ABSTRACT

Research Title:

“STUDY OF GOVERNANCE CONTROL AND LEGAL FUNCTION WITH REFERENCE TO ITS CONTRIBUTION IN CORPORATE GOVERNANCE”

Introduction:

Change is the most constant activity in the corporate world. Most of the changes in the corporate world are result of globalisation and economic liberalisation. These changes also lead to certain ancillary changes such as change in work culture and change in ethics. The most crucial and positive outcome of continuous changes resulted to building good governance, control environment and compliance framework in the organisation. Governance Control and Legal (“GC&L”) functions have made vital contribution in Corporate Governance. The concept has been known in both political and academic circle since old era, Corporate Governance is not mere corporate management; it is exhaustive process to ensure fair, efficient, transparent and legally compliant administration to meet some well-defined objective of the organisation however it has been defined and critically analysed by World Bank and OECD various authorities. The border definition comprehends the role of Governance Control and Legal functions in establishing the environment in which business activities of the organisation will continue without disruption.

GC&L function identifies the Key Risks for the company and provides Risk Mitigation Mechanism. Companies leverage GC&L functions to establish desired regulatory and internal governance framework for sustaining governance requirements, evaluate risk across the organisation and tracking how the organization complies with the conventional governance requirements are complied with. GC&L function characteristically support following functions to establish Governance across the Company.

Objectives of the Study:
An endeavor has been prepared in the research work to learn and comprehend the significant aspects of the Corporate Governance and contribution of GC&L function to accomplish the ultimate goal of good governance in the establishment. The research was focused on the following objectives:

1. To study the efficiency of Governance Control and Legal (“GC&L”) department.
2. To study Governance Control, Legal department and its role in sustainable development path for any organization.
3. To examine in-depth functionality of Governance Control and Legal department.
4. To determine various barriers to establish governance and their impact on organizational growth.
5. To suggest business model wherein Governance Control and Legal department can be effectively functional to achieve corporate objective.

Hypothesis:-
Considering the research methodology used, hypothesis are not strictly necessary; however the following working hypothesis have been formed to guide the research.

H1: Majority of organizations has efficient GC&L department, which becomes firewall to manage risk events.

H2: Certain Barriers impacts on the efficiency of GC&L department in most of the organizations.

**Scheme of Chapter:**

- Chapter No. 1: Preamble
- Chapter No. 2: Organization
- Chapter No. 3: Objectives, Hypothesis and Research Methodology
- Chapter No. 4: Review of Literature
- Chapter No. 5: Data Collection, Analysis and Interpretation
- Chapter No. 6: Results and Discussion
- Chapter No. 7: Recommendations & Summary Gains, Limitations, Scope for further work
- References
RESEARCH DESIGN AND METHODOLOGY:

1. The population comprises of employees working directly/ indirectly with Governance Control and Legal department of Information Technology (IT)/ Information Technology Enabled Services (ITES) Companies, based in Pune District, Maharashtra (India).

2. The sample set comprises inputs from professionals working directly/ indirectly with Governance Control and Legal function, which directly/ indirectly supports IT/ ITES Companies. Total sample size is 250 employees working in 30 different companies/ organisations.

3. Data available on the subject is critically analyzed. Also professionals’ at all level working in the field of Governance Control and Legal are divided into different strategy groups based on their designation; therefore the sampling technique used for this research is Non Probability Stratified Random Sampling.

4. The primary data is collected through structured questionnaire and by interviewing; the employees of the IT/ITES companies and professional working directly/indirectly with IT/ITES companies (based in Pune District). Secondary data is collected from various books, journals, periodicals, magazines, report of committees, published research reports and websites, etc.

5. The collected data analyzed using statistical techniques such as tables, graphs and charts. All required tools including MS Excel spreadsheet and IBM-SPSS 21.0 for testing of hypothesis and analyze the present data.

6. The study is restricted to IT/ ITES Companies/ Organization. The study is also limited to data available via books, journals, periodicals, magazines websites and employees working directly/ indirectly in Governance Control and Legal Departments. The employees selected for the research work are the employees working as executive and above grades.

7. Area for this research is specific to Governance Control and Legal department and contribution to Corporate Governance.
Challenges to establish Corporate Governance:

1. Most of the organizations does not have matured attitude towards Corporate Governance and Complexity of the Corporate Governance program is key challenge to establish good governance in any establishment.
2. Existing technologies/ governance framework is not adequate to support Corporate Governance objective
3. There are internal inabilities which disallow to get started (inertia)
4. Practical strain to hire skilled people in GC& L function
5. Lack of C-level support, i.e. lack of support from Company, Colleagues, Cost and company Culture
6. Organization has their own priority list and Corporate Governance is not top priority for such Organization, sometime Corporate Governance is not even part of priority list
7. Merger-Acquisition, Change in market trends, Economical changes lead to organizational changes, which also result in negligence towards Corporate Governance objective
8. Incase leadership has no roadmap for the organization, then such leadership will always focus on immediate gain however they miss to attend long term goal of Corporate Governance
9. Incase process are completely governed by automated tool (purely technology driven), wherein required awareness/ training is not provided to users then it could be a reason of failure to meet Corporate Governance objective. Lack of cooperation and collaboration
10. Unavailability of required resources (i.e. man power, technology, governance framework, etc.) may be a reason on inability to establish Corporate Governance in the organization.

Conclusions:

1. It was clear from the data analysis that 71.20% male respondents provided their inputs during data collection whereas 28.80% female respondents contributed in the data collection. It was concluded that the number of male respondents are more than female in the IT and ITES industry.
2. It is concluded that majority of the respondents are graduate as 63.60% respondents confirmed possession of Bachelor’s Degree, while second majority of respondents was Post Graduate i.e. 17.20% respondents possess Master’s Degree, however none of the
resource has PhD or Post-Doctoral qualification and there were 19.20% respondents posses others qualification.

3. Most of the respondents are working with Information Technology (IT/ Infrastructure Support) department, followed by Legal, Finance, Human Resource, Governance and Administration. There were few respondents who are working with Company Secretarial, Information Security/ Data Privacy and other department.

4. Based on the responses, it can be concluded that in IT/ITES industry majority of the employees are 1-5 years experienced, while subsequent majority of respondents posses 5-10 and 10-15 years of experience.

5. The need to connect/ seek advice from Legal depart is more as compare to seeking advice from Governance Control (Risk/ Compliance department) and both department (Legal and Governance Control).

6. Based on data analysis it can be concluded that the majority of responses shows that most of the organizations have process(es) to identify the organizational/company/departmental level(e.g. legal, financial, operational, technical etc.) issues, whereas it is also concluded that there are still some organizations wherein such process does not exists. Also it is further concluded that these identified issues are collated by Governance Control function to ensure closure and there is set mechanism to report these issues.

7. It is concluded from the data analysis that majority of organizations has mechanism to keep tap on the targeted timelines for the closure of open issues. The spectrum of GC&L function is seems to be wider, because majority of the organizations has identified action owner for such identified/ open issues and process for follow-up to ensure closure of identified issues. However it was adversely observed that there is no process to share updated status of the open/ closed issues on dashboard with all the functions to highlight cross-functional implications.

8. Basis on the data analysis it can be concluded that, there is process to review internal policies in most of the organization and the frequency of the review is Annual and as and when need basis.
9. Exception/ dispensation/ waiver to any policy are made by respective owner of the policy and there is any centralize reporting system to keep track of list of dispensations/ waivers provided in a calendar year.

10. The data analysis helps to conclude that the majority of the departments are aware of the risk associated with their respective function. The most applicable risk is Legal/ Regulatory Risk, followed by Commercial and Reputational risk. There is risk management committee wherein Governance Control (Risk & Compliance) and Legal department have representation which allows these functions to explain the gravity of the risk, provide solution to remediate the risk and keep forum updated on the apprised status.

11. Appointment of Chief Risk officer or similar designated officer is essential in the organization, to ensure independence of the function and enable adequate free space to conduct required activities.

12. Organizations are focusing on certain actions to establish good governances such actions are, establishing mechanism of risk reporting to management, defining scope of Risk Management Committee, deciding acceptable risk levels, periodical review of Risk Management Framework, maintaining organizational level risk dashboard and follow up to close open items, promoting risk management culture, etc.

13. GC&L department supports organization to manage risks effectively, such risk are regulatory risks, legal risks, tax related risks, liability management related risks, data privacy related risks, business continuity related risk, IT security related risk, preventive measures for fraud, reputational risk, operational risk, vendor management related risks, financial and human resource related risks.

14. There are controls and risk indicators for each of the risks which are reviewed on yearly basis.

15. GC&L function supports various departments to ensure good governance, the support is extended in the form of valuable contribution while making commercial decisions, at a time when stakeholders need to address strategic issues, to enhance culture of compliance, to scale up the business strategies with changing industry trends/ dynamics,
ensure sustainable business growth, achieve business objective/s, minimize applicable risk, etc.

16. Various methods such as internal audit, external audit, Compliance confirmation by department head/ risk owner, etc. are used to evaluate the effectiveness of these controls.

17. Legal department conducts awareness training for relevant group of employees, who need deal with contracts and other compliances. The frequency of the training is annual in most of the organizations followed by the frequency of half-yearly training.

18. There are certain barriers to establish Corporate Governance and certain hurdles on the way of GC&L department, such as most of the organizations does not have matured attitude towards Corporate Governance, complexity of the Corporate Governance program, existing technologies/ governance framework is not adequate to support Corporate Governance objective, internal inabilities which disallow to get started, practical strain to hire skilled people in GC&L function, Organizations has their own priority list and Corporate Governance is not top priority for such Organization, sometime Corporate Governance is not even part of priority list, etc.

19. It is recommended that Senior Management and Board of Directors of the company should uphold the Corporate Governance as top priority.

20. In-house Legal function needs adequate resources (e.g. in-house lawyers, law books, panel of law firms, source to receive legal updates, etc.) to provide required legal support on prompt and proactive basis to stakeholders, these resources enables legal function to cascade the legal amendments to relevant stakeholders promptly.

21. Legal department conducts annual audit in the organization, the audit plan is documented (including scope of audit) and there is exhaustive statutory compliance list is shared with respective stakeholders at the beginning of year which enables respective action owner to track the targeted timeless to complete the compliance requirements.

22. The GC&L function supports stakeholders to design and achieve path of Corporate Governance via sensitizing respective actions owners and documenting various process/mechanisms (it also reduces human intervention and thereby minimize the chances of error).