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Impact of Corporate Governance on Employee Efficiency in the IT Sector with special reference to Mumbai City

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Abstract:

Good corporate governance is known to influence the quality of financial reporting which consequently has an important impact on investors' confidence and organizational performance. Existence of corporate governance showcases that the company has identified a vision, mission & direction and corroborates the fact that integrity is the way for company. Good corporate governance helps companies build trust with not only investors but also with the social community. Performance Efficiency signifies a peak level of performance that uses the least amount of inputs to achieve the highest amount of output. Efficiency requires doing away with the numerous unnecessary resources used to produce a given output including a resource/ person's time & energy. It is a measurable concept that can be determined using the ratio of useful output to total input. It minimizes the waste of resources such as physical materials, energy, and time while accomplishing the desired output. As far as Corporate These have been taken under the consideration. Corporate governance is based on the premise that organizations should not just be well-managed but run effectively & internally regulated, formally and otherwise. Employees have been identified as important stakeholders among all others and therefore are positively expected to have the biggest strength in terms of stakeholder engagement. One well known concept is the 'Triple Bottom Line' which is based on the fundamental that businesses should measure their performance in terms of financial gains, impact on people and the environment. Hence, one needs to consider both the direct effect of the involvement in decision making on employees themselves, and the indirect effect of such involvement on both employee productivity. Governance is concerned, following factors are taken into consideration, namely, responsibilities, working structure and practices, risk identification, monitoring and controlling, internal audit and compliances, disclosure and transparency etc. whereas in case of Employee Efficiency, the factors are:

Technical skills, Conceptual Skills, Interpersonal skills, communication skills, Decision making ability etc.

Keywords: Corporate Governance, Information Technology (IT) Sector, Employee Efficiency, Stakeholders, Performance

Introduction:

Corporate governance is the combination of rules, processes or laws by which businesses are operated, regulated or controlled. The term encompasses the internal and external factors that affect the interests of a company's stakeholders, including shareholders, customers, suppliers, government regulators, management and employees. The board of directors is responsible for creating the overarching framework for corporate governance that best aligns the course of business to achieve notable objectives. Specific processes that can be outlined in corporate governance include action plans, performance measurement, course correction, disclosure practices, executive compensation decisions, dividend policies, procedures for reconciling conflicts of interest and explicit or implicit contracts between the company and stakeholders. An example of good corporate governance is a well-defined and enforced structure that works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards, best practices and formal laws. Alternatively, bad corporate governance is seen as poorly structured policies, ambiguous and non-compliant structures, which could damage the image or financial health of a business.

Good corporate governance helps companies build trust with investors and the community at large. As a result, corporate governance helps promote financial viability by creating a long-term investment opportunity for market participants. Most important part of corporate governance is also communication of its aspects to various stakeholders. On Apple Inc.'s Investor Relations webpage, for example, the firm outlines its corporate leadership structure - its executive team, its board of directors - and its corporate governance, including its committee charters and governance documents such as bylaws, stock ownership guidelines and articles of incorporation. Most companies strive to have a high level of corporate governance. For many shareholders, it is not enough for a company to merely be profitable; it also needs to demonstrate good corporate citizenship through environmental awareness, ethical behavior, and sound corporate governance practices. Good corporate governance creates a transparent set of rules and controls in which shareholders, directors, and officers have aligned incentives.

An organisation's performance is only effective when it is efficient. Such efficiency driven effectiveness must be functional as well. Efficiency, as already stated, is the ability to act or produce effectively with a minimum of waste, expenditure or unnecessary effort. The focus is on the resources and turnaround time i.e. speed with which organisational goals are achieved. The effectiveness of an organisation is determined by how successfully the assignment resources is carried out in order to achieve the organisational goals in the right way. In other words, how well your organisation converts input into output, such as products, programmes and services by having the right person doing the right job at the right time with the right skills. In this way, effectiveness contributes to the success of your organisation. Efficiency drives maximum output from minimum input and thus requires minimal but highly skilled, committed employees, who are satisfied with the way the organisation transacts. Efficiency is a neatly measurable concept mainly in terms of ratios – like profit per employee, asset per employee, manufacturing turnaround time (in case of labour-intensive industries), etc.

Review of literature:

Recent Developments in Corporate Governance: An Overview by Stuart L. Gillan in Journal of Corporate Finance 12 (2006) pp. 381– 402: It is worth noting some common characteristics of the papers in the special issue. First, each adds to our understanding of one or more specific governance issues. Second, in a manner consistent with contemporaneous governance research, the papers in the issue increasingly focus on multiple aspects of corporate governance. I expect that focusing on broader definitions of what constitutes corporate governance, and the consideration of multiple governance mechanisms and how they interact will become more important as governance research evolves. Third, the papers in this issue, and governance research more generally, fall into one of three broad classifications: performance as a function of governance. The papers in this issue provide important contributions to our knowledge of corporate governance and provide a strong foundation on which future researchers can build. With recent governance failures and the ensuing regulatory reforms, the U.S. corporate governance landscape has changed dramatically during the past few years. As regulatory reforms take hold and new regulations evolve, information on these changes will become available and we will have the potential to ask new questions and explore unresolved issues. As a result, it is an exciting time for governance researchers.

Corporate Governance in Asia: A Survey, by Stijn Claessens in International Review of Finance, 3:2, 2002: pp. 71-103: Corporate governance has received much attention in recent years, partly due to the Asian financial crisis. We review the literature on corporate governance issues in Asia to develop region-specific and general lessons. Much attention has been given to poor corporate sector performance, but most studies do not suggest that Asian firms were badly run. The literature does confirm the limited protection of minority rights in Asia, allowing controlling shareholders to expropriate minority shareholders. Agency problems have been exacerbated by low corporate transparency, associated with rent-seeking and relationship-based transactions, extensive group structures and diversification, and risky financial structures. The controlling shareholder bears some of agency costs in the form of share price discounts and expenditures on monitoring, bonding and reputation building. The Asian financial crisis further showed that conventional and alternative corporate governance mechanisms can have limited effectiveness in systems with weak institutions and poor property rights. Overall, the understanding of the determinants of firm organizational structures, corporate governance practices and outcomes remains limited, however. Corporate governance has received much attention in recent years, partly due to the financial crisis in Asia. A review of the literature on corporate governance issues in Asia confirms that, as in many other emerging markets, the lack of protection of minority rights has been the major corporate governance issue. While much popular attention has focused on poor corporate sector performance, most studies do not suggest that firms in Asia were run badly. Instead, the returns went disproportionately to insiders, accompanied with extensive expansion into unrelated business, high leverage and risky financial structures. The usage of group structures created internal markets for scarce resources. However, the internal markets were prone to misallocate capital due to the agency problem. Conventional governance mechanisms were weak to mitigate the agency problem, as insiders typically dominated boards of directors and hostile takeovers were extremely rare. Neither did external financial markets provide much discipline, partly as there were conflicts of interest, but mostly as there existed rents through financial and political connections, which combined with the moral hazard of a large public safety net for the financial system.

Strategies for an Employee Role in Corporate Governance by Brett McDonnell in Wake Forest Law Review, Volume 46, 2011: pp. 429-445:

One way to make U.S. corporations more sustainable is to broaden the group of stakeholders whose interests are considered in making decisions. One of the most important groups of stakeholders is corporate employees, both because their own stake is critical to their well-being and because employees may value the interests of other stakeholders more than corporate shareholders or managers do. Yet, corporate law does nothing to encourage any role for employees in corporate governance.' Corporate law focuses on just three groups within the corporation: shareholders, directors, and officers. The strategies include: Using areas other than business association law to enhance the legal rights of individual employees. A more promising reason arises for believing corporate governance can help if one believes that many, indeed most, current companies have large amounts of waste in their performance-as suggested by X-efficiency theory. The relationship between employees and sustainability depends in part on the notoriously slippery concept of 'sustainability'. One popular concept in business social responsibility is the 'Triple Bottom Line', the idea that businesses should measure their performance in terms of conventional profits and the impact on people and the environment. Employee involvement may increase productivity and hence create stronger economic growth in a narrow material sense. Heightened employee satisfaction may lead to improved effort and less need to engage in expensive monitoring. Moreover, employees are naturally knowledgeable about what is going on within a business and are likely to have good ideas about how to improve.

Objectives of the Study:

1. To study and understand the concept of Corporate Governance
2. To study Employee Efficiency
3. To analyse the impact of Corporate Governance on Employee Efficiency

Scope of the Study:

This research study provides the direction about, how Corporate Governance is of utmost importance in today's competitive environment. Organisations create Corporate Governance structures & systems keeping in view variety of objectives & vision/ mission statements. Such systems are organized way of making things happen. They assist in planning, prediction and bringing professionalism, discipline and security. Every system has its own objectives, elements and process. Scope of the study is to evaluate inter-relationship between one element of this system (employees) and the system's performance.

Hypotheses of the Study:

$H_{0:}$ There is no significant impact of Corporate Governance on Employee Efficiency

$H_{1:}$ There is significant impact of Corporate Governance on Employee Efficiency

Research Methodology of the Study:

The study is based on critical evaluation & analysis of basically Primary Data. The primary sources include IT sector personnel. A study is undertaken in the sampled regions to see its impact for which a detailed questionnaire is prepared to collect relevant information from the primary source for the guidance of the researchers. With the help of the questionnaire, detailed discussions were made with the certain sources of primary data to understand their views/ perspectives, thinking and attitude which would help to give the researchers useful recommendations, if any. The questionnaire is processed with the help of statistical tools like tabulations, grouping, percentages, averages, testing of hypothesis, etc.

As far as Corporate Governance is concerned, following of them are taken into consideration viz, responsibilities, working structure and practices, Risk identification, monitoring and controlling, Internal audit and compliances, Disclosure and transparency, etc. whereas in case of Employee Efficiency; Technical skills, Conceptual Skills, Interpersonal skills, communication skills, Decision making ability, etc. were reckoned.

Research Area:

Researchers selected IT sector personnel from Mumbai city. Sample sizes of 150 retail respondents have been taken under study. Researcher collects data through Primary and Secondary sources. Researcher distributed 150 questionnaires among the respondents.

Limitations of the study:

1. The study is based on limited geographical area.
2. Further variables could be added for the purposes of detail study.

Data Analysis:

Researcher prepared the questionnaire for respondents and distributed it among them. After receiving the questionnaire researcher analyses the questionnaire.

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Table No. 1
Information of questionnaire

Sr. No.	Respondent	Questionnaire distributed	Questionnaire received	Questionnaire rejected (due to incomplete, wrongly filled etc)	Net Sample size for study
1	IT Sector Personnel	150	141	2	139

Testing of Hypothesis

OBSERVED FREQUENCIES		Employee Efficiency					
		Technical skills	Conceptual Skills	Interpersonal skills	Communication skills	Decision making ability	TOTAL
Corporate Governance	Documentation	7	4	8	2	4	25
	Job descriptions	4	9	2	6	5	26
	Personnel policies	7	5	4	1	4	21
	Legal policies	6	6	2	2	3	19
	Recruitment and selection	9	2	1	15	4	31
	HR Information Systems (HRIS)	4	6	2	3	2	17
	TOTAL	37	32	19	29	22	139

H_0: There is no significant impact of Corporate Governance on Employee Efficiency
H_1: There is significant impact of Corporate Governance on Employee Efficiency

Mathematically,

Sr No	H_0	H_1	χ_cal	χ_table	p_value	Decision
1	There is no significant impact of Corporate Governance on Employee Efficiency	There is significant impact of Corporate Governance on Employee Efficiency	36.95	31.41	2.6874E-05	Reject H_0 (i.e. There is significant impact of Corporate Governance on Employee Efficiency)

Here, the confidence interval is considered at 95% i.e. level of significance is 0.05.

Thus, our null hypothesis that there is no significant impact of Corporate Governance on Employee Efficiency is rejected. Alternatively, we accept our alternative hypothesis which states that there is significant impact of Corporate Governance on Employee Efficiency

Findings:

1. The main benefit of the Corporate Governance is that it takes the Governance to the next level of responsibilities allocation, working structure & practices and risk identification.
2. The most influential point among the respondents is Decision making ability aided by presence of corporate governance.

Conclusion:

From the above analysis, we can conclude that, Corporate Governance does have very positive impact on the Employee Efficiency. Decision making ability of employees receives a boost in cases where corporate governance structure exists. Employees therefore feel empowered in the organisation. Decision-making is a fundamental ability of being a potential leader. An organisation is only as good as its weakest member, so putting together a strong employee group is vital to the business' ability to make good decisions, which leads to the success of the business. Informed decision making over snap-decisions, help the organisations prosper.

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