An Empirical Analysis of Corporate Governance and Financial Performance of India's IT Sector

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Abstract
A series of high-profile corporate frauds, governance failures, and financial irregularities both in India and globally (e.g., Enron, Satyam, Wirecard), has made corporate governance a centerpiece. These incidents have highlighted the significance of corporate governance in sustaining market integrity and building the confidence of the stakeholders. This study made an effort to examine whether there is any association between corporate governance practices and financial performance of a firm. For evaluating the relationship between corporate governance and financial performance, four corporate governance variables i.e., Board Meetings (BM), Audit Committee Meetings (ACM), Women Directors (WD), and Independent Directors (ID)and three financial metrics namely Return on Equity (ROE), Debt-to-Equity Ratio (DER), and Book Value (BV) have been used. It has been found that Board Meetings and Independent Directors positively influence profitability of the firms whereas the capital structure decisions are strongly influenced by the proportion of Women Directors in the board. The study also suggested that board independence and active monitoring are the drivers of conservative accounting and reduced inflated valuations and as a result both proportion of Independent Directors and frequency of Audit Committee Meetings have a substantial adverse influence on Book Value of the shares. Overall, the study recommended that corporate governance practice influences financial outcome in the Indian IT Industry.

Keywords: Corporate governance, Indian IT Industry, governance mechanism, financial performance.

Introduction
Corporate governance has emerged as a keystone of accountable business practice in the contemporary business world. Corporate governance refers to a set of rules, regulations, systems and procedures by which the organization is controlled and authority is exercised. Corporate governance is mainly concerned with maintaining a balance between organizational goals and individual and communal goals. With the help of the framework provided by corporate governance, the goals of the company are fixed, the ways of accomplishing those goals are set and the performance of the company is monitored.
The concept of corporate governance is not stationary, it changes with respect to the contemporary business challenges, stakeholder expectations, and regulatory advances. It includes the mechanisms by which fixation of organizational objectives, strategy formulation, performance monitoring, risk assessment are done while complying with all the legal and ethical standards. Corporate Governance encompasses association between different external and internal stakeholders like the board of directors, management, regulators, auditors, investors and society at large.

The modern perception of corporate governance gained significant momentum after the publication of Cadbury Report (1992) in the United Kingdom. The report underscored the need of properly defining the roles and responsibilities of company leadership and the regulatory authorities. It served as the base for several regulatory governance standards implemented globally and also prepared guidelines for board accountability, internal control mechanisms and transparency in financial reporting.

The Organisation for Economic Co-operation and Development (OECD) published a report, in the year 2015, defining corporate governance as a system that associates different stakeholders through collective goals, strategic actions and performance monitoring. The OECD principles are globally accepted standards that highlight the rights of shareholders, fair treatment of all the stakeholders, transparent disclosure and the farm duties of the board.

Effective corporate governance is contingent on a structured blueprint that outlines the rights and responsibilities of each stakeholder group. Some of the core components Board of Directors, Executive Management, Shareholders, Auditors (Internal and External) and Regulators like SEBI that enforce corporate laws and standards.

In India, the history of corporate governance practices is not very old. In the year 1995, the first scheduled exercise was observed followed by several committee meetings. In 2022 SEBI made a significant move by including Clause 49 in the equity listing agreement. The purpose of this was to document the standards of corporate governance, which are currently accepted. In spite of implementing all necessary and optional measures laid out in Clause 49, India was unable to exhibit the highest levels of corporate governance. To overcome these, a special chapter on corporate governance was included in the Companies Act, 2013.

In that chapter, the composition of the board, the training and appraisal of the directors, independent and women directors, subsidiary companies, audit and internal audit committees, risk management committees, nomination and remuneration committees, and compliance were all covered in various ways. This legislation notably strengthened the corporate governance landscape of India by integrating Indian corporate practices with global standards.

In light of a series of high-profile corporate frauds, governance failures, and financial irregularities both in India and globally (e.g., Enron, Satyam, Wirecard), corporate governance has become a centerpiece. These incidents accentuated the critical importance of corporate governance in sustaining market integrity and confidence of the investors.

To evaluate governance quality, Institutional Shareholder Services (ISS) has developed a holistic metric-the Corporate Governance Quotient (CGQ) to evaluate the efficiency of governance in listed companies. The CGQ assesses companies based on eight parameters. Those parameters are structure and composition of the board, Audit and accounting practices, Legal environment and state incorporation laws, Charter and bylaw provisions, Executive and director compensation, Governance quality factors, ownership stake by insider sand Education and professional background of the Directors. Such tools are contributory for investors and analysts to judge governance risk and make informed decisions.

Literature Review

Latest studies on corporate governance and its effect on financial performance in Indian companies, including the IT sector, has generated imperative understandings. *Kumar & Singh (2018)* suggested that IT companies with more independent directors and audit committees exhibit better risk management and transparency. *Sharma (2019)* in his study, emphasized that corporate governance reforms post-Satyam scandal made ways for stricter governance regulations, which in turn improved investor confidence in

Indian IT firms. *Reddy & Prasad (2020)* reported a significant positive correlation between independence of board and ROE in Indian IT firms, representing better monitoring leads to heightened productivity. Sethi, Sahu, and Maity (2023) examined 76 non-financial firms which are listed on the National Stock Exchange (NSE) for the period 2010 and 2019 and observed board independence has significant positive impact on the asset utilization ratios and also enhanced operational efficiency of the firms. They also found that board meetings have no significant relation with firm performance. Similarly, Sharma and Goel (2023) analysed a panel of 229 companies from the S&P BSE 500 index over 16 years and recounted that larger board sizes and higher promoter and institutional ownership were positively correlated with firm performance. Satapathy, Soni, and Patjoshi (2023) investigated the Indian acquiring firms engaged in mergers and acquisitions and found that board size has a substantial positive impact on short-term market performance, highlighting the significance of governance in the course of corporate restructuring. Furthermore, Singhania and Panda (2025) studied the influence of the composition of audit committee on firm performance among top non-financial companies listed in NSE and opined that a well-structured audit committee, predominantly one minus executive directors, considerably increases efficiency. Additionally, recent evidence suggests that frequent board meetings and increased gender diversity in the board is positively linked with improved financial performance (2025). Jointly, these studies highlight that effective corporate governance mechanisms—such as appropriate board size and independence, ownership structure, and audit committee composition—are crucial in enhancing the financial performance of Indian firms. However, the nuances of how specific governance attributes affect different dimensions of performance indicate the need for further focused research within dynamic sectors like Indian IT.

Research Gap

Even though previous studies have explored the linkage between corporate governance and financial performance in Indian firms, sector-specific studies—mainly in the IT industry—is limited. Existing research offers generalized conclusions across industries, neglecting the distinct governance characteristics of the IT sector. Moreover, recent regulatory changes, ESG deliberations, and post-pandemic changes have not been fully scrutinized in this context. This highlights the need for more research on the governance practices and its relationship with performance of the IT companies in India.

Objective of the Study

The primary objective of the study is to assess the relationship between corporate governance practices and financial performance of companies in the Indian IT industry.

Research Methodology

Research Design

This study uses quantitative research techniques to evaluate whether the corporate governance practice of a firm has any effect on the financial performance of the firms in the Indian IT Industry.

Sample:

For this study, based on market capitalization, top ten IT companies listed on the Bombay Stock Exchange (BSE) and the NIFTY IT Index were selected. These companies are: Tata Consultancy Services (TCS), Infosys, HCL Technologies, Wipro, Tech Mahindra, LTIMindtree, Persistent Systems, PB Fintech, Oracle Fin.Serv. and Coforge Ltd.

Period of Study:
The study extents a ten-year period, from 2014–15 to 2023–24, to capture long-term trends and to take into account the dynamic nature of the IT industry.
Variables:
Return on Equity (ROE)**,** Debt- Equity Ratio (DER) and Book Value per share (BV) were used as the dependent variables to measure financial performance. To evaluate the efficacy of corporate governance, the following four independent variables were selected: **ID**(Number of independent directors on the board), **BM** (Number of board meetings held), **ACM**(Number of audit committee meetings) and **WD**(Number of women directors on the board).
These variables are considered key pointers of all-encompassing corporate governance practices. Data for all the variables were extracted from the annual reports of the selected companies.
Sources of data:
Only secondary data have been used for this study. And data have been extracted from the Annual Reports of the sample companies.
Research Tools and Techniques:
The collected data has been analysed by using statistical softwares like MS Excel and EViews. Three panel regression models were formulated to test whether corporate governance variables affect firm financial performance using the three dependent variables. Then panel unit root tests (LLC – Levin, Lin & Chu; and IPS – Im, Pesaran and Shin) were performed to check whether each variable is stationary (i.e., does not contain a unit root). For each model, Fixed Effects Model (FEM) and Random Effects Model (REM) of regression were estimated and with the help of Hausman Test it was determined that the Random Effects Model is more appropriate. Finally, Panel regression with Random Effects was performed to find out whether corporate governance practices of the firm have any impact on the financial performance of the firm.

Research Hypotheses
Model 1: ROE as Dependent Variable (Hypothesis (H1):
H0: corporate governance variables have no significant effect on profitability.
H1: corporate governance variables have a significant effect on profitability.
Model Equation:
$ROE_{it}= \alpha+\beta_1 BM_{it}+\beta_2 WD_{it}+\beta_3 ACM_{it}+\beta_4 ID_{it}+\epsilon_{it}$
Model 2: DER as Dependent Variable (Hypothesis (H2):
H0: corporate governance variables have no significant effect on DER.
H1: corporate governance variables have a significant effect on DER.
Model Equation:
$DER_{it}=\alpha+\beta_1 BM_{it}+\beta_2 WD_{it}+\beta_3 ACM_{it}+\beta_4 ID_{it}+\epsilon_{it}$
Model 3: BV as Dependent Variable
Hypothesis (H3):
H0: corporate governance variables have no significant effect on BV.
H1: corporate governance variables have a significant effect on BV
Model Equation:
$BV_{it}= \alpha+\beta_1 BM_{it}+\beta_2 WD_{it}+\beta_3 ACM_{it}+\beta_4 ID_{it}+\epsilon_{it}$

Analysis And Discussion

Table 1: Panel unit root test

	At Level		
Variable	**LLC**	**IPS**	**Remarks**
ROE	-7.13656 0.0000	-2.14017 (0.0162)	Stationary
DER	-3.96118 (0.0249)	-1.0755 0.043011	Stationary
BV	-3.30707 (0.0005)	-0.96375 (0.1676)	Stationary
BM	-4.41476 (0.0000)	-1.53658 (0.0406)	Stationary
WD	-6.42079 (0.0000)	-2.42021 (0.0078)	Stationary
ACM	-2.86742 (0.0309)	-1.86156 (0.01945)	Stationary
ID	-3.57084 (0.0002)	-1.80735 (0.0354)	Stationary

Table 1 reveals that all the variables, ROE, DER, BV, BM, WD, ACM, and ID, are stationary at level, indicating that they are suitable for use in panel regression models such as Fixed Effects, Random Effects without further transformation.

Table 2: Hausman Specification Test Results

Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	3.866311	4	0.4244

To examine the impact of corporate governance variables on firm profitability, a panel regression analysis was conducted using both Fixed Effects and Random Effects models, with Return on Equity (ROE) as the dependent variable. The Hausman test was employed to determine the appropriate model specification. The test yielded a p-value of 0.4244, indicating that the Random Effects model is more suitable for this study as the null hypothesis (that differences in coefficients are not systematic) could not be rejected.

Table 3: Panel regression with Random Effects

	Fixed Effects			Random Effects		
Variable	**Coefficient**	**t-statistic**	**Prob.**	**Coefficient**	**t-statistic**	**Prob.**
C	21.85079	5.23866	0	23.47178	6.500607	0
BM	2.279122	0.85273	0.396	11.267485	3.80977	0.02203
ID	0.045528	0.83616	0.4052	3.24062	1.428909	0.04691
ACM	-0.05564	-0.172	0.8638	-0.10888	-0.3333	0.7397

WD	-0.04158	-0.75114	0.4544	-0.04297	-0.77163	0.4425
R^2	0.015949			0.829241		
Adjusted R^2	-0.025485			0.803428		
F-statistic (prob.)	0.384928			32.12562		
	0.818937			0		

The results show that No. of Board Meetings and Independent Director have a significant positive impact on profitability (ROE), while Woman Director and Audit Committee Meetings are not significant. As at least one governance variable is significant, we reject the null hypothesis and conclude that corporate governance variables influence firm profitability. Table also demonstrated a higher explanatory power with an R^2 value of 0.8292 and an Adjusted R^2 of 0.8034, compared to the Fixed Effects model (R^2 = 0.0159). The F-statistic for the Random Effects model (32.12) further confirmed its overall significance.

Table 4: Hausman Specification Test Results

Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	3.881473	4	0.4223

To examine the impact of corporate governance variables on firm leverage, a panel regression analysis was conducted using both Fixed Effects and Random Effects models, with Return on Equity (ROE) as the dependent variable. The Hausman test was employed to determine the appropriate model specification. The test yielded a p-value of 0.4244, indicating that the Random Effects model is more suitable for this study as the null hypothesis (that differences in coefficients are not systematic) could not be rejected.

Table 5: Panel regression with Random Effects

	Fixed Effects			**Random Effects**		
Variable	**Coefficient**	**t-statistic**	**Prob.**	**Coefficient**	**t-statistic**	**Prob.**
C	0.121611	0.612711	0.5415	3.21921	1.81248	00.4188
BM	-0.02046	-0.93168	0.3539	10.01484	-0.60104	0.5494
ID	-0.00028	-0.09035	0.9282	0.004074	0.971961	0.3338
ACM	-0.02059	-0.94616	0.3465	-0.01077	-0.44111	0.6602
WD	0.01596	4.139213	0.0001	0.016105	3.870785	0.0002
R^2	0.167378			0.337102		
Adjusted R^2	0.13232			0.236896		
F-statistic (prob.)	4.774336			3.364102		
	0.00149			0.003		

Since the F-statistic is significant ($p < 0.05$), we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). There is a statistically significant relationship between corporate governance variables and the Debt-to-Equity Ratio (DER). The model explains around 33.7% of the variation in DER, and the effect is driven primarily by the presence of Women Directors (WD), which has a strong and positive influence.

In Model 3, a panel data regression was conducted to assess the effect of corporate governance variables on Book Value (BV). The model was estimated using both Fixed Effects and Random Effects approaches. To determine the appropriate model, the Hausman test was employed. The test produced a Chi-square statistic of 3.743 ($p = 0.4418$), which is greater than the 5% significance level, indicating that the null hypothesis of no systematic difference between the models cannot be rejected. Therefore, the Random Effects model is considered appropriate for interpretation.

Table 6: Hausman Specification Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.743472	4	0.4418

Table 7: Panel regression with Random Effects

	Fixed Effects			**Random Effects**		
Variable	Coefficient	t-statistic	**Prob.**	**Coefficient**	**t-statistic**	**Prob.**
C	0.121611	0.612711	0.5415	467.4209	4.301558	0
BM	-0.02046	-0.93168	0.3539	12.86322	1.293964	0.1991
ID	-0.00028	-0.09035	0.9282	-3.43035	-2.03179	0.0453
ACM	-0.02059	-0.94616	0.3465	-21.2011	-2.15642	0.0338
WD	0.01596	4.139213	0.0001	0.099657	0.059472	0.9527
R^2	0.09803			0.37506		
Adjusted R^2	0.060052			0.280592		
F-statistic (prob.)	2.581239			3.364102		
	0.00149			0.003		

The results of the Random Effects model reveal an R^2 of 0.3751, indicating that approximately 37.5% of the variation in BV is explained by the corporate governance variables. The F-statistic (3.3641) is statistically significant ($p = 0.003$), confirming that the model as a whole is valid and meaningful.

Among the individual metrics, Book Value (BV) was found to be negatively affected by Independent Directors (ID) and Audit Committee Meetings (ACM), with p-values of 0.0453 and 0.0338, respectively. This suggests that higher levels of board independence and increased audit committee activity are the reasons behind reduction in book value. On the other hand, Board Meeting (BM) and Women Directors (WD) did not exhibit statistically significant impact, with p-values surpassing 0.05.

These findings lead to the rejection of the null hypothesis (H_0) and acceptance of the alternative hypothesis (H_1), affirming that corporate governance variables have a significant influence on Book Value.

Findings

The study proves that the key variables used for measuring financial performance are significantly influenced by the corporate governance metrics. The study indicated that Return on Equity (ROE) is positively influenced by number of Board Meetings and the proportion of Independent Directors in the board, signifying corporate governance has significant role in enhancing the profitability of the firms. The study also suggested that a greater number of women directors in the board represents a more balanced capital structure as it was found that Women Directors (WD) have a strong and significant impact on Debt-Equity Ratio. In case of Book Value (BV), it was found to be negatively impacted by Independent Directors and Audit Committee Meetings. The results highlighted that Independent Directors (ID) and frequent Audit Committee Meetings (ACM) contribute to conservative accounting and reduced inflated valuation which in turn have negatively affected Book Value (BV). The results collectively affirm that various aspects of financial performance of a company are significantly affected by corporate governance practices.

Conclusion:

This study made an effort to analyse the impact of corporate governance practices, especially frequency of Board Meetings, proportion of Women Directors in the Board, frequency of Audit Committee Meetings and Board Independence, on various aspects of financial performance of Indian IT firms with the help of Return on Equity (ROE), Debt-to-Equity Ratio (DER), and Book Value (BV). The outcomes of the study suggested that corporate governance practices of a firm have significant influence on the financial outcomes of the firm.

Board Meetings and Independent Directors are found to be crucial for enhancing profitability of a firm, which underscores the importance of unbiased judgment and active supervision in increasing firm performance. Whereas gender diversity in the board influences capital structure decisions and risk choices. On the other hand, a significant negative association has been observed between stricter governance and valuation standards as Independent Directors and Audit Committee Meetings have found to be negatively impacting Book Value per share

Finally, the study highlights that corporate governance is not just a compliance function but a strategic determining factor of financial performance. The firms should strengthen their governance outlines and the regulators should put into action policies to encourage effective board composition and participation. By establishing a link between corporate governance and financial performance metrics, the study adds to the already mounting body of literature supporting the necessity of robust corporate governance in the Indian context.

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