CORPORATE GOVERNANCE AND BOARD EFFECTIVENESS

Aparna Sharma
Assistant Professor, University School of Management,
Kurukshetra University Kuruksherta
aparna4hr@yahoo.com

Abstract

Recent corporate scandals have put company boards in the spotlight. Legislation, codes of conduct, and guidelines has been developed to improve corporate governance. Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management, and the board of directors. Corporate governance has been a central issue in developing countries because of the fact that corporate governance and economic development are intrinsically linked. The paper explores why corporate governance may matter. Since liberalization, serious efforts have been directed at overhauling the system in India with the SEBI instituting the Clause 49 of the Listing Agreements dealing with corporate governance. Though the amendment to Clause 49 of the Listing Agreement has been the topic of elaborate discussion in the Indian corporate scene. This paper aims to trace the many dimensions through which corporate governance works in public trading companies in India. This paper surveys the empirical and theoretical literature on the mechanisms of the corporate governance. Focus has been made on the internal mechanisms of corporate governance i.e. corporate board of directors. An attempt has been made in this paper to give insight about board role and responsibilities in competitive era for effective corporate governance. Given paper investigates various perspective of IT Governance specifically five domains, which are contributing to board effectiveness for the purpose of corporate governance. Five domains as stated by ITGI are namely, IT Strategic Alignment, IT Resource Management, IT Performance Management, IT Risk Management and IT Value Delivery. It then goes on to discuss the implications of Clause 49 as an opportunity for Indian-listed corporations to achieve IT Governance. Some researches define IT governance as a strategic approach to information, through specific actions such as reducing the complexity of application architectures, automating controls, standardizing and rationalizing data, defining effective competencies and practices, accountability structures for IT processes. It then concludes by saying that effectiveness of IT Governance depends on practices and structures put to use by board of directors and at this point of time if corporate India seizes this regulatory requirement (Clause 49) as an opportunity to refine and fine-tune IT processes, the regulatory requirement will serve the purpose of the regulators, ushering in much-needed corporate governance in letter as well as in spirit.

Keywords: *Corporate Governance, Board Effectiveness and IT Governance.*

Introduction

The concept of corporate governance has emerged as a result of shifting of objective of the corporates from profit maximization to value maximization through transparent, fair, efficient and effective policies of the organization. The subject of corporate governance leapt to global business limelight from relative obscurity after a string of collapses of high profile companies. Recent financial scandals associated to accounting and other frauds allegedly blamed to top company managers have brought into public light the recurring question of whether companies are managed on the best interests of stakeholders. After the failure of corporate giants like Enron, World Com, Xerox, etc., this concept has assumed a great importance. Recent financial crisis in the US economy in September 2008, led to the failure of big corporate giants, like Lehman Brothers Ltd. and AIG Insurance Ltd. So the failure of these corporates has made it more essential to realize the importance of corporate governance. Corporate governance is basically concerned with the direction and control of the company. Corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected. Parties involved in corporate governance include the regulatory body (e.g. the board of directors, the Chief Executive Officer, management, shareholders and Auditors) and other stakeholders who take part include suppliers, employees, creditors, customers and the community at large.

Corporate Governance aims at promoting corporate fairness, transparency and accountability. In India, the question of Corporate Governance has come up mainly in the wake of economic liberalization and de-regularization of industry and business. The demand for corporate ethics and stricter compliance with the laws of the land has also

contributed to the need for Corporate Governance. The ability of the Board, the commitment of the individual members of the Board, the integrity of the management team, alertness of the inspection and audit team, adequacy and quality of the process and reporting are the real factors which will ensure good corporate governance. For effective corporate governance nowadays organizations rely on Information technology, raising the concept of IT Governance. The IT governance is an integral part of enterprise governance that consists of the leadership, organizational structures, processes that ensure the organization's IT sustains, and extends the organization's strategies and objectives.

In India, Confederation of Indian Industry (CII), a leading association of business entities, introduced the voluntary corporate governance code in the year 1998. After this, the Indian financial market regulator, Securities Exchange Board of India (SEBI), set up corporate governance committee under the chairmanship of Kumaramangalam Birla, the chairman of A V Birla Group in 1999. Based on the recommendations of the committee, SEBI introduced mandatory corporate governance code in place of voluntary one in the year 2000 through Clause 49 of the listing agreement. This Clause is made applicable to all the companies listed on Bombay Stock Exchange (BSE), National Stock Exchange (NSE) and other stock exchanges. These regulations require the firms not only to follow corporate governance regulation but also to disclose them without affecting their competitiveness.

The basic principle of corporate governance is that the shareholders elect the board of directors who in turn select top management. The common practice, however, is for the board to be elected by the shareholders which than approve the top management. The monitoring role of the board of directors is an important component of corporate governance. The board of directors is presumed to carry out the monitoring function on behalf of shareholders, because the shareholders themselves would find it difficult to exercise control due to wide dispersion of ownership of common stock. This problem in monitoring is endemic to most large corporations with diffuse ownership, because an individual shareholder lacks sufficient stake in the firm to justify spending resources to closely monitor managers.

Thus, the board effectiveness in its monitoring function is determined by its independence, size and composition. The bulk of literature is empirical, which takes as given the current structure of board governance and studies its impact on firm performance. An attempt has been made in this paper to establish relationship between board structure, board role, IT Governance, board effectiveness and firm performance. For this, theoretical model has been framed (see figure 1) in the paper.

Corporate Governance Historical background

Corporate Governance is essentially all about how organizations are directed, controlled and held accountable to the various stakeholders. Corporate Governance aims at promoting corporate fairness, transparency and accountability. In India, the question of Corporate Governance has come up mainly in the wake of economic liberalization and de-regularization of industry and business. The demand for corporate ethics and stricter compliance with the laws of the land has also contributed to the need for Corporate Governance. The ability of the Board, the commitment of the individual members of the Board, the integrity of the management team, alertness of the inspection and audit team, adequacy and quality of the process and reporting are the real factors which will ensure good corporate governance.

In India, the Confederation of Indian Industries (CII) published a voluntary code of Corporate Governance in 1998, one of the first code in Asia. In 1999 (SEBI) Securities and Exchange Board of India appointed a committee under the Chairmanship of Sri. Kumar Mangalam Birla to decide code of practices, the committee made two sets of recommendations - mandatory and non-mandatory. In January 2000 SEBI has accepted the recommendations and directed Stock exchanges to implement all mandatory recommendations on corporate governance by making necessary amendments in their listing agreements. A new clause 49 was incorporated in the listing agreement about corporate governance Further in 2003 The Securities and Exchange Board of India (SEBI), in its effort to improve the governance standards constituted a committee under chairmanship of Narayan Murthy to study the role of independent directors, related parties, risk management, directorship and director compensation, codes of conduct and financial disclosures. The committee based its recommendations on various parameters like fairness, accountability, transparency, ease of implementation, verifiability and enforceability. SEBI incorporated the recommendations made by the Narayan Murthy committee on corporate governance report in clause 49 of the listing agreement and on 1st January 2006 onwards SEBI made it mandatory to all the listed companies to follow the revised clause 49 of listing agreement.

The changes to Clause 49 of the Listing Agreement by the Securities Exchange Board of India (SEBI) in 2005 (effective 1 January 2006) requiring a minimum number of non-executive directors brought mixed reactions. However, as noted by Thornton (2006), which in April 2006 surveyed a sample of listed firms about compliance with the new regulation, Indian firms generally embraced the changes and thought that it sent positive signals to investors about the quality of corporate governance of Indian business (Businessline, 2006:15). The extension of Clause 49's requirements to public sector undertakings was

also welcomed, with many suggesting that the regulations relating to the minimum number of independent directors was likely to improve investment flows to India (Businessline, 2006:26).

Corporate Governance is a control mechanism through which supplier of finance to corporations assures themselves of getting returns on their investments (Sheifer and Vishney, 1997). In the words of Dalton and Daily (1999) "Corporate Governance is the process by which corporation is made responsive to the rights and wishes of stakeholders. In India, Confederation of Indian Industry (CII) has stated that "Corporate Governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take managerial decisions vis-à-vis its claimants in particular, and it's shareholder's creditors…. There is a global consensus about the objective of good Corporate Governance maximizing shareholder's value."

Securities and Exchange Board of India (SEBI) has come out with report on Corporate Governance. It stated that, "… Fundamental objective of Corporate Governance is the enhancement of the shareholder's value keeping in view the interest of other shareholders…"

While most organizations are interested in evaluating their corporate governance practices, they're quite ignorant on how to do it (Garret ,2003). Different economist and academicians have given different solutions to this problem. Branston et al (2006) suggest a strategic decision-making perspective that makes Corporate Governance a central policy issue.

Walter (2006) has pointed out that lack of diversity on the board of Directors and potential shareholder as one of the problem. Working on the same lines Kill and Nicholson (2005) point out lack of proper control mechanisms and ethical standards among corporates. Corporate Governance is concerned with managing the relationship among various corporate stakeholders (Malik Lashgari, 2004). Loffee, John C. (1999), studied that even at the level of the largest firms; corporate ownership structure tends to be highly concentrated.

Viewing the corporation as a nexus of explicit and implicit contracts, Garvey and
Swan (1994) assert that "governance determines how the firm's top decision makers
(executives) actually administer such contracts (p. 139)".

Shleifer and Vishny (1997) define corporate governance by stating that it "deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (p.737)". A similar concept is suggested by Caramanolis- Cötelli (1995), who regards corporate governance as being determined by the equity allocation among insiders (including executives, CEOs, directors or other individual, corporate or institutional investors who are affiliated with management) and outside investors.

Corporate governance codes, experts and activists have long advocated changes in the board structure. The changes include, among others, the appointment of independent directors, the installation of board committees in those areas where conflicts of interest might appear and a separation of the roles of CEO and chairman of the board (Van den Berghe and De Ridder, 1999). These structural measures are assumed to be important means to enhance the power of the board, protect shareholders' interest and hence increase shareholder wealth (Becht et. al., 2002; Westphal, 1998).

These numerous definitions all share, explicitly or implicitly, some common elements. They all refer to the existence of conflicts of interest between insiders and outsiders, with an emphasis on those arising from the separation of ownership and control (Jensen and Meckling, 1976) over the partition of wealth generated by a company. A degree of consensus also exists regarding an acknowledgement that such corporate governance problem cannot be satisfactorily resolved by complete contracting because of significant uncertainty, information asymmetries and contracting costs in the relationship between capital providers and insiders (Grossman and Hart, 1986, Hart and Moore, 1990, Hart, 1995). And finally, one can be led to the inference that, if such a corporate governance problem exists, some mechanisms are needed to control the resulting conflicts.

Board and Corporate Governance

This is surprising as so many countries, including India, have introduced legislation and regulations which outline specific requirements for board structure. Much of this regulatory change followed the 2002 Sarbanes-Oxley Act in the US, which mandatorily restricted corporate board structure in an attempt to improve corporate governance. Other countries such as the UK and Australia have introduced compliance codes rather than mandatory requirements. India's 2006 regulations are mandatory requiring a certain proportion of independent directors on the board depending on the independence of the chair. While regulation sets the minimum proportion of independent directors, the proportion differs markedly and so the determinant of the proportion of outsiders, even if impacted by regulation, is not absolutely clear from the literature to date.

Williamson (1985) argued "the board of directors should be regarded primarily as a governance structure safeguard between the firm and owners of equity capital" Raheja (2005) has provided theoretical insight through a model of the optimal board size and composition (insiders versus outsiders) and finds that these are both functions of the directors' and firms' characteristics, similar to ideas

expressed in Demsetz and Lehn (1985), and Gillan, Hartzell and Starks (2004). Similar theoretical work is found in Harris and Raviv (2006) and Adams and Ferreira (2007).

Probably one of the most widely discussed issues concerns how to appropriately structure the board of directors and to what extent changes in the make up of the board influence performance outcomes. An impressive amount of empirical research has examined the consequences of different board characteristics, such as board size (Conyon and Peck, 1998; Yermack, 1996; Provan, 1980), outsider/insider proportion (Rosenstein and Wyatt, 1990; Kesner, 1987; Baysinger and Butler, 1985) and diversity in board on firm performance.

Role of Board

Corporate governance literature (e.g. Zahra and Pearce, 1989; Forbes and Milliken, 1999; OECD, 2003; Hillman and Dalziel, 2003; Nicholson and Kiel, 2004; Aguilera, 2005) argue that the board of directors has two main roles, control (monitoring of the management, reporting to the shareholders, and ensuring compliance with the law) and direction (the strategic guidance of the company).

The control role of the board is rooted in the agency theory where the primary concern of the board is to curb the self-serving behaviors of agents (the top management team) that may work against the best interests of the owners (shareholders) (Jensen and Meckling, 1976; Eisenhardt, 1989). Agency theory strongly favors outside directors, those detached from management and daily operations, as they facilitate objectivity (Kosnik, 1987), while separate CEO and chair positions provide further checks and balances (Rechner and Dalton, 1991). The direction role is rooted in the resource dependence (Boyd, 1990; Daily and Dalton, 1994a,b; Gales and Kesner, 1994; Hillman et al., 2000; Pfeffer, 1972; Pfeffer and Salancik, 1978) and stakeholder traditions (Hillman, Keim and Luce, 2001; Johnson and Greening, 1999; Luoma and Goodstein, 1999) and suggests that boards should take a role that centers on advising management and enhancing strategy formulation. The resource dependence theory (Pfeffer and Salancik 1978) argues that corporate boards are a mechanism for managing external dependencies (Pfeffer and Salancik, 1987), reducing environmental uncertainty (Pfeffer, 1972) and reducing the transaction costs associated with environmental interdependency (Williamson, 1984) and ultimately aid in the survival of the firm (Singh, House and Tucker, 1986).

Regarding the control role, the board of directors has a legal duty to provide oversight

and is expected to carry out this duty with sufficient loyalty and care . The importance of the control role is expected to be influenced by the distribution of power amongst the stakeholders and their individual incentives. When ownership is diffuse, the control role of the board is going to be more important because it is difficult for the dispersed shareholders to co-ordinate their monitoring activities (and is also not worthwhile for any individual institution to monitor the company on a continuing basis) (Davies, 2002; Aguilera, 2005). Shareholders in firms with dispersed ownership prefer strategies of exit rather than voice to monitor management (Eisenhardt, 1989). To resolve the alignment problem in firms with dispersed ownership, the board primary focuses on the control role.

While small shareholders do not have incentives to monitor individually, collectively all shareholders benefit from the monitoring efforts by the board of directors. Shleifer and Vishny (1986) argue that large shareholders have strong incentives to monitor managers because of their significant economic stakes.

IT and Corporate Governance

Today corporate sector rely on IT as an integral part of their overall enterprise strategy. A new field of thought called IT governance has been under development for several years. Just as business management is governed by generally accepted good practices, IT should be governed by practices that help ensure an enterprise's IT resources are used responsibly, its risks are managed appropriately and its information and related technology support business objectives (Schwarz and Hirschheim, 2003). In other word IT governance is the process by which decisions are made around IT investments. How these decisions are made, who makes the decisions, who is held accountable, and how the results of the decisions are measured and monitored are all parts of IT governance (Luftman, 2000). While there is no 'standard' definition, in general, IT governance involves specifying the decision rights, the accountability and authority framework for important IT decisions, with the objective of encouraging desirable behaviour's in the use of IT (ITGI, 2004) .

According to the IT Governance Institute, IT governance is the responsibility of the board of directors and the executive management, and is an integral part of enterprise governance. It elevates information as a key organizational asset and treats governance of information at par with governance of other assets like human, financial, intellectual, and relationship assets (Schwarz and Hirschheim, 2003).

As corporate governance goal is to align actions and choices of managers with the interests of stakeholders (Hawley and Williams, 1996; Letza, et al., 2004; Shleifer and Vishny, 1997), IT governance goal could be to align actions and choices of IT managers with the interests of stakeholders.

The discipline of information technology governance derives from corporate governance and deals primarily with the connection between business focus and IT

management of an organization. The paper highlights the importance of IT related matters in contemporary organizations and states that strategic IT decisions should be owned by the corporate board, rather than by the chief information officer or other IT managers. IT governance concerns can be framed by two larger overarching goals:

1) the ability of IT to deliver value to the business, which is driven by the strategic alignment of IT with business, and
2) the mitigation of IT risks, which is driven by embedding accountability into the enterprise. This can be done by implementing an organizational structure with well-defined roles for the responsibility of information, business processes, applications, infrastructure, etc. Within these two larger goals, five domains (focus areas) of IT governance are identified, three of which are drivers and two are outcomes. Drivers include IT Strategic Alignment, IT Resource Management, and IT Performance Management. Outcomes include IT Risk Management and IT Value Delivery (ITGI, 2003).

In general, the literature sees IT governance as either a structure or a process.

IT governance as structure: The largest body of literature on IT governance is concerned with the locus of the IT decision-making authority within an organisation (Brown 1997, Sambamurthy and Zmud 1999).

The literature identifies three modes of IT governance (Sambamurthy and Zmud 1999, Brown and McGill 1994, Davenport et al. 1992). These are:

• Centralised, where corporate management have the cross-organisational IT decision-making authority.

• Decentralised, where divisional management have IT decision-making authority for their systems, and,

• Hybrid or Federal, where corporate management have IT infrastructure decision-making authority for the entire organisation, and divisional management has authority for their applications and system development.

The literature suggests that the hybrid mode is dominant (Hodgkinson 1996, Sambamurthy and Zmud 1999, Weill and Broadbent 2003).

IT governance can also be seen as a process, implemented as part of the corporate governance of an organisation. This view is pressed in the literature by a number of auditing bodies, most notably by two US-based organisations, ISACA, (Information Systems Audit & Control Association) and the IT Governance Institute, who jointly developed a proprietary approach to implementing and evaluating controls in the IT environment. This approach is called CobiT (Control Objectives for Information and Related Technology) (ITGI 2002). The basis of the approach is that accountability of the IT systems is achieved by the use of a set of audit control processes.

Board in the organization is responsible for managing IT function, mainly for two reasons. Firstly, the actions of IT management are guided by a stable, formal, agreed business strategy (Hirschheim et al. 1995, Lederer and Sethi 1996) and corporate objectives (O'Connor 1993). The development of business strategy and the oversight of its implementation are board responsibilities.

Secondly, IT carries risks. Given the centrality of IT to the operation of most companies and the companies' heavy capital investments in IT, the risk of, for example, failure, underperformance or overspend on IT needs to be understood and managed at board level.

Clause 49 and Corporate Governance

Every company that wants to list its shares on the stock exchanges in India must enter into a listing agreement with the concerned stock exchange. Clause 49 of the Listing Agreement lays down the reporting requirements for a company. SEBI is entrusted with the task of ensuring compliance with regulatory requirements by companies whose shares are listed on the stock exchanges in India. On 29 October 2004, Clause 49 of the Listing Agreement was amended to ensure corporate governance in listed companies.

The amended clause was originally to go into effect on 31 March 2005. Due to lack of preparedness on the part of the listed companies, this was extended until 31 December 2005. Major Requirements of Clause 49, Clause 49 of the Listing Agreement has introduced a slew of requirements aimed at strengthening corporate governance. Clause 49 contains a series of Mandatory items and non mandatory items which are to be followed by Listed companies.

Mandatory items include provisions related to Board composition, Audit committee, Subsidiary companies, Disclosures, CEO/CFO certification of annual financial statements, Quarterly report on compliance of CG norms to be submitted to Stock Exchanges and Annual report to contain CG report as per prescribed format which is to be certified by Auditors. Non mandatory issues include maintenance of chairman's office, remuneration committee, half yearly financial results to be sent to all shareholders every six months, Companies should move to a regime of unqualified audit report on financial statements, Companies may train its board members on business model of the company, its risk profile, responsibilities of directors and the best way to discharge

them, Evaluation of performance of Board members and Whistle Blower Policy.

The highlights of the requirements of Clause 49 are:

• Half the board of directors must be independent directors.

• The board must lay down a code of conduct for all board members and senior management, and must record an annual affirmation.

• The audit committee has oversight of the financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

• The company must lay down procedures to inform the board about the risk assessment and minimization procedures, which shall be periodically reviewed to ensure that executive management controls risk through a properly defined framework.

• A management discussion and analysis report must form part of the annual report to the shareholders, which must include discussion on matters such as internal controls and their
adequacy.

• The chief executive officer (CEO) and chief financial officer (CFO) must certify to the board that they accept responsibility for establishing and maintaining internal controls, that they have evaluated the effectiveness of the company's internal control systems, and that they have disclosed to the auditors and the audit committee deficiencies in the design or operation of internal controls and the steps they have taken or propose to take to rectify these deficiencies.

• The CEO and CFO must indicate to the auditors and the audit committee the significant changes in internal control during the year, instances of significant fraud of which they have become aware and the involvement of management or employees with a significant role in the company's internal control system.

• The company's annual report must have a separate section on corporate governance, including a detailed compliance report on corporate governance that highlights noncompliance with any mandatory requirement with reasons for and the extent to which the non mandatory requirements have been adopted.

• The company must submit a quarterly compliance report to stock exchanges within 15 days from the close of the quarter that is duly signed by the compliance officer.

• The company must obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance.

Most Indian corporate entities have witnessed a heavy penetration of IT in the running of business processes. Corporate majors have gone in for massive state-of-the-art enterprise resource planning (ERP) implementations across their geographically dispersed business locations, reaping in the bargain online recording of transactions and availability of information at the click of the mouse. Major ERP vendors have come out with India-specific versions to service their expanding Indian clientele. Adding momentum to this development is the increasing offshore (and often intercontinental) acquisitions of business units by most of the top business houses over the last year, in services and manufacturing verticals. The cumulative impact of all these developments boils down to the fact that the road to corporate governance definitely lies through achieving IT governance. Many of the Indian corporate entities have started recognizing the importance of having a chief information officer (CIO) working independently and reporting directly to the board of directors, in place of the traditional reporting structure of working under and reporting to the CFO. This has lent a sense of urgency to giving the IT function its rightful place in the management scheme of things.

Leading to effectiveness

Effective governance can be derived out of competent board practices; besides the board characteristics i.e. board independence, size, composition, diversity and other factors; it is the application of IT in governance structure. In today's complex and dynamic business world, IT's alignment to the business and governance are high on the agenda for any business enterprise. Governance requires a major amount of time, work and attention. Weill and Ross (2004) believe that it is all worth it since good IT governance harmonizes management decisions and use of IT. When carefully designed and implemented governance structure is missing there is no harmony and the enterprise is left to chance. (Weill & Ross, 2004) Enterprises can use IT Governance for directing and controlling the technological aspects of their organization (Posthumusa & Solms, 2005). It ensures that investments in IT will generate the values the business requires and that risks associated with IT are alleviated (Grembergen, 2003).

The IT Governance Institute believes, IT Governance to be an integral part of the overall enterprise governance. They compare the need of IT Governance integration with the overall governance to the need of IT to be an integral part of the enterprise rather than be something that is practiced outside the enterprise framework. (ITGI, 2003). To address challenges of constantly changing business world board should drive enterprise alignment by ascertaining that IT strategy is aligned with enterprise strategy and IT delivers against the strategy through clear expectations and measurement. Focus should be made by board while ascertaining that there exists transparency about the significant risks to the enterprise. Board of directors should be conscious that risk mitigation can generate cost-efficiencies. Boards should support learning and growth and manage resources by maintaining awareness of new IT developments and opportunities. Ascertaining that

management has put processes, technology and assurance in place for information security to ensure that business transactions can be trusted is also the responsibility of the board. To ensure that the total process works and becomes part of the culture of the organisation, it is essential for the board of directors to establish proper tracking mechanisms to determine the actual value delivered and enable accountability.

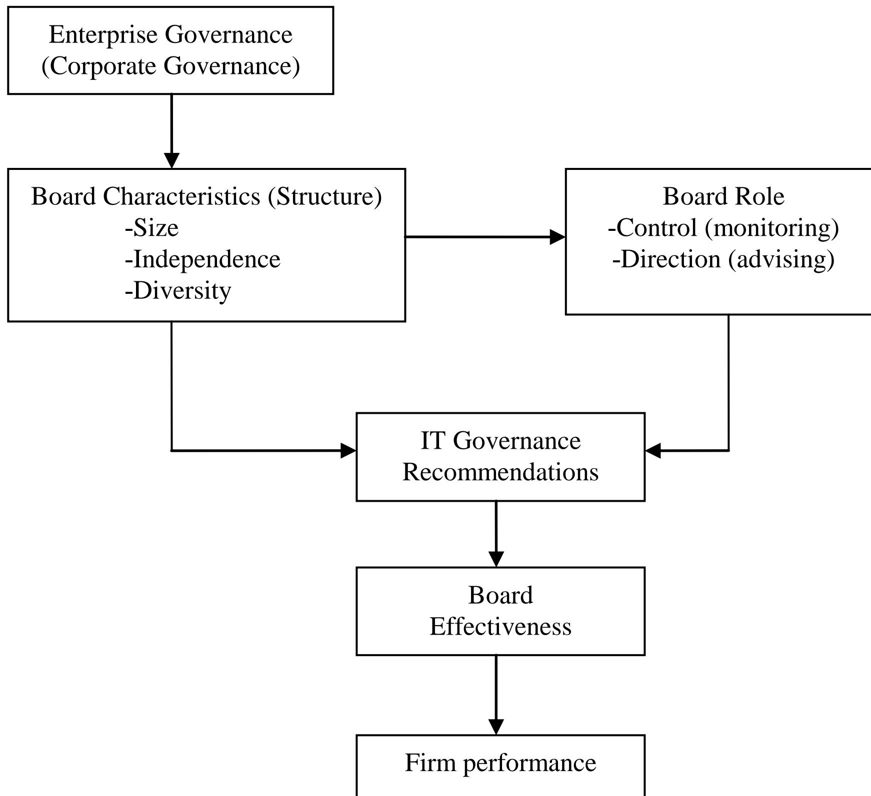
With the amendments in Clause 49 of the Listing Agreement board could be held more responsible. Amendments in Clause 49 aimed at strengthening of corporate governance. For instance making it mandatory that half the board of directors must be independent directors. And the board must lay down a code of conduct for all board members and senior management. More the board is independent; greater would be the propensity to monitor (Hermalin 2005). The changes to Clause 49 in 2006 produced a evolutionary move towards global benchmarks.

Conclusion

Corporate governance, and in particular the role of board of directors, has been the topic of much attention lately. Although this attention is particularly topical due to well-publicized governance failures and subsequent regulatory changes, corporate governance is an area of longstanding interest in business environment. This paper presents theoretical model for establishing relationship between board characteristics and firm's performance. The paper has focused to identify how IT governance can assist in attaining effectiveness by aligning its major domains to overall business objectives.

Overview of the research model

Figure 1 Relationship between Board, IT governance and Firm Performance



References:

1. Adams, R., and D. Ferreira, (2007), A Theory of Friendly Boards; Journal of Finance, 62, 217-250
2. Aguilera, R. V. (2005). Corporate governance and director accountability: An institutional comparative perspective; British Journal of Management, 16, 39–53
3. Brown, C. (1997), Examining the emergence of hybrid governance solutions: Evidence from a single case site; Information Systems Research, 8 (1), 69 – 94.
4. Brown, C.V. and S.L. McGill (1994), Alignment of the IS function with the enterprise: Toward a model of antecedents; MIS Quarterly, 18 (4), 371 - 403
5. Blau, P. M. and Schoenherr, R. A. (1971), The Structure of Organizations; Basic Books, New York.
6. Becht M., Bolton P., Roel A. (2002). Corporate Governance and control; Working paper 9371 National Bureau of Economic Research
7. Baysinger B.D., Butler H.N. (1985). Corporate governance and the board of directors: performance effects of changes in board composition; Journal of Law Economics and Organization.
8. Caramanolis-Cötelli, B., (1995), External and Internal Corporate Control Mechanisms and the Role of the Board of Directors: A Review of the Literature; Working Paper nr 9606, Institute of Banking and Financial Management
9. Conyon M.J., Peck S.I. (1998). Board size and corporate performance: evidence from European countries; The European Journal of Finance. 4(3): 291-304.
10. Daily, C. and Dalton, D. (1994a). Bankruptcy and corporate governance: The impact of board composition and structure;Academy of Management Journal, 37, 1603–1617.
11. Daily, C. and Dalton, D. (1994b). Corporate governance and the bankrupt firm: An empirical assessment; Strategic Management Journal, 15, 643–654.
12. Davies, P.L. (2002). Board structures in the UK and Germany: convergence or continuing divergence? International and Comparative Corporate Law Journal, 2(4), 435-56.
13. Brown, C.V. and S.L. McGill (1994), Alignment of the IS function with the enterprise: Toward a model of antecedents; MIS Quarterly, 18 (4), 371 - 403
14. Eisenhardt, K. (1989). Agency theory: An assessment and review; Academy of Management Review, 14: 57–74
15. Forbes, D.P., and Milliken, F.J. (1999). Cognition and corporate governance: Understanding board of directors as strategic decision-making groups; Academy of Management Review, 24(3), 489-505.
16. Garvey, G., and P. Swan, 1994, The Economics of Corporate Governance: Beyond the Marshallian Firm; Journal of Corporate Finance 1, 139-174
17. Grossman, S., and O. Hart, (1986), The Costs and Benefits of Ownership: a Theory of Vertical and Lateral Integration; Journal of Political Economy 94, 691-719
18. Gales, L., and Kesner, I. (1994). An analysis of board of director size and composition in bankrupt organizations; Journal of Business Research, 30, 271-83.
19. Hillman, A., Cannella, A. and Paetzold, R. (2000). The resource dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change; Journal of Management Studies, 37, 235–256.
20. Hart, O., and J. Moore, (1990), Property Rights and the Nature of the Firm; Journal of Political Economy 98, 1119-1158
21. Hart, O., 1995, Corporate Governance, Some Theory and Applications; The Economic Journal 105, 687-689
22. Hawley, J. P., Williams, A. T. (1996), Corporate governance in the United States: the rise of fiduciary capitalism – a review of the literature; The first prize of Lens 1996 Corporate Governance Paper Competition. Available online at: www.lenslibrary.com/info/competition.html
23. Hermalin, Benjamin E. (2005), Trends in Corporate Governance; Journal of Finance, , 60 (5), 2351–2384.
24. Hillman, A.J., and Dalziel, T. (2003). Boards of directors and firm performance: Integrating agency and resource dependence perspectives; Academy of Management Review 28(3), 383–396
25. Hirschheim, R., H. K. Klein, and K. Lyytinen (1995), Information Systems Development and Data Modelling – Conceptual and Philosophical Foundations; Cambridge: Cambridge University Press.
26. Hodgkinson, S. T. (1996), The Role of the Corporate IT Function in the Federal IT Organization in Information Management: The Organizational Dimension; M.J. Earl, Ed. Oxford: Oxford University Press
27. ITGI (2002), CoBIT: Control Objectives for Information and related Technology, 3rd Edition; Rolling Meadow, IL: IT Governance Institute
28. IT Governance Institute (2004), Board Briefing on IT Governance, 2nd edition; available online at: http://www.itgi.org
29. IT Governance Institute (ITGI) (2003), Board briefing on IT governance, 2nd edition; available online at : http://www.itgi.org
30. ITGI (2002), CoBIT: Control Objectives for Information and related Technology, 3rd Edition; Rolling Meadow, IL: IT Governance Institute
31. Galbraith, J. R. (1967), Designing Complex Organizations; Addison-Wesley, Reading, MA
32. Gartner (2002), The Evolution of the CIO Role and the IS; Gartner Symposium ITXPO.
33. Hillman, A., Keim, G. and Luce, R. (2001). Board composition and stakeholder performance: Do stakeholder directors make a difference?; Business and Society, 40, 295–314.
34. Johnson, R. and Greening, D. (1999). The Effects of Corporate Governance and Institutional Ownership Types on Corporate Social Performance; Academy of Management Journal, 42(5), 564–576.

35. Jensen, M., and W. Meckling, (1976),Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure; Journal of Financial Economics 3, 305-360
36. Kesner I.F. (1987). Directors' stock ownership and organizational performance : an investigation of Fortune 500 companies; Journal of Management. 13(3): 499-508.
37. Kosnik, R. (1987). Greenmail: a study of board performance in corporate governance; Administrative Science Quarterly, 32(2), 163-85.
38. Luoma, P. and Goodstein, J. (1999). Stakeholders and corporate boards: Institutional influences on board composition and structure; Academy of Management Journal, 42, 553– 563.
39. Lederer, A.L. and V. Sethi (1996), Key Prescriptions for Strategic Information Systems Planning; Journal of Management Information Systems, 13 (1), 35 – 62
40. Letza, S., Sun, X., Kirkbride, J. (2004), Shareholding versus Stakeholding: a critical review of corporate governance; Corporate Governance 12(3), pp.242-262
41. Luftman, J. (2000), Assessing IT-business alignment maturity; Communications of the Association for Computing Machinery, 4(14), pp. 1-51.
42. Madan Lal Bhasin (2009) Corporate governance disclosure practices A portrait of developing countries; International Journal of Business and Management, www.ssrn.com
43. Nicholson, G.J., Kiel, G.C. (2004). A framework for diagnosing board effectiveness; Corporate Governance, 12(4), 442-60.
44. O'Connor, A.D. (1993), Successful strategic information systems planning.; Journal of Information Systems Management, 3 (2), 71 - 84.
45. Posthumusa S. & Solms R. (2005), IT oversight: an important function of Corporate Governance.
46. Pfeffer, J. (1972). Size and composition of corporate boards of directors: The organization and its environment; Administrative Science Quarterly, 17: 218–228.
47. Pfeffer, J. and Salancik, G. (1978). The external control of organizations: A resourcedependence perspective; New York: Harper and Row.
48. Provan K.G. (1980). Board power and organizational effectiveness among human service agencies; Academy of Management Journal. 23: 221-236.
49. Rosenstein S., Wyatt J.G. (1990). Outside directors board independence and shareholder wealth. Journal of Financial Economics. 26(2): 175-191.
50. Rechner, P. and Dalton, D. (1991). CEO Duality and Organizational Performance: A Longitudinal Analysis; Strategic Management Journal, 12(2), 155– 160.
51. Raheja, G. C., (2005), Determinants of Board Size and Composition: A Theory of Corporate Boards; Journal of Financial and Quantitative Analysis, 40, 283-306.
52. Shleifer, A., and R.W. Vishny, (1986), Large Shareholders and Corporate Control, Journal of Political Economy, 94, 461-88
53. Sambamurthy, V. and R. W. Zmud (1999),Arrangements for Information Technology Governance: A Theory of Multiple Contingencies; MIS Quarterly, 23 (2), 261 – 90
54. Schwarz, A. and Hirschheim, R. (2003), An extended platform logic perspective of IT governance: managing perceptions and activities of IT. The Journal of Strategic Information Systems, 12 (2), pp. 129-166.
55. Singh, J., House, R. and Tucker, D. (1986). Organizational change and organizational mortality. Administrative Science Quarterly, 32, 367-386.
56. Shleifer, A., and R. Vishny, (1997),A Survey of Corporate Governance; Journal of Finance 52, 737-783
57. Van den Berghe L., De Ridder L. (1999). International Standardisation of Good Corporate Governance; Kluwer Academic Publishers
58. Weill, P. and M. Broadbent (2003),Creating Effective IT Governance, a Gartner EXP Premier Research Report; Stamford, CT: Gartner.
59. Weill, P. and Ross, J. (2004), IT Governance: How Top Performers Manage IT Decision Rights for Superior Results; Harvard Business School Press.
60. Westphal J.D. (1998), Board games : how CEOs adapt to increases in structural board independence from management; Administrative Science Quarterly. 43(3): 511-537.
61. Williamson, O., (1985),The Economic Institutions of Capitalism; New York, NY, The Free Press
62. Williamson, O. (1984), Corporate governance, Yale Law Journal, 93, 1197-1229
63. Yermack D. (1996), Higher market valuation of companies with a small board of directors; Journal of Financial Economics. 40(2): 185-211
64. www.wikipedia.org
65. www.itgi.org
66. http://www.directorsdatabase.com/Clause49.asp
67. www.sebi.gov.in
68. www.cii.in