Journal for Re Attach Therapy and Developmental Diversities
eISSN: 2589-7799
2023 December; 6 10s (2): 2104 - 2110

Effect Of Scale Of Operating Firms On Various Dimensions Of Corporate Governance And Corporate Performance In Information Technology Industry

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Abstract

Corporate governance deals with the relationships among a company's board of directors, management, shareholders, and other stakeholders. The present study was conducted among the managerial cadre employees of the organizations where they follow corporate governance practices. A total of 396 samples have been identified through random sampling method from the information technology companies situated in Chennai and Bangaluru, and the study is conducted with the help of a well-structured questionnaire. Result of the study show that the independent variables taken for the study board composition, independence and governance, employee involvement, ethical behavior, and utilization of IT, are significantly influenced by scale of operation, whereas employees do not differ significantly with respect to corporate performance.

Key words: Corporate Governance, Executive Remuneration, Corporate Governance Practices, Sustainability initiative, Ethical behavior, Corporate Performance

INTRODUCTION

Discussions about corporate governance (CG) have taken place in a variety of settings, including law, accounting, finance, and management. Such conceptual and contextual definitions about CG are restricted to the purposes based on which they have been propagated. However, authors describing CG from regulatory perspective have come out with much comprehensive meaning about the concept of CG. CG has been defined by Nandini and Zhang (2009) as “the act of externally directing, controlling and evaluating a corporation” while Jill (2007) describes CG as “The act of externally directing, controlling and evaluating an entity, process or resource”. CG includes implied and express agreement binding the firm and its stakeholders for fairly distributing incentives, rights and obligations; Recognizing stakeholders’ contradictory interests in the backdrop of their rights, obligations and responsibilities, and Mechanism for effectively supervising, communicating and controlling to ensure that irregularities are promptly identified and rectified.
Principles of CG have been enumerated through three major documents tabled after the 1990s. The British-based 1992 Cadbury Report, OECD (1999, 2004 and 2015) and the American 2002 Sardanes-Oxley Act engulfs the generally accepted principles of CG. Firms have to execute their business operations keeping in mind, these principles if they aspire to function as “businesses with good governance”. The principles are Fair and unbiased Handling of Shareholders, Interests of other stakeholders, Responsibilities of the board, Integrity and ethical behavior, Disclosure and transparency, Principal-Agent Conflict, Principal-Principal Conflict, and Corporate Accountability.
Indian Companies Act of 1956 was in force for almost two-third of century. It was replaced by the 2013 Companies Act which has given extensive stress on CG norms to be complied by business firms. In addition, the Companies Rules of 2014 issued by the Ministry of Corporate Affairs and the Securities Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 have also laid down rules and regulations to be followed by firms in respect of CG.
The guidelines prescribed by SEBI for corporate governance are Composition of Board of Directors, Appointment of Independent Directors, Training of Independent Directors, Attending Meetings, Meeting of Independent Directors, Appraisal of Independent Directors’ performance, Notice of Board Meetings, Filling-up of Board Vacancies, Audit Committee, Nomination and Remuneration Committee, Stakeholders Relationship Committee, Whistle Blower Mechanism, Related Parties Transactions, Subsidiary Companies, Disclosures in Website, and Compliance Reports.

REVIEW OF LITERATURE

The British East India Company is the first publically listed corporate entity in the world. During the 17^{th} century, stockholders and managerial personnel of the company accorded serious attention to CG issues (David et at., 2016; Midanek, 2018).

Furthermore, the 17th century witnessed the popularization of "Shareholder Activism" in the Dutch Republic (Hansmann & Pargendler, 2014). Durnev and Kim (2005) have put forth an interesting argument that business entities having good access to financial resources and utilising external sources of finance have better inclination towards implementing good CG practices. Beiner et al. (2006) have also indicated that implementation of good CG practices results in better firm value. They have revealed that a one percentage increase in CG implementation by a firm would result in a 12% hike in its net worth. Beiner et al. (2006) also exposed that good CG implementation by Chinese firms resulted in higher market value for them. Brown and Caylor (2004) also revealed that good CG compliance by firms augmented their performance and dividend for stockholders.

Ramachandran (2007) stressed that strict governmental regulations are indispensable for governing Fes as they are controlled by few persons. A cordial relationship between managerial personnel belonging and not belonging to the family results in constructive discussions which can better the performance of the firms. Colarossi (2008) studied 121 Italian Fes and found that small-sized Fes operated well in consistency with CG norms. Haslindar and Fazilah (2011) unearthed that Italian and Malaysian Fes respectively earned better returns on equity while their market value is lesser than the firms without family ownership. Hashim and Susela (2009) also found that Malaysian Fes during 2004 witnessed better profitability due to decreased agency cost. Brenes et al. (2009) surveyed 22 Fes managed partially by outside managerial personnel as well as family members and found that both outsiders and family members complement themselves well and this resulted in better profits for the enterprise.

However, Saravanan and Mayur (2017) studied 771 Indian firms listed in Bombay Stock Exchange during the five-year period of 2001-05 and found that family ownership in business enterprises failed to exert any substantial impact on their market value. Renato Giovannini et al. (2017) studied 56 Italian Fes listed in "Milan Stock Exchange" during 1999-2005 and found that external control of firms improves their performance.

RESEARCH GAP

Numerous articles have been written about the history of corporate governance (CG), its implications, and the effects of various CG parameters on a company's financial and competitive performance, including board size, diversity and composition, AC, the dual role of the CEO, and executive compensation. Research on the consequences of adhering to CG laws on the performance of businesses has been done and published in both foreign and Indian publications of repute. However, all studies exploring the impact of CG parameters on firm performance have yielded mixed and inconsistent results. Further, all studies exploring the impact of CG parameters have been conducted using secondary data. Hence, there is a gap in the literature to explore the implications of CG implementation on firm performance through survey method to tide over the limitations associated with studies conducted using secondary data. This research tries to exactly fill this gap by exploring the extent of compliance of IT firms to different CG norms by conducting an extensive survey and assess the impact of such compliance on their performance.

STATEMENT OF THE PROBLEM

Business firms are hesitant to adhere to CG rules, even in the face of many statutory regulations (Brenes et al., 2011). They have not constituted the necessary committees on Stakeholders relations, Auditing, Administration and Remuneration. They have not strictly complied to the regulations on appointing independent and functional directors in their board and filling vacancies of such directors within the mandatory period. Regarding transparency and disclosure compliance, Faccio et al. (2001) have pointed out that performance of the board largely depend on how transparent operations of the firms are and how well these enterprises are regulated by the laws. Succession plan is another issue that is related with corporate governance. Sometimes, a poor succession plan may result in discontinuity of the business as well as ruining of relationships within the families (Brenes & Madrigal, 2003).

NEED FOR THE STUDY

A plethora of laws and regulations have been enacted to ensure that corporations fulfill their social responsibilities to stakeholders. It is important for firms to form several committees in order to guarantee that their operations are conducted in an equitable manner. However, it is a reality that corporate are reluctant to incorporate these good practices in their routine business despite the favourable consequences of CG execution. Adherence of CG results in the protection of management interest. It also safeguards interests of stockholders. CG adherence also triggers better economic growth of the country. Firms having good CG compliance record commands better loyalty and buoyancy of stockholders. Complying to CG norms such as sufficient independent directors in board instills confidence of investors which makes the firm's stock popular in the financial market, thus boosting the firm's value. In addition, the firm is capacitated to raise finance easily which will diminish its cost of capital. Further, CG compliance is looked upon as an important criteria by foreign investors. Hence, firms with good CG record can attract heavy foreign capital either as FII or FDI which is also good for

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boosting the economic growth of the nation. CG also strengthens the reliability of financial markets as unfair trade practices such as insider trading is eliminated. CG also inspires management to arrive at business decisions which will benefit all stakeholders and not exploit anybody. CG compliance importantly diminishes corruption, misconduct and negligence, risk and unnecessary wasting of resources. Firms with good CG record command good brand value in domestic and foreign markets. Adherence to good principles of self-control and self-regulation boosts stockholders value. To add to these intrinsic and extrinsic benefits, studies have revealed that CG adherence by firms augments their financial performance and efficiency. Despite penalty provisions for failing to constitute various committees, many PSUs owned by government have not implemented these regulations. It will be interesting to find out the extent of implementation of the CG regulations by private corporates. This research has made an attempt to study these issues.

OBJECTIVE OF THE STUDY

Based on the above discussions, the objective framed for the present study is to find out the effect of scale of operation on various factors of corporate performance.

RESEARCH METHODOLOGY

Since, the nature of the problem is to determine the relationship among the different variables, he present study falls under the category of "Descriptive studies" (Kothari, 2012). The research endeavour to take stock of the CG practices followed by companies surveyed and the existence of different committees to facilitate implementation of such practices. It includes Compliance of Transparency and Disclosure norms, conduct of general body meetings, Board Composition, functioning of board, performance appraisal of directors, Independence and expertise of directors, Criteria for Including Directors in Board and Governance practices of the board, employee Involvement in CSR Activities and Ethical Behaviour, sustainability initiatives of the companies, Utilisation of IT for E-Governance, Effectiveness of Board and CEO Operations, fixation of executive remuneration and Corporate Performance of the Company. Top level managerial personnels of IT companies located in the two cities of Chennai and Bengaluru constitute be the study population for this research. The two cities of Chennai and Bengaluru, considered as IT hub, has been selected as the sample frame for this research.

The desirable sample size for research involving study population of upto one million is 384 as the population of the study is unknown (Krejcie and Morgan, 1970). Cochran's formula also suggests the same value for the unknown population, which comes to 384. In order to reduce the error rate an additional 10 percent of the sample is added with the 384 which result in 423 Considering this as the yardstick, the researcher approached 423 managerial personnel of IT companies in Chennai and Bengaluru. Researcher got permission from select companies and approached the HR manager and sought permission to carry out the research. Few companies denied permission while others accepted and permitted the researcher with the condition not to disturb the employees during the working hours. Researcher personally met the managers and obtaining their response. The respondents were given time to fill the questionnaire and return it back. The researcher again visited the personnel to get back the filled questionnaires. 414 managerial personnel returned the filled in questionnaires. After cleaning the data 18 questionnaire are found to be improperly filled and hence, they are discarded from the study.

Hence, the final sample size got settled to 396, which satisfies the yardstick propagated by Krejcie and Morgan (1970). Purposive Sampling Technique was employed to select the desirable sample units for the research. The questionnaire was administered personally to top level managerial personnel of IT companies and the data so collected were suitably codified and analysed and interpreted to arrive at solutions for the research problems by testing the hypotheses. The Cronbach alpha coefficient values are found to be more than acceptable level of 0.7 as mentioned by Nunnally (1978), which shows that the items have relatively high internal consistency. Statistical analysis software of SPSS (Statistical Package for Social Science) has been used to analyze the data with the tools like descriptive statistics, and regression analysis.

ANALYSIS AND INTERPRETATION

Table - 1: ANOVA – Effect of Scale of Operation on Transparency and Disclosure Compliance

Scale of Operation	Mean	SD	F	Sig.
Small Scale	3.710	.636	.952	.387
Medium Scale	3.777	.574		
Large Scale	3.859	.464		

Table 1 shows the mean and standard deviation of transparency and disclosure compliance with respect to scale of operation. To know the differences among the respondents working in organizations based on scale of operation with respect to transparency and disclosure compliance, ANOVA test was performed. Result shows an insignificant outcome

(F = 0.952; p = 0.387). That is, the respondents working in different scale of operating firms do not differ significantly towards transparency and disclosure compliance.

Table – 2: ANOVA – Effect of Scale of Operation on Board Composition, Independence and Governance

Scale of Operation	Mean	SD	F	Sig.
Small Scale	3.310	.353	5.730	.004
Medium Scale	3.262	.394		
Large Scale	3.028	.529		

Table 2 shows the mean and standard deviation of board composition, independence and governance with respect to scale of operation. To know the differences among the respondents working in organizations based on scale of operation with respect to board composition, independence and governance, ANOVA test was performed. Result shows a significant outcome (F = 5.730; p = 0.004). Post hoc Bonferroni test result shows that the respondents working in small scale companies (mean = 3.310; SD = 0.353) significantly differ from medium sized firm (mean = 3.262; SD = 0.394) and large sized firms (mean = 3.028; SD = 0.529). That is, the respondents working in small scale industries have more board composition, independence and governance compared to medium scale and large-scale industries.

Table – 3: ANOVA – Effect of Scale of Operation on Employee Involvement

Scale of Operation	Mean	SD	F	Sig.
Small Scale	2.964	.505	3.380	.032
Medium Scale	3.237	.544		
Large Scale	3.346	.577		

Table 3 shows the mean and standard deviation of employee involvement with respect to scale of operation. To know the differences among the respondents working in organizations based on scale of operation with respect to employee involvement, ANOVA test was performed. Result shows a significant outcome (F = 3.380; p = 0.032). Post hoc Bonferroni test result shows that the respondents working in large scale companies (mean = 3.346; SD = 0.577) and medium scale companies (mean = 3.237; SD = 0.544) significantly differ from the employees working in small scale industries (mean = 2.964; SD = 0.505). That is, the respondents working in large scale industries and medium scale industries have more employee involvement compared to the employees working in small scale industries.

Table – 4: ANOVA – Effect of Scale of Operation on Ethical Behaviour of Employees

Scale of Operation	Mean	SD	F	Sig.
Small Scale	2.782	.864	3.391	.043
Medium Scale	3.411	.763		
Large Scale	3.517	.642		

Table 4 shows the mean and standard deviation of ethical behaviour of employees with respect to scale of operation. To know the differences among the respondents working in organizations based on scale of operation with respect to ethical behaviour, ANOVA test was performed. Result shows a significant outcome (F = 3.391; p = 0.043). Post hoc Bonferroni test result shows that the respondents working in large scale companies (mean = 3.517; SD = 0.642) and medium scale companies (mean = 3.411; SD = 0.763) significantly differ from the employees working in small scale industries (mean = 2.782; SD = 0.864). That is, the respondents working in large scale industries and medium scale industries have more ethical behaviour compared to the employees working in small scale industries.

Table – 5: ANOVA – Effect of Scale of Operation on Sustainability Initiative

Scale of Operation	Mean	SD	F	Sig.
Small Scale	3.428	.585	1.205	.142
Medium Scale	3.461	.594		
Large Scale	3.448	.669		

Table 5 shows the mean and standard deviation of sustainability initiative with respect to scale of operation. To know the differences among the respondents working in organizations based on scale of operation with respect to sustainability initiative, ANOVA test was performed. Result shows an insignificant outcome (F = 1.205; p = 0.142). That is, the respondents working in different scale of operating firms do not differ significantly towards sustainability initiative.

Table – 6: ANOVA – Effect of Scale of Operation on Utilisation of IT for e-Governance

Scale of Operation	Mean	SD	F	Sig.
Small Scale	3.284	1.067	3.148	.044
Medium Scale	3.205	1.079		
Large Scale	3.746	.462		

Mean and standard deviation of utilization of IT for e-Governance with respect to scale of operation is shown in the above **table 6**. To know the differences among the respondents working in organizations based on scale of operation with respect to utilization of IT for e-Governance, ANOVA test was performed. Result shows a significant outcome (F = 3.148; p = 0.044). Post hoc Bonferroni test result shows that the respondents working in large scale companies (mean = 3.746; SD = 0.462) significantly differ from the employees working in small scale industries (mean = 3.284; SD = 1.067) and medium scale companies (mean = 3.205; SD = 1.079). That is, the respondents working in large scale industries have utilize Information Technology in their e-Governance process compared to the employees working in small scale industries and medium scale industries.

Table – 7: ANOVA – Effect of Scale of Operation on Effective Board and CEO Operations

Scale of Operation	Mean	SD	F	Sig.
Small Scale	3.315	.737	.289	.749
Medium Scale	3.261	.775		
Large Scale	3.333	.508		

Table 7 shows the mean and standard deviation of effective board and CEO operations with respect to scale of operation. To know the differences among the respondents working in organizations based on scale of operation with respect to effective board and CEO operations, ANOVA test was performed. Result shows an insignificant outcome (F = 0.289; p = 0.749). That is, the respondents working in different scale of operating firms do not differ significantly towards effective board and CEO operations.

Table – 8: ANOVA – Effect of Scale of Operation on Executive Remuneration

Scale of Operation	Mean	SD	F	Sig.
Small Scale	3.164	.563	1.564	.211
Medium Scale	3.103	.527		
Large Scale	3.280	.479		

Table 8 shows the mean and standard deviation of executive remuneration with respect to scale of operation. To know the differences among the respondents working in organizations based on scale of operation with respect to executive remuneration, ANOVA test was performed. Result shows an insignificant outcome (F = 1.564; p = 0.211). That is, the respondents working in different scale of operating firms do not differ significantly towards executive remuneration.

Table – 9: ANOVA – Effect of Scale of Operation on Corporate Performance

Scale of Operation	Mean	SD	F	Sig.
Small Scale	3.178	.715	1.979	.140
Medium Scale	3.202	.730		
Large Scale	3.477	.497		

Table 9 shows the mean and standard deviation of corporate performance with respect to scale of operation. To know the differences among the respondents working in organizations based on scale of operation with respect to corporate performance, ANOVA test was performed. Result shows an insignificant outcome (F = 1.979; p = 0.140). That is, the respondents working in different scale of operating firms do not differ significantly towards corporate performance.

FINDINGS AND SUGGESTIONS

It is found that the respondents working in different scale of operating firms do not differ significantly towards transparency and disclosure compliance. Result shows that the respondents working in small scale companies significantly differ from medium sized firm and large sized firms. The respondents working in small scale industries have positive

opinion towards board composition, independence and governance compared to medium scale and large-scale industries. Result reveals that the respondents working in large scale companies and medium scale companies significantly differ from the employees working in small scale industries. That is, the respondents working in large scale industries and medium scale industries have more employee involvement compared to the employees working in small scale industries. It is found that the respondents working in large scale companies and medium scale companies significantly differ from the employees working in small scale industries. That is, the respondents working in large scale industries and medium scale industries have more ethical behavior compared to the employees working in small scale industries.
It is evident from the findings that the respondents working in different scale of operating firms do not differ significantly towards sustainability initiative. Result shows that the respondents working in large scale companies significantly differ from the employees working in small scale industries and medium scale companies. That is, the respondents working in large scale industries have utilize Information Technology in their e-Governance process compared to the employees working in small scale industries and medium scale industries. Result reveals that the respondents working in different scale of operating firms do not differ significantly towards effective board and CEO operations. It is identified that the respondents working in different scale of operating firms do not differ significantly towards executive remuneration. Result shows that the respondents working in different scale of operating firms do not differ significantly towards corporate performance.
Employees working in large scale and medium scale industries have more employee involvement compared to the employees working in small scale industries. Thus, it is suggested that the board in small scale industries should create a platform to include its employees in various activities like quality control circles, safety committees, employee problem-solving task force, continuous improvement teams, idea campaign, and suggestion box. This will enhance employee involvement and result in higher employee performance.
As, the employees working in large scale and medium scale industries have more ethical behavior compared to the employees working in small scale industries, it is recommended that small scale industry board should also insist its employees to have more ethical behavior in their workplace like following the company’s rule, voluntarily taking the responsibilities, respecting colleagues, etc.
Small scale and medium scale industries face struggle to utilize information technology in their e-governance process. Therefore, it is suggested that they should incorporate and implement various information technology tools in their regular governing process so as to improve organizational performance.

CONCLUSION

The present study on corporate governance deals with the rules, practices, and processes by which a company is directed and controlled. It comprehends the relationships among a company's board of directors, management, shareholders, and other stakeholders. Result of the study show that employees working in firms with different scale of operation significantly differ in their opinion towards, board composition, independence and governance, employee involvement, ethical behavior, utilization of IT, and executive remunerations. That is, large and medium scale companies have an edge over small scale for majority of the dimensions in corporate governance. Therefore, adopting foreign standards in corporate governance will also assists Indian companies to have a good governance practice at par with international standards.

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