows fitness of the model (p-0.000). The significance values are less than 0.05. Hence, the null hypothesis is rejected. Study concluded that there is significant impact of corporate governance on sustainability of selected IT Companies.

3. Conclusion

Present study aims to find out any relationship between Corporate Governance and sustainability (ESG) of Indian IT Companies. The empirical results of correlation analysis show that among the corporate governance variables have significant association of the selected IT Companies. The study can be further carried out with inclusion of the other corporate governance variables like independent director, board composition, number of audit meeting, leverage, and ownership structure. Further boards and CEO qualification, experience, frequency of audit meetings were not considered in the study. Comparative corporate governance can also be carried out between IT and ITES companies

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