Information Technology Industry Profile

The Information Technology industry has gained a brand image as knowledge economy due to its development from software exporter to providing IT services to IT enabled services (BPO segment). The sector has been consistently contributing to India’s GDP from 1.2% in the FY 1998 to 7.5% in the FY 2012.

According to NASSCOM, the IT – BPO sector in India has aggregated revenues of US $ 100 billion in FY 2012, where export comprises of US $ 69.1 billion and US $ 31.7 billion respectively growing by over 9%.

The cities that account nearly 90% of this sector’s exports are Bangalore, Chennai, Hyderabad, Delhi, Mumbai and Kolkata.

IT industry has registered a notable growth because of the rich and varied expansion into verticals, well–differentiated service offerings and increasing growth penetration.

The phenomenal success of this industry is attributable to favourable government policies, rich and burgeoning demand conditions, healthy growth of the related industries and competitive environment prevalent in the industry. The interplay of these forces has put the industry on the global map.
**Evolution of IT industry: The evolution of the IT industry can be studied in 4 phases.**

**Phase I: Prior to 1980**

Indian IT industry was basically started with hardware products and software industry was literally non-existent in India until 1960. Government protected the hardware sector through high tariff barriers and licensing. In the west, there was greater demand for software development as the inbuilt software with the systems was insufficient to perform all the operations. The Government of India realizing the potential of this sector to earn foreign exchange. In 1972, the government formulated a software export scheme in which it was decided to import hardware and export software. TCS Ltd. became the first firm to agree to this conditions. The beginning of software exports was made in the year 1974.

**Phase II: 1980- 1990**

During this phase, inspite of the government initiatives, the software exports could not reach the expected level because of two reasons. The export of software was dependant on the imports of hardware and the procedural aspects were too cumbersome. There was no proper infrastructural facilities for software development. In order to encourage more participants in this sector, relaxation to procedural activities and reduction in import duty was mandatory. To counter the prevailing problem a New Computer Policy was formulated. According to this policy the import procedures were simplified and the import duty for import on hardware for software developers reduced.
In 1986, the government took a step ahead to sustain and grow the benefits received as a result of the New Computer Policy. It formulated software policy and liberalized the IT industry. In this policy the imports of hardware were de-licensed and were also made duty free for the exporters. This policy has reduced a number of entry barriers making the growth in this sector inevitable.

In 1990, government gave impetus and established Software Technology parks of India in order to increase the exports of software and services.

**Phase III: 1990-2000**

This period has witnessed intensified competition in the IT Industry. With companies investing in research and development and variety of software services. As this decade marked the beginning of significant changes in the economy, including trade liberalization, opening up of Indian economy for foreign investment, devaluation of the rupee and relaxation of the entry barriers. Due to the advantages, this policy had attracted foreign investment in India and MNCs in India were introduced. “Offshore Model” “On-site model” Global Delivery Model (GDM) were introduced as a part of their distinguished services.

**Phase IV: Post 2000**

The global problems like Y2k, the dotcom crash and the recession in the US economy has forced many US firms to utilize the services of the Indian firms. This has resulted in placing the Indian IT industry on the global map.
Post 2002 – 03, the industry had registered a robust growth rate. During this period there was an increase in the Indian client base, large sized contracts and a strong global delivery model.
Graph no. 2.1  Evolution of the IT industry

The above graph, presents the summarized form of various phases and the characteristics present for the growth and development of the IT industry.

Industry Segmentation

IT industry can be broadly classified into three sectors:

- Software
- IT Services
- IT enabled Services (ITeS)- BPO
Graph no. 2.2  Indian IT Industry Segmentation

[Source: NASSCOM, D&B Industry Research Service]
Growth of the Industry

The Indian IT industry has been growing at a rapid pace by offering a wide range of products and services. It is moving slowly and steadily from the exports of lower end services to providing higher end services.

From the graph below it is evident that there is rapid growth and progress in the exports.

1. IT Software

Graph no. 2.3 Growth of Software Sector

Before the financial year 2003 Engineering and Research and Development was not a part of the software segment. Realizing its need, the introduction of Engineering, Research & Development brought about tremendous progress in the exports increasing year after year.
Looking at the graph below it can be concluded that this segment is extremely lucrative and has a great scope to flourish in the future.

**Graph no. 2.4  Software: Share of Exports and Domestic Sales**

[Source: NASSCOM, D&B Industry Research Service]

2. **IT Services:**

India is an expert in providing customized IT services to the clients. These services have always dominated the Indian IT industry. It was accounting for more than 60% in the overall revenue of the industry. The segment is growing at 26% compounded annual growth rate since FY 2000.

The IT services segment is divided into the following categories

- Project – oriented services
- IT outsourcing and
- Training and support services
Graph no. 2.5 Growth of IT Service Segment

[Source: NASSCOM, D&B Industry Research Service]

It can be observed from the above graph that the revenues from IT service segment has been rising year by year and can be viewed as robust growth. The share of industry revenues less compare to the overall growth in the revenues.

Graph no. 2.6 Growth of IT Service Segment – Domestic sales and Exports

[Source: NASSCOM, D&B Industry Research Service]

It is observed from the above graph that there is a historic progress made during the financial years 2000 – 2008 in the IT services segment comprising of both domestic sales and exports.

**Graph no. 2.7  Share of Exports of IT Services**

[Source: NASSCOM]

It is observed from the above graph that in the IT services segment, of the three categories, project-oriented services are generating more revenues when compared to the outsourcing and training and support services.

**3. IT Enabled Service BPO Sector:**

The reforms made in the early 1990s, the IT industry is moving up the value chain by offering higher end services from lower end services.

From the graph below it is observed that there is an improvement of the industry share in the total revenues.
Graph no. 2.8 Growth of IT Enabled Service Sector

Looking at the graph it is observed that the revenues from IT enabled services and its share in the total revenue are moving in tandem and the movement shown indicates an uptrend.

Graph no. 2.9 Share of IT Enabled Service Exports

[Source: NASSCOM, D&B Industry Research Service]
The above graph indicates that the Customer Information System segment contributes higher proportion to the revenues from IT enabled services when compared to Finance and Accounting, Human Resources services and Knowledge process outsourcing.

**Growth opportunities in the IT industry**

Growth for the IT industry occurs in two ways 1. By enhancing the domestic sales and 2. Escalating the value chain.

The IT industry is predominantly export oriented. It is involved in rendering lower end services to their clients. Looking at the growth pattern below, it is observed that the domestic sales are lesser than the exports. Therefore, it is imperative for the government to take initiative and increase the domestic consumption. The brand image can be strengthened provided the industry caters to providing higher-end services.

**Graph no. 2.10  IT Value Chain**

Source: Innoversant solutions Pvt. Ltd.
The industry has led to massive employment generation. It generated about 2.8 million direct employment and 8.9 million indirect employment. The industry still continues to face challenges from emerging economies like China and Phillipines.

The recent global crisis has deeply impacted the US, the developed economy but, India still managed to register growth during the crisis period although at a slow rate and bounced back because of the IT sector. Exports dominate the IT and IT enabled industry and constitute about 77% of the total industry revenue. The industry’s share of total Indian exports increased from less than 4% in FY 1998 to about 25% in the FY 2012. The major “Top Five IT Service Providers” are Tata Consultancy Services Ltd., Infosys Ltd., Cognizant, Wipro and HCL Technologies.

According to the report, by Mckinsey, named “Perspective 2020 : Transform Business, Transform India” the export revenues of Indian IT industry will touch US $ 175 billion and the domestic revenue will be approximately US $ 50 billion by 2020. Therefore, this indicated that the Indian IT industry will continue to show sustained growth at a rapid pace. The figures suggest that the IT industry is shining and will continue to do so as well.

Series of scams in IT industry post liberalization and the Satyam episode have made the regulatory bodies realized the significance and role of Corporate Governance.
The following companies have been chosen for the study with special reference to Corporate Governance Practices.

1. Infosys Ltd.
2. Tata Consultancy Services Ltd.
3. HCL Technologies Ltd.
4. Mphasis Ltd.
5. Tech Mahindra Ltd.

**Profile of the companies:**

**Infosys Ltd** is a company which was started in the year 1981 by seven people with the investment of US $ 250. It is the second largest software exporter company to be listed on NASDAQ 100 index in the year 1992. Successively for the years 2001, 2002 and 2003, the company won the National award for excellence in corporate governance conferred by the Government of India.

Infosys Ltd. continues to be a benchmark in the aspect of corporate governance for its highly transparent disclosure practices. It believes that the success of the company depends on sound governance. It aims to attain the performance rules with integrity and honesty. For Infosys Ltd., Corporate Governance is a reflection of its culture, policies, and the relationship it shares with the shareholders and the commitment it has to ethical values. It aims to consistently intensify its efforts to enhance long term shareholder value and respect minority rights in all the business decisions. The Board exercises its responsibilities in the widest sense of the term.

ICRA has assigned CGR1 for the corporate governance practices followed by Infosys Ltd. CRISIL has also assigned high ratings as CRISIL GVC Level 1. The company has
complied with the requirements of Revised clause 49 of Listing Agreement incorporated by SEBI

**Governance Philosophy:**

The Corporate Governance philosophy at Infosys Ltd. is based on the following principles.

1. To follow the Indian law as well as comply with the law of countries where it is operating in letter and spirit.
2. Maintain high degree of transparency.
3. Management is the trustee of shareholder's capital and it is not the real owner.
4. The functioning of the company has to be explicitly stated in a truthful manner.
5. Design simple corporate structures and make distinction between personal conveniences and corporate resources.

**Tata Consultancy Services Ltd.:**

TCS Ltd. a 144 year old IT firm is a part of the most respected business conglomerate Tata group. It is listed on NSE and BSE and one of the major top five companies. TCS Ltd. offers wide range of IT services, business process outsourcing services, engineering and industrial services, global consulting and asset leveraged solutions. The company became publicly listed on 9 August, 2004. The Company won the Tata Business Excellence Model, highest incremental improvement award at the JRD QV Awards and moved on to being the Industry Leader. In December, 2008 the company has promoted trading of electrical power in India and subscribed 50% of the share capital of National Power Exchange Ltd. In June, 2009 the company acquired 100% interest in ERI Holdings Corporation through their wholly owned subsidiary at Canada.
Corporate Governance practices at TCS Ltd. speaks volume about strong, fair and transparent ethical values. As the practices are aligned with the ten principles stipulated in the UN Global Compact, TCS Ltd. is a signatory. This award is conferred to those companies in which sustainability is present and it has become a key aspect for measuring business excellence at the Board level A council has been set up to oversee the implementation of the strategy.

HCL Technologies Ltd.:

It is a global technology company. It is primarily engaged in providing a range of services from software to infrastructure. The company leverages an extensive offshore infrastructure and it has a global network of offices in various countries and professionals to deliver solutions across select verticals including Financial Services, Aerospace, defence and Retail Automotive, Hi-tech, Telecom, Government, Media and Travel, Entertainment, Energy and utilities, Life Sciences, Transportation and Logistics and Healthcare. The company was conferred the prestigious Excellence in Education Award for 2004 by the Life Office Management Association (LOMA). In August, 2004 BPO delivery centre in Chennai got BS7799 Certification by the British Standards Institute (BSI). At HCL Tech Ltd. the company has good corporate governance as one of the essential pillars for building efficient and sustainable environment. It laid down its Corporate Governance practices based on the principles of integrity, equity, fairness, transparency, responsibility, accountability and commitment to ethical values. It stated that good governance stems from the culture and mindset present in the organization as well as the influence of independent review. Corporate governance at HCL technologies Ltd is effective and in complete compliance with the Revised Clause 49 of Listing
Agreements. As the company’s stakeholders are scattered across the globe and evince great interest in the practices and performance of companies for which Corporate Governance has emerged in the forefront. HCL Tech Ltd. shares similar corporate governance philosophy as Infosys Ltd.

**Governance Philosophy:**

The Corporate Governance philosophy is based on the following principles.

1. To follow the Indian law as well as comply with the law of countries where it is operating in letter and spirit.
2. Maintain high degree of transparency.
3. Management is the trustee of the shareholder’s capital and it is not the real owner.
4. The functioning of the company has to be explicitly stated in a truthful manner.
5. Design simple corporate structures and make distinction between personal conveniences and corporate resources.

**Mphasis Ltd.:**

Mphasis Limited (Mphasis), is the result of a merger between Mphasis Corporation and the Indian IT services company BFL Software company. It delivers global infrastructure Technology Outsourcing, Business Process Outsourcing services and Application Services Outsourcing through a combination of technology know-how and expertise in the field. The Company is certified with ISO 9001:2000, ISO/IEC 27001:2005 (formerly known as BS 7799). During the year 2004, Mphasis achieved the SEI-CMMI Level 5 accreditation. In the year 2006, the group became a subsidiary of Electronic Data Systems Corporation (EDS). The name of the company was changed from Mphasis BFL Ltd. to Mphasis Ltd. with effect from 24th November of the year 2006.
The corporate governance at Mphasis Ltd is directed at the maximization of shareholder value by protecting the interest of the stakeholders such as clients, investors, employees, regulatory bodies etc. The company is committed to setting up of committees to oversee and monitor the management functions. It reinforces its commitment for benchmarking itself against the global best practices.

**Tech Mahindra Ltd.:**

Mahindra Satyam (formerly Satyam Computer Services Limited) is an Indian IT services company based in Hyderabad, Andhra Pradesh, India. It took over Satyam on 9 April, 2009. The Company offered consulting and Information Technology services spanning various sectors and was listed on Bombay Stock Exchange and National Stock Exchange. In June, 2009 the company revealed its new brand identity “Mahindra Satyam” and subsequently got merged within Tech Mahindra on June 25, 2013: the delay caused is due to the two pending cases with the Income Tax Department. Tech Mahindra follows stringent quality processes eventually adding value to its client through well established methodologies and tools and techniques. Tech Mahindra is noted as a leader in the Telecom vertical in India (Frost & Sullivan 2006) and received Deloitte Tech Fast 50 2007 Award. It also won the prestigious award for Billing & OSS world 2008 Excellence Awards in the Best Solution category. It is the sixth largest software exporter and second largest solution provider to the global telecom. Tech Mahindra continues its commitment to ethical values and maintains the spirit by providing timely and accurate disclosure of the information regarding the financial position, the situation it is currently facing, its performance in the Industry, proportion of institutional ownership and governance of the
company. It aims to benchmark its corporate governance practices with the best in the world.

**Summary:**
Chapter Two describes the Information Technology industry profile in India. The IT industry has played a key role in transforming India’s image from a slow moving bureaucratic economy to a land of innovative entrepreneurs. IT industry has grown to US dollar 108 billion in 2011-12, with the annual growth rate not sliding below 50% since 1991. To protect and safeguard the interest of the parties involved, it is widely believed that Corporate Governance can raise efficiency and growth especially for countries like India which relies on capital market to raise capital. The Companies considered for study are Infosys Limited, Tata Consultancy Services Limited, HCL Technologies (Hindustan Computers Limited), Mphasis Limited and Tech Mahindra Limited. According to Gartner, Tata Consultancy Services Limited, Infosys Limited, HCL Technologies, Cognizant, Wipro are the “Top Five Indian IT Services Providers.”
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