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Corporate Governance - Impact on Financial Performance of Selected ITCompanies in Bengaluru City

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Abstract:
Corporate governance norms in India have evolved well over the year's post-economic liberalization, with SEBI constituting a number of committees to suggest codes of conduct for good governance of corporate organizations. Corporate governance has received much attention in the accounting literature, with studies focusing on the influence of corporate governance on corporate financial performance in selected companies in Bangalore city. The association between quality of corporate governance and firms' profitability is quite major focus in corporate governance improvement. Better governed firms might have more efficient operations, resulting in a higher expected future management. The purpose of this study was to determine the influence of corporate governance on corporate financial performance in selected companies in Bangalore city. Primary data collected through structured questionnaire from selected IT companies (Tech Mahindra, TCS, Infosys, Cap Gemini, Caterpillar, and Wipro) in Bangalore city. Study found that there is a positive correlation between corporate board size, corporate board composition, corporate policy, corporate independent committees and corporate financial performance. The study concluded that Organization should choose a sizeable board which is efficient and well informed in matters corporate governance so as to strengthen their corporate financial performance, organizations should have an excellent board composition full of individuals with diverse expertise and knowledge so as to enhance better corporate governance.
Keywords: Corporate governance, IT companies, financial performance, Bangalore city

Introduction
The objective of any corporate governance system is to simultaneously improve corporate performance and accountability as a means of attracting financial and human resources on the best possible terms, and of preventing corporate failure (***Al-ahdal, W. M et al.2020***). Both policymakers and business managers have become increasingly aware of the importance of improved standards of corporate governance. India launched a series of economic reforms in 1991 in response to a severe balance of payments crisis, many of which directly or indirectly led to a substantial liberalization of the corporate sector (***Saidat, Z., Silva, M et.al 2019).***The freeing of capital markets and entry of foreign investors brought new financing and ownership opportunities and significantly raised the volume of new equity issues. . For studies of single countries or firms within a country, the first type of definition is the more logical choice. It considers such matters as how boards of directors operate the role of executive compensation in determining firm performance, the relationship between labor policies and firm performance, and the roles of multiple shareholders and stakeholders ***(Sugiyanto et.al 2020).***

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Today corporate governance has become a worldwide issue, and the development of corporate governance practices has become a prominent issue in all countries in the universe ***(Al-Sartawi et.al 2019***). Corporate governance is a system of structures and processes to direct and control the functions of an organization by setting up rules, procedures and formats for managing decisions within an organization. It specifies the distribution of rights and responsibilities among company's stakeholders (***Li, Z. Crook et.al 2021***). Governance refers to the act of exercising power in the management of socioeconomic resources of an organization in order to have sustainable human development ***(John, 2013).*** It helps in achieving order and equality in the society as it facilitates production of goods and services in an efficient manner. Governance brings accountability in the use of power andcorporate environment that enables people to fully participate in contributing towards finding innovative solutions to issues that affect everyone (***Manita, R et.al 2020***).

Review of Literature

Srivastava, G., & Kathuria, V. (2020) studied role of corporate governance on the financial and operational performance of Indian companies for the period of 10 years. It is found that the external causes unleashed from the reform process should be a catalyst to more significant internal management changes. Study concluded positive relationship between the CG index and the performance of the utilities. It is recommended that policy implication is that improvement in CG is worth pursuing even in utilities where arm's length between government and the utility is not possible, as the government is the owner of these utilities.

Zahid, M. (2020) investigated the impact of corporate governance on earning quality of 107 companies from 2007 to 2016. Study found board size, CEO duality, Board composition, Board independence, Frequency of board meetings, Audit Committee size, Audit committee meeting and Audit quality have been taken to measure the impact of corporate governance on two variables of earning quality which are earning persistence and earning predictability. And it is also found that positive impact of audit meeting and board composition on earning quality. On the other hand CEO duality and board size have shown very negative impact on earning quality. Study recommends that these sectors can improve their performance and quality of earnings by applying the timely audit meetings and composing a board which have combination of outside directors.

Kihara, et.al (2015)corporate governance has been proving a very efficient and effective system for our economy and to save the interest of shareholders but some more efficient monitoring and transparent internal audit system, efficient board and management can lead it to effective corporate governance. There is an ongoing need for constant review and course corrections that would keep the country in the pink of health in terms of its corporate excellence by a judicious mix of legislation, regulation and suasion. To facilitate such a graduation into better governance practices, globalization has opened up an array of opportunities to Corporate India to emerge successful in its new tryst with destiny. The scams discovered in a number of large privately owned corporations during the last one decade clearly indicate the nature and extent of corporate mis-governance that exists in the private sector

Bowen, R. M et.al (2020)examine the effectiveness of corporate governance in monitoring private in-house meetings between management and investors. Study found that the negative association between governance quality and (i) private in-house meeting frequency, (ii) reduced insider trading frequency and value around private in-house meetings, and (iii) reduced insider trading profitability around these meetings. It is recommended that improving corporate governance quality may be a partial substitute for costly government regulation designed to curb negative consequences of private in-house meetings.

Arokiaraj, D et.al (2020)analyzed the practice of innovative management system (IMS) among the auto-component manufacturers in Ambattur Industrial Estate, Chennai, India. Study found that the ustainable procurement (30.4%) and eco-product design (30.1%) are determined by the practice of corporate governance. Further, it is noted that the practice of waste management system (WMS) 30.4% with innovating tactics by the method of 3R's are recycled, reuse and recovered, again it pushed the product into the eco-product design (16.1%) and WMS influence environmentally responsible manufacturing process by 29.8%.

Masibo (2015)Investment in telecom projects with private participation covers infrastructure projects in telecommunications that have reached financial closure and directly or indirectly serve the public. From observations the growth in telecommunication industry especially on mobile usage has had a very positive impact on

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the economy and has substantially benefited the people more than any other industry before. In terms of employment the sector employed approximately 3.5 million people, directly and indirectly from technical fields such as qualified engineers and administrators to indirect employment which has helped spread the wealth to those who don't have the benefit of education or the right connections

Objectives

- To assess the influence of corporate governance on financial performance in selected companies in Bangalore city.

Hypothesis

H_0: There is no correlation between corporate board size, corporate board composition, corporate policy, corporate independent committees and corporate financial performance

Research Methodology

The primary research data was collected using a structured questionnaire. The researcher approached each respondent andissued 150 questionnaires to IT company's staff in various organizations'(Tech Mahindra, TCS, Infosys, Cap Gemini, Caterpillar, and Wipro) in Bangalore city. Received valid responses 103 and remaining responses are not valid.Rating scale of 5 to 1; where 5 were the highest and 1 the lowest. Opinions given by the respondents were rated as follows, 5= Strongly Agree, 4= Agree, 3= Neutral, 2= Disagree and 1= Strongly Disagree. Secondary data collected through various websites and annual reports.

Data Analysis and Interpretation

Reliability Test

Scale	Cronbach's Alpha	Number of Items
Corporate Board Size	0.821	6
Corporate Board Composition	0.753	6
Corporate Policy	0.921	6
Corporate Independent Committees	0.902	6
Corporate Financial Performance	0.812	6

Study was carried out to pre-test the validity and reliability of data collected using the questionnaire. The overall Cronbach's alpha for the six categories which is 0.815. The findings of the pilot study showed that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.8 (***Lartey, P. Y et.al , 2020).***

Gender

The study sought to establish the gender of respondents. The study results revealed that 73% of the respondents were male and 26% were female with a mean score of 2.30 and a standard deviation of 1.791. This shows that majority of respondents that participated in the study were male employees in selected companies.

Gender	Frequency	Percent
Male	76	73.7
Female	27	26.2
Total	**103**	**100**

WorkingExperience

The study sought to establish the working experience of respondents. The study results showed that respondents with working experience of between 1-5 years were 32.0%, between 6-10 years were 35.9% and above 10 years were 22.3% with a mean score of 1.90 and a standard deviation of 0.901. This shows that respondents that participated in the study have a working experience of between 6-10 years.

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Working Experience	**Frequency**	**Percent**
Between 1-5 Years	33	32.0
Between 6-10 Years	37	35.9
Above 10 Years	23	22.3
Total	**92**	**100**

CorrelationAnalysis

Correlations						
		Corporate Financial performance	Corporate Board size	Corporate Board composition	Corporate policy	Corporate Independent committees
Corporate financial performance		1				
		103				
Corporateboardsize		.743	1			
		.000				
		103	103			
Corporateboardcomposition		.821	.154	1		
		.000	.000			
		103	103	103		
Corporatepolicy		.788	.501**	.739**	1	
		.000	.000	.000		
		103	103	103	103	
Corporateindependentcommittees		.141**	.881	.851	.798	1
		.000	.000	.000	.000	
		103	103	103	103	103
**. Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).						

In above table shows the relationship between the study variables and their findings, the study used the correlation. Study found that there is a positive correlation between corporate board size, corporate board composition, corporate policy, corporate independent committees and corporate financial performance. The analysis indicates the coefficient of correlation, r equal to 0.743, 0.821, 0.788 and 0.141 for corporate board size, corporate board composition, corporate policy and corporate independent committees respectively. This indicates positive relationship between the independent variable namely corporate board size, corporate board composition, corporate policy and corporate independent committees and the dependent variable corporate financialperformance. Hence null hypothesis rejected and there is positive relationship among the variables in the study.

Coefficient of Determination

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.723	.852	.828	1.19883

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a. Dependent Variable: Corporate financialperformance
b. Predictors: (Constant), Corporate independent committees, Corporate board composition, Corporate board size, Corporatepolicy

The model explains 85% of the variance (Adjusted R Square = 0.852) on corporate financial performance. This means that 85% of the relationship is explained by the identified four factors namely corporate board size, corporate board composition, corporate policy and corporate independent committees. The rest 15% is explained by other factors in the corporate financial performance not studied in this research.

Conclusion

This study focused on the influence of corporate governance on corporate financial performance in selected companies in Bangalore city. The study showed that there was a positive correlation between independent variable and dependent variable. The goodness of fit is 85%. Results found that there is statistically significant influence of corporate board size on corporate financial performance of selected companies in Bangalore city. It is concluded that there is positive correlation between corporate board size, corporate board composition, corporate policy, corporate independent committees and corporate financial performance. Study made the following suggestions. Firstly, selected IT companies in Bangalore city should have an excellent board composition full of individuals with diverse expertise and knowledge so as to enhance better corporate governance and corporate financial performance. Secondly, selected T companies in Bangalore city should ensure that policies and guidelines are followed to the latter so as to caution the firms against bad corporate governance and practices thus enhancing corporate financial performance.

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