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Role of Corporate Governance in Indian Banking Sector

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Abstract: **The banking system plays a very important role in the economic life of a country. The health of the economy is closely related to the soundness of its banking system. Corporate governance also enhances the long term shareholder value by the process of accountability of managers and by enhances the firm's performance. It also eliminate the conflict of ownership and control by separately defines the interest of shareholders and managers. India at present cannot ignore the importance of Corporate Governance. This paper discusses the corporate governance as an internal mechanism in banks, its necessity in the banking sector, the history of corporate governance in the world as well as India, best practices of corporate banking incorporated in India and measures taken by various banks to implement them and the recent developments in this area in the banking sector.**

Keywords: **corporate governance, shareholder, accountability, banking, ownership.**

1. INTRODUCTION

The corporate governance of a firm builds confidence, faith and long term relation with its customers and all stakeholders apart from formulating an optimistic corporate image. Security Exchange Board of India (SEBI) has described number of mandatory and non-mandatory necessities for the companies to be in agreement concerned with corporate governance beneath clause 49 of the listing agreement. The phrase 'Clause 49' relates to clause number 49 of the Listing Agreement among a company and the Stock Exchanges on which it is listed. This clause is an essential and robust addition to the Listing Agreement, was inserted as late as 2000 with an objective to make upgrading of corporate governance in all listed firms, following to the recommendations of the Committee headed by (Kumar Mangalam Birla) on CG legalised by SEBI in 1999 (Bhasin, 2010). It is an influential event in Indian corporate governance, which stipulates some mandatory and non-mandatory requirements with which firms shall/may comply.

These requirements are related to the Board, its committees, Board/committee meetings, disclosure and transparency, etc. Moreover, Clause 49 mandates for all listed companies to disclose a detail report on corporate governance disclosure practices they have followed.

2. MEANING OF CORPORATE GOVERNANCE

The growing role of market in the world, i.e. market –oriented economy in the later part of the 20th century has led to the spread of capitalism, globalization, liberalization, privatization, demanding efficiency, corporate culture, model code of conduct and business ethics for the very survival of the corporate world. The concept of corporate governance emerged in the late 1980's when several companies collapsed in U.K. because of inadequacy of operating control. This led to the setting up of *"Cadbury Committee"* on corporate governance in 1991 by the London Stock Exchange. To get a fair view on the subject it would be prudent to give a *narrow* as well as a *broad* definition of corporate governance:

In a *narrow* sense-

Corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well as

monitoring performance are determined. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders.

In a *broader* sense-

However, good corporate governance- the extents to which companies are run in an open and honest manner- is important for overall market confidence, the efficiency of capital allocation, the growth and development of countries' industrial bases, and ultimately the nations' overall wealth and welfare. It is important to note that in both the narrow as well as in the broad definitions, the concepts of disclosure and transparency occupy centre-stage. In the first instance, they create trust at the firm level among the suppliers of finance. In the second instance, they create overall confidence at the aggregate economy level. In both cases, they result in efficient allocation of capital.

3. DEFINITION OF CORPORATE GOVERNANCE

'Corporate governance is concerned with ways of bringing the interests of investors and manager into line and ensuring that firms are run for the benefit of investors'.

'Corporate governance includes 'the structures, processes, cultures and systems that engender the successful operation of organizations'.

The issue raised here is whether the recognition of claims of a wider set of stakeholders, than those of shareholders alone, is the legitimate concern of corporate governance. If it can be established that there are groups other than shareholders with legitimate claims on companies, and that their involvement in corporate decision making is both a right and is also economically beneficial, then the task of policy makers is to consider: 'How should the company be regulated so as to enhance its effectiveness as a mechanism for enhancing the overall wealth or well-being of all stakeholders'.

4. KEY CONSTITUENTS OF CORPORATE GOVERNANCE

Corporate governance contributes to the efficiency of firms enabling them to compete internationally in a sustained way. Corporate governance plays an important role in maintaining integrity in the organization and to manage the risk of the firm. It is a crucial system which guides, monitors and controls the organizational functions. The three important constituents of corporate governance are:

1. Board of Directors
2. Shareholders and
3. The Management.

- The important role in the system of the corporate governance is performed by the ***Board of Directors***. The board is accountable to the stakeholders and directs and controls the management. It stewards the company, sets its strategic aim and financial goals and oversees their implementation, puts in place adequate internal controls and periodically reports the activities and progress of the company in a transparent manner to all the stakeholders.

- The important role of the ***shareholders*** is to hold the board accountable for the proper governance of the company by enabling the board to provide them periodically the required information in a transparent manner about the activities and progress of the company.

- The ***management*** has the responsibility to undertake the management of the organization in terms of the direction provided by the board, to put in place adequate control systems and to ensure their operation and to provide information to the board on a timely basis and in a transparent manner to enable the board to monitor the accountability of management to it.

5. EVOLUTION OF CORPORATE GOVERNANCE

There have been several major corporate governance initiatives launched in India since the mid-1990s. The first was by the ***Confederation of Indian Industry (CII)***, India's largest industry and business association, which came up with the first voluntary code of corporate governance in 1998. The second was by the ***SEBI, now enshrined as Clause 49*** of the listing agreement. The third was the ***Naresh Chandra Committee***, which submitted its report in 2002. The fourth was again by ***SEBI — the Narayana Murthy Committee***, which also submitted its report in 2002. Based on some of the

recommendation of this committee, SEBI revised Clause 49 of the listing agreement in August 2003.Subsequently, SEBI withdrew the revised Clause 49 in December 2003, and currently, the original Clause 49 is in force.

These are illustrated as follows:

1. The CII Code:

More than a year before the onset of the Asian crisis, CII set up a committee to examine corporate governance issues, and recommend a voluntary code of best practices. The committee was driven by the conviction that good corporate governance was essential for Indian companies to access domestic as well as global capital at competitive rates. The first draft of the code was prepared by April 1997, and the final document (Desirable Corporate Governance: A Code), was publicly released in April 1998.

The code was voluntary, contained detailed provisions, and focused on listed companies. Those listed companies should give data on high and low monthly averages of share prices in a major stock exchange where the company is listed; greater detail on business segments, up to 10% of turnover, giving share in sales revenue, review of operations, analysis of markets and future prospects. Major Indian stock exchanges should gradually insist upon a corporate governance compliance certificate, signed by the CEO and the CFO. If any company goes to more than one credit rating agency, then it must divulge in the prospectus and issue document the rating of all the agencies that did such an exercise. These must be given in a tabular format that shows where the company stands relative to higher and lower ranking.

2. Kumar Mangalam Birla committee report and Clause 49:

While the CII code was well-received and some progressive companies adopted it, it was felt that under Indian conditions, a statutory rather than a voluntary code would be more purposeful, and meaningful. Consequently, the second major corporate governance initiative in the country was undertaken by SEBI.

In early 1999, it set up a committee under Kumar Mangalam Birla to promote and raise the standards of good corporate governance. In early 2000, the SEBI had accepted and ratified key recommendations of this committee, and these were incorporated into Clause 49 of the Listing Agreement of the Stock Exchanges. The committee has identified the three key constituents of corporate governance as the *Shareholders, the Board of Directors and the Management*. Along with this the committee has identified major 3 aspects namely *accountability, transparency and equality* of treatment for all shareholders. Crucial to good corporate governance are the existence and enforceability of regulations relating to insider information and insider trading.

Corporate Governance has several claimants – shareholders, suppliers, customers, creditors, the bankers, employees of company and society. The committee for SEBI keeping view has prepared primarily the interests of a particular classes of stakeholders namely the shareholders this report on corporate governance. It means enhancement of shareholder value keeping in view the interests of the other stack holders. Committee has recommended CG as company's principles rather than just act. The company should treat corporate governance as way of life rather than code.

3. Naresh Chandra Committee Report:

The Naresh Chandra committee was appointed in August 2002 by the Department of Company Affairs (DCA) under the Ministry of Finance and Company Affairs to examine various corporate governance issues. The Committee submitted its report in December 2002. It made recommendations in two key aspects of Corporate Governance: financial and non-financial disclosures: and independent auditing and board oversight of management.

4. Narayana Murthy Committee report on Corporate Governance:

The fourth initiative on corporate governance in India is in the form of the recommendations of the Narayana Murthy committee. The committee was set up by SEBI, under the chairmanship of Mr. N. R. Narayana Murthy, to review Clause 49, and suggest measures to improve corporate governance standards. Some of the major recommendations of the committee primarily related to audit committees, audit reports, independent directors, related party transactions, risk management, directorships and director compensation, codes of conduct and financial disclosures.

5. Confederation of Indian Industry (CII) Taskforce on Corporate Governance:

History tells us that even the best standards cannot prevent instances of major corporate misconduct. This has been true in the US - Enron, WorldCom, Tyco and, more recently gross miss-selling of collateralized debt obligations; in the UK; in France; in Germany; in Italy; in Japan; in South Korea; and many other OECD nations. The Satyam-Maytas Infra-Maytas Properties scandal that has rocked India since 16th December 2008 is another example of a massive fraud.

6. Corporate Governance voluntary guidelines 2009:

More recently, in December 2009, the Ministry of Corporate Affairs (MCA) published a new set of ―Corporate Governance Voluntary Guidelines 2009, designed to encourage companies to adopt better practices in the running of boards and board committees, the appointment and rotation of external auditors, and creating a whistle blowing mechanism.

The guidelines are divided into the following six parts:

i) Board of Directors,

ii) Responsibility of Board,

iii) Audit Committee,

iv) Auditors,

v) Secretarial Audit

vi) Whistle Blowing mechanism

6. OBJECTIVES OF CORPORATE GOVERNANCE

Poor corporate governance may contribute to bank failures, which can pose significant public costs and consequences due to their potential impact on any applicable deposit insurance systems and the possibility of broader macroeconomic implications such as contagion risk and impact on payment systems. In addition, poor corporate governance can lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits. Generally, banks occupy a delicate position in the economic equation of any country such that its performance invariably affects the economy of the country.

Objectives of corporate governance are to-

- ✓ Establish strategic objectives and a set of corporate values that are communicated throughout the banking organization;
- ✓ Setting and enforcing clear lines of responsibility and accountability throughout the organization;
- ✓ Ensuring that board members are qualified for their positions, have a clear understanding of their role in corporate governance and are not subject to undue influence from management or outside concerns and
- ✓ Ensuring that compensation approaches are consistent with the bank's ethical values, objectives, strategy and control environment.

7. BROAD CANVASS OF CORPORATE GOVERNANCE GUIDELINES FOR BANKS

Effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to the proper functioning of the banking sector and economy as a whole. Poor corporate governance may contribute to bank failures, which can pose significant public costs and consequences due to their potential impact on any applicable deposit insurance systems and the possibility of broader macroeconomic implications. In addition, poor corporate governance can lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a bank run or liquidity crisis. Indeed, in addition to their responsibilities to shareholders, banks also have a responsibility to their depositors.

Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. From a banking industry perspective, corporate governance involves the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which affects how they function:

Set corporate objectives;

1. Operate the bank’s business on a day-to-day basis;

2. Meet the obligation of accountability to their shareholders and take into account the interests of other recognized stakeholders;

3. Align corporate activities and behavior with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations;

4. Protect the interests of depositors.

Good governance is decisively the manifestation of personal beliefs and values, which configure the organizational values, beliefs and actions of its Board. The Board as a main functionary is primary responsible to ensure value creation for its stakeholders. The absence of clearly designated role and powers of Board weakens accountability mechanism and threatens the achievement of organizational goals. Therefore, the foremost requirement of good governance is the clear identification of powers, roles, responsibilities and accountability of the Board, CEO, and the Chairman of the Board. The role of the Board should be clearly documented in a Board Charter.

To sub-serve the above discussion, the following are the essential elements of good corporate governance:

1. ***Transparency in Board's processes and independence in the functioning of Boards***. The Board should provide effective leadership to the company and management for achieving sustained prosperity for all stakeholders. It should provide independent judgment for achieving company's objectives.

2. ***Accountability to stakeholders*** with a view to serve the stakeholders and account to them at regular intervals for actions taken, through strong and sustained communication processes.

3. ***Fairness to all stakeholders***.

4. ***Social, regulatory and environmental concerns***.

5. ***Clear and unambiguous legislation and regulations*** are fundamentals to effective corporate governance.

6. ***A healthy management environment*** that includes setting up of clear objectives and appropriate ethical framework, establishing due processes, clear enunciation of responsibility and accountability, sound business planning, establishing clear boundaries for acceptable behavior, establishing performance evaluation measures.

7. ***Explicitly prescribed norms*** of ethical practices and code of conduct are communicated to all the stakeholders, which should be clearly understood and followed by each member of the organization.

8. ***The objectives of the company must be clearly documented*** in a long-term corporate strategy including an annual business plan together with achievable and measurable performance targets and milestones.

9. ***A well composed Audit Committee*** to work as liaison with the management, internal and statutory auditors, reviewing the adequacy of internal control and compliance with significant policies and procedures, reporting to the Board on the key issues.

10. ***Risk*** is an important element of corporate functioning and governance, which should be clearly identified, analyzed for taking appropriate remedial measures. For this purpose the Board should formulate a mechanism for periodic reviews of internal and external risks.

11. ***A clear Whistle Blower Policy*** whereby the employees may without fear report to the management about unethical behaviour, actual or suspected frauds or violation of company's code of conduct. There should be some mechanism for adequate safeguard to employees against victimization that serves as whistleblowers.

8. DEBUT OF CORPORATE GOVERNANCE IN INDIAN BANKS

As a prelude to institutionalize Corporate Governance in banks, an Advisory Group on Corporate Governance was formed under the chairmanship of Dr. R.H. Patil. Following its recommendations in March 2001 another Consultative Group was constituted in November 2001 under the Chairmanship of Dr. A.S. Ganguly: basically, with a view to strengthen the internal supervisory role of the Boards in banks in India. This move was further reinforced by certain observations of the Advisory Group on Banking Supervision under the chairmanship of Shri M.S. Verma which submitted its report in January 2003. Keeping all these recommendations in view and the cross-country experience, the Reserve Bank of India initiated several measures to strengthen the corporate governance in the Indian banking sector.

Indian banking system consists of Public/Private sector banks having a basic difference between them as far as the Reserve Bank's role in governance matters relevant to banking is concerned. The current regulatory framework ensures,

by and large, uniform treatment of private and PSBs in so far as prudential aspects are concerned. However, some of the governance aspects of PSBs, though they have a bearing on prudential aspects, are exempted from applicability of the relevant provisions of the Banking Regulation Act, as they are governed by the respective legislations under which various PSBs were set up. In brief, therefore, the approach of RBI has been to ensure, to the extent possible, uniform treatment of the PSBs and the private sector banks in regard to prudential regulations.

In regard to governance aspects of banking, the Reserve Bank prescribed its policy framework for the private sector banks. It also suggested to the Government the same framework for adoption, as appropriate, consistent with the legal and policy imperatives in PSBs as well. Hence the endeavor is to maintain uniformity in policy prescriptions to the best possible extent for all types of banks. Since role of Independent Directors form the basis for effective implementation of corporate governance in banks, it is necessary to reproduce the code of conduct prescribed under SCHEDULE IV [*section* 149(7)] as prescribed in Companies Bill 2012 for the guidance to the companies.

History of sorts was made late on the evening of 8th August 2013 when the *Rajya Sabha* (India's Upper House of Parliament) passed the Companies Bill, 2012; *Lok Sabha* (the Lower House) had passed it earlier in December 2012. With this, India now has ***"a modern legislation for growth and regulation of corporate sector in India,"*** which is expected to "facilitate business-friendly corporate regulation, improve corporate governance norms, enhance accountability on the part of corporates / auditors, raise levels of transparency and protect interests of investors, particularly small investors." This bill is applicable to companies with a net worth of Rs. 500 crore or more; a turnover of Rs 1,000 crore or more; and a net profit of Rs 5 crore or more during any financial year. Schedule VII of the Act, which lists out the CSR activities, suggests communities to be the focal point.

On the other hand, by discussing a company's relationship to its stakeholders and integrating CSR into its core operations, the draft rules suggest that CSR needs to go beyond communities and beyond the concept of philanthropy.

9. LITERATURE REVIEW

Alao O & Raimi, L (2011), in their study they identified the role of corporate governance practice in the event of global economic meltdown and opined that effective corporate governance practice will ensure the shareholders that though such meltdown has a ripple effect on all the economies, their interest would be protected as sound regulatory and supervisory mechanism was in place.

Freeman, R.A., (1984), notion of stakeholder theory, suggests that firms have a responsibility to a number of different interests groups, including employees, customers, suppliers, and society at large in addition to stockholders. Given this, different firms may have different objectives and standards for performance, depending on who their stakeholders are. These different stakeholders should force firms to provide the greatest possible return to the specific capital that they have provided. Since this will include returns to shareholders, focusing on financial performance of firms, which is the most readily measurable source of returns, should provide the best proxy for the firm's overall performance.

Firoz, CA Mohammad. (2010), he concluded in his study that the organizations are required to enhance the scope of environmental financial reporting from the present reporting practices as recognition and measurement of environmental benefits, environmental costs, environmental assets and environmental liabilities.

La Porta, Silanes and Shliefer (2000, 2002), view corporate governance as a set of mechanisms through which outside investors (shareholders) protect themselves from inside investors (managers). The Organization for Economic Cooperation and Development provides another perspective by stating that "corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out the rules and procedure for making decisions on corporate affairs. By doing this, it also provides the structures through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

Linnea, Mcord and Steven, Ferraro. (2007), found that corporate frauds are increasing and it is the board of directors that have been adversely affected. Its role had been transformed from being spectator to evaluating and monitoring the performance of management.

Gup, (2007) distinguishes two different models of corporate governance in banks: The Anglo-American and Franco-German. In Anglo-American model, main concern of corporate governance is "how to assure financiers that they get a

return on their financial investment" and thus "deals with the agency problem: the separation of management and finance" (Shleifer & Vishny, 1997, p. 773); whereas Franco-German model is characterized with relatively high concentration of ownership and takes into account the interests of not only shareholders but also stakeholders (Gup, 2007).

Gupta, P. (2008)., Corporate Governance in Indian Banking Sector, the research examines the practices of corporate governance attributes in banking sector and how they adhere to corporate governance practices. The results of this research indicate the practice of corporate governance is at nascent stage although corporate governance practices by Indian Banking Sector are more than a decade. However, hope is looming large for the proper implementation of corporate governance principles in Indian Banking Sector.

Jayashree S. (2006), analyzed in his research some imperatives of corporate governance in business corporations that may act as strategic policies also for the financial sector. These imperatives as adjudged to be imperative of the survival of various companies in the 21st century by many businesses are espoused as:

○ Adherence to the practice of good corporate governance enhances the efficiency of corporate organizations

○ Good corporate governance provides stability and desirable growth to the company

○ Effective corporate governance reduces perceived risks, consequently reducing cost of capital

○ Good corporate governance system demonstrated by adoption of good corporate practices and ethics builds stakeholders' confidence

○ Adoption of corporate governance promotes stability in long-term sustenance of stakeholder's relationship

○ Potential shareholders aspire to enter into a relationship with enterprises whose corporate governance credentials are exemplary.

Jones, Michael John. (2010), Companies could provide a statement of their corporate philosophy towards the environment in the annual report or stand-alone environmental reports. In particular, identifying any threats they recognize and, in particular, whether their business activities potentially contribute to those threats. Whether the company recognizes a duty to act and what in broad terms it intends to do. A statement of its attitude to sustainable development, what it believes the phrase means, and how it operationalizes sustainable development. Compliance with a clear comprehensive set of time-series performance indicators either internally devised or externally such as the GRI. These should embrace, inter alia, targets on water, waste, recycling, energy, pollution, biodiversity and, in particular, given the current concerns with climate change comprehensive details of air emissions, particularly tonnes of carbon dioxide.

Kolk, Ans, and Pinske,Jonatan. (2011), analyses to what extent corporate governance has become integrated in multinational enterprise's disclosure practices on CSR. Based on an analysis of CSR reporting of Fortune Global 250 companies, findings show that more than half of them have a separate corporate governance section in their CSR report and/or explicitly links corporate governance and CSR issues. It was found that, multinational enterprise's that disclose information on a wider variety of social and environmental issues and frame CSR with a focus on internal issues are more inclined to integrate corporate governance in their CSR reporting.

Mastrandonas, Andrew, and Strife, Polly T. (1992), analyzed in their study that stakeholders demand disclosure of company environmental information because of the magnitude of liabilities and cost associated with environmental issues. They say that corporate should consider using environmental annual reposts to communicate with their stakeholder and that will foster their partnership.

Millon, David (2011), explains in his study that the corporation's long-run prosperity depends on the well being of its various stakeholders, including workers, suppliers, and customers. Sustainability also requires ongoing availability of natural resources and a natural environment in which the corporation and its various constituencies can survive and flourish.

Murthy, N. R. N. (2006), Good corporate governance in a corporate set up leads to maximize the value of the shareholders legally, ethically and on a sustainable basis, while ensuring equity and transparency to every stakeholder – the company's customers, employees, investors, vendor-partners, the government of the land and the community as a whole.

O'Donovan (2003), corporate governance is an internal system that includes processes, policies and people that serve the requirements of shareholders as well as other stakeholders by controlling and directing activities by the firm's

management with good business objectivity, savvy and integrity. Sound corporate governance is related to external marketplace legislation and to a commitment to adding a healthy board culture that protects processes and policies. In other words, corporate governance is defined as the moral, ethical and legal corporation values that safeguard stakeholders' interests.

O'Dwyer, B (2002), explains that it is very difficult to differentiate between corporate governance and corporate social responsibility in the international economic perspective. Basically, corporate governance is based on the ethical norms and accountability. Whereas, CSR takes into account the current business practices taking care of socially responsible issues. In this way, corporate governance and corporate social responsibility have a positive correlation between them. Initially, corporate governance was related to conservative corporate decision-making, while corporate social responsibility was mainly concerned with the strategies having people as their focal point.

Okeahalam and Akinboade (2003), stated in his research paper that the organization systems, practices, process and rules of governing institutions are concerned closely with the corporate governance so there is a need to find those relationships that regulate, create or determine the nature of relationship through those relationships. Corporate governance implies that companies should balance between the interests of shareholders with stakeholders at all levels of organization.

Oman, C. P. (2001), observed that corporate governance is a must for ensuring the required values to different stakeholder groups. It enhances the performance of corporations, by creating an environment that motivates managers to maximize returns on investment, enhance operational efficiency and ensure long–term productivity growth. Consequently, such corporations attract the best talent on a global basis. It also ensures the conformance of corporations with the interests of investors and society, by creating fairness, transparency and accountability in business activities among employees, management and the board.

Pramanik, Alok Kumar (2008), observed in his study that protecting the environment is the social responsibility and commitment of corporations towards the society. It is believed that corporation is responsible for the environmental crisis and so they should pay for this. However, reporting is mostly guided by standards, guidelines etc. And, we do not have any standards designed for such disclosure. So, such reporting is still voluntary that has no specific format and style. Voluntary disclosure often leads to non-disclosure and mandatory disclosure leads to minimal disclosure. Thus, environmental disclosure should have both type of orientation, as it is a question of life and sustainability.

10. CORPORATE GOVERNANCE IN INDIAN BANKING SECTOR

Almost eighty percent of the total banking operation in India is under the control of the public sector banks consisting of the nationalized banks. The issues pertaining to Corporate Governance becomes more critical in case of these banks as the controlling power of these banks link with the Government. Government ownership is one of the primary issues that can have a direct impact on the quality of corporate governance. The importance of Corporate Governance issues in public sector banks is important, due to two principal reasons. First, they constitute a huge share of business in the banking industry in India, and second, it is highly unlikely that they are going to be phased out in due course. Disclosure and transparency are thus key pillars of a corporate governance framework in banks because they provide all the stakeholders with the information necessary to judge whether their interests are being taken care of. Due to rapidly changing banking environment, Indian banks must continue to implement strong corporate governance practices.

11. RESEARCH METHODOLOGY

In this paper a modest effort is made to discuss the reporting pattern of India's fifteen popular public sector and private sector banks. The main objective of this research paper is to study the philosophy of corporate governance and disclosure practices in sample of public sector and private sector banks. For this study, the latest available annual reports for the financial year 2015-16 have been considered.

Public Sector Banks taken for the study are:

1. State Bank of India (SBI)
2. Bank of Baroda (BOB)
3. Punjab National Bank (PNB)
4. Central Bank (CB)
5. IDBI Bank
6. Canara Bank (CAN)

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7. Union Bank (UB)
8. Bank of India (BOI)
9. Syndicate Bank (SYN)
10. Indian Overseas Bank (IOB)

Private Sector Banks taken for the study are:

1. HDFC Bank
2. ICICI Bank
3. Kotak Mahindra Bank
4. AXIS Bank
5. IndusInd Bank

12. ANALYSIS AND FINDINGS OF THE STUDY

This study is divided into seven parts each part is analyzing status of Corporate Governance disclosures. They are:

1. Board Structure Strength & Size
2. Director's Attendance in Board Meetings
3. Audit Committee
4. Shareholder's/Investor's Grievances
5. Remuneration Committee
6. Mandatory Statutory Disclosures
7. Non-Mandatory Statutory Disclosures

1. BOARD STRUCTURE STRENGTH & SIZE:

According to the Birla Committee (1999) the board of the company has an optimum combination of executive and non executive directors with not less than fifty percent of the board comprising the non executive directors. The number of independent directors would depend on the nature of the chairman of the board. In case a company has a non executive chairman at least one third of board should comprise of independent directors and in case a company has an executive chairman of least half of board should be independent.

Following table shows the board structure strength & size of public & private sector banks:

Table 1: Board Structure Strength & Size of Public Sector Banks; Annual Report 2015-16

Public Sector Banks											
SN	**Categories**	**SBI**	**BOB**	**PNB**	**CB**	**IDBI**	**CAN**	**UB**	**BOI**	**SYN**	**IOB**
I	**Total Number of Director**	12	9	11	12	9	11	10	13	9	12
A	No. of Executive Directors	4	3	4	3	3	4	2	4	3	3
	Promoters	-	-	-	-	-	-	-	-	-	-
	Others	-	-	-	-	-	-	-	-	-	-
B	No. of Non-Executive Directors	8	6	7	9	6	7	8	9	6	9
	Promoters	-	-	-	-	-	-	-	-	-	-
	Independent	3	3	3	2	5	2	3	3	2	2
	Nominee	4	2	4	2	1	3	3	3	2	2
	Others	1	1	-	5	-	2	2	3	2	5
II	**No. of Directors (in %age)**										
	Executive Directors	33.33	33.33	36.36	25.00	33.33	36.36	20.00	30.77	33.33	25.00
	Non-Executive Directors	66.67	66.67	63.64	75.00	66.67	63.64	80.00	69.23	66.67	75.00
	Independent Directors	25.00	33.33	27.27	16.67	55.56	18.18	30.00	23.08	22.22	16.67

Table 2: Board Structure Strength & Size of Private Sector Banks; Annual Report 2015-16

Private Sector Banks						
SN	**Categories**	**HDFC**	**ICICI**	**Kotak Mahindra**	**AXIS**	**IndusInd**
I	**Total Number of Director**	11	12	11	13	8
A	No. of Executive Directors	3	5	4	2	1
	Promoters	-	-	-	-	-
	Others	-	-	-	-	-
B	No. of Non-Executive Directors	8	7	7	11	7
	Promoters	-	-	-	-	-
	Independent	5	6	5	8	6
	Nominee	-	1	-	3	-
	Others	3	-	2	-	1
II	**No. of Directors (in %age)**					
	Executive Directors	27.27	41.67	36.36	15.38	12.50
	Non-Executive Directors	72.73	58.33	63.64	84.62	87.50
	Independent Directors	45.45	50.00	45.45	61.54	75.00

Observation of Table 1 & 2:

- Both public and private sector banks have maintained an optimum combination of executive and non-executive directors (with not less than fifty percent of the board comprising the non executive directors) as well as the condition of independent directors is also met in both public and private sector banks.

2. DIRECTOR'S ATTENDANCE IN BOARD MEETINGS:

The Birla Committee recommends that board meeting should be held at least four times in a year with a maximum time gap of four months between any two meetings maximum attendance at board meetings ensures good accountability and commitment of the board members.

Following table shows the Director's attendance in Board meeting of public & private sector banks:

Table 3: Director's attendance in Board meeting of Public Sector Banks; Annual Report 2015-16

Public Sector Banks										
No of Board Meeting	**SBI**	**BOB**	**PNB**	**CB**	**IDBI**	**CAN**	**UB**	**BOI**	**SYN**	**IOB**
Attendance in Meeting	**12**	**9**	**11**	**12**	**9**	**11**	**10**	**13**	**9**	**12**
1	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2	3	Nil	Nil	Nil	Nil	Nil	Nil	1	Nil	Nil
3	Nil	2	Nil	Nil	1	2	Nil	1	1	Nil
4	Nil	Nil	1	Nil	1	Nil	2	Nil	1	Nil
5	1	2	Nil	Nil	2	Nil	1	1	Nil	Nil
6	1	Nil	1	Nil	Nil	Nil	Nil	Nil	Nil	Nil
7	3	Nil	Nil	2	Nil	Nil	Nil	1	Nil	Nil
8	Nil	Nil	Nil	1	Nil	1	1	1	Nil	Nil
9	3	Nil	2	Nil	1	Nil	Nil	Nil	Nil	1
10	Nil	Nil	1	1	Nil	Nil	1	Nil	Nil	Nil
11	1	1	1	1	1	1	Nil	1	Nil	2
12	Nil	2	2	Nil	3	Nil	Nil	Nil	1	1
13	-	2	3	7	-	3	Nil	Nil	1	1
14	-	-	-	-	-	4	Nil	1	1	7
15	-	-	-	-	-	-	1	1	4	-
16	-	-	-	-	-	-	Nil	1	-	-
17	-	-	-	-	-	-	3	4	-	-
18	-	-	-	-	-	-	1	-	-	-
Total Meetings	**(12)**	**(13)**	**(13)**	**(13)**	**(12)**	**(14)**	**(18)**	**(17)**	**(15)**	**(14)**

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Table 4: Director's attendance in Board meeting of Private Sector Banks; Annual Report 2015-16

Private Sector Banks					
No of Board Meeting	**HDFC**	**ICICI**	**Kotak Mahindra**	**AXIS**	**IndusInd**
Attendance in Meeting	**11**	**12**	**11**	**13**	**8**
1	1	Nil	Nil	2	Nil
2	Nil	1	Nil	2	1
3	Nil	1	Nil	2	Nil
4	Nil	Nil	1	1	Nil
5	1	Nil	2	6	Nil
6	4	Nil	1	-	Nil
7	5	2	1	-	Nil
8	-	1	6	-	2
9	-	1	-	-	5
10	-	6	-	-	-
Total Meetings	**(7)**	**(10)**	**(8)**	**(5)**	**(9)**

Observation of Table 3 & 4:

- Both public sector and private sector banks are fulfilling the minimum criteria of at least four board meetings in a financial year (with a gap of four months) with maximum number of attendance of executive, non-executive as well as independent directors. It is quite satisfactory on the part of corporate governance norms and practices.

3. AUDIT COMMITTEE:

It is required as per clause 49(II) of the listing agreement that a qualified and independent audit committee should be set up by the board of a company which, will enhance transparent practices.

Following table shows the status of Audit Committee of public & private sector banks:

Table 5: Audit Committee status; Annual Report 2015-16

SN	**Particulars**	**Public Sector Banks**	**Private Sector Banks**
1	Transparency in the composition of committee	√	√
2	Compliance of requirement of the number of the committee meetings	√	√
3	Information about literacy & financial expertise of the committee	√	√
4	Interaction with the external auditors before the finalization of the annual/quarterly financial accounts and reports	√	√
5	Disclosure of audit committee charter & terms of reference	√	√
6	Publishing of committee report	NP	NP

√ - Information provided in Annual Report of Bank

NP - Information not published in Annual Report of Bank

Observation of Table 5:

- Both public sector and private sector banks are fulfilling the requirements of Audit committee with regard to transparency in composition of committee, number of board meetings, consultation with external auditors regarding financial reports/accounts etc. No bank has given information about publishing of committee report in Annual report/Governance report.

4. SHAREHOLDER'S/INVESTOR'S GRIEVANCES:

It is recommended that a board committee under the chairmanship of a non-executive director should be formed to specifically look into the redressing of shareholder complaints of this committee is that such a committee will help focus the attention of the company on shareholder's grievances and sensitize the management to redressal of their grievances.

Following table show the status of the bank regarding share holders'/investors grievances of public sector & private sector banks:

Table 6: Shareholder's Grievances; Annual Report 2015-16

SN	Particulars	Public Sector Banks	Private Sector Banks
1	Transparency in composition of the committee	√	√
2	Information about number of complaints & queries received and disposed	√	√
3	Information about number of committee meetings	√	√
4	Information about Investors/ Shareholders survey conducted	No such survey conducted	No such survey conducted
5	Publishing of committee report	NP	NP

√ - Information provided in Annual Report of Bank
NP **-** Information not published in Annual Report of Bank

Observation of Table 6:

- Both public sector and private sector banks are fulfilling the requirements of clause 49 of the listing Agreements in regard to composition of shareholders grievance committee. In all the banks total meetings are four in a year, there is transparency in the composition of committee, the number and nature of complaints and queries received, disposed and pending are clearly stated in the Annual report of banks.

- But still, there is lack of surveys which can be helpful in getting random access about those investors/shareholders who are not satisfied but never complaint or enquired due to unawareness or any other reason.

5. REMUNERATION COMMITTEE:

A company must have a credible and transparent policy in determining and accounting for the remuneration of the directors. The policy should avoid potential conflicts of interest between the shareholders, the directors the management. The over-riding principle in respect of director's remuneration is that of openness and shareholders are entitled to a full and clear statement of benefits available to the directors.

Following table show the status of remuneration committee of public & private sector banks:

Table 7: Remuneration Status; Annual Report 2015-16

SN	Particulars	Public Sector Banks	Private Sector Banks
1	Transparency in composition of the committee	√	√
2	Information about remuneration/allowance paid to directors	√	√
3	Information about number of committee meetings	√	√
4	Information about investors/ shareholder survey conducted	No such survey conducted	No such survey conducted
5	Publishing of committee reports	NP	NP

√ - Information provided in Annual Report of Bank

NP **-** Information not published in Annual Report of Bank

Observation of Table 7:

- Both public sector and private sector banks are fulfilling the requirements of Remuneration committee. There is transparency in composition of committee; numbers of meetings, the amount of remuneration/allowances paid to directors are enlisted in bank's annual report.

- Again, there is lack of surveys conducted about investors/shareholders acceptances. No bank has given information about publishing of committee report in Annual report/Governance report.

6. MANDATORY STATUTORY DISCLOSURES:

Following table shows the mandatory statutory disclosures of public & private sector banks:

Table 8: Mandatory statutory disclosures; Annual Report 2015-16

SN	Items of Statutory Disclosures	Public Sector Banks	Private Sector Banks
1	Significant related party transactions having potential conflict with the interest of the company	No Bank has entered into any materially significant related party transactions with its Promoters, Directors or Management, their subsidiaries or relatives, etc., that may have potential conflict with the interest of the Bank at large.	No Bank has entered into any materially significant related party transactions with its Promoters, Directors or Management, their subsidiaries or relatives, etc., that may have potential conflict with the interest of the Bank at large.
2	Non-compliance related to capital market matters during the last 3 years.	No penalties or strictures have been imposed by RBI except in the case of Central Bank and IDBI.	All selected banks have penalties or strictures imposed by RBI.
3	Board Disclosure Risk Management	Laid down procedure to inform board member about risk assessment and minimization for boards review reports.	Laid down procedure to inform board member about risk assessment and minimization for boards review reports.
4	Shareholder information on : -Appointment of new directors/Reappointment of retiring directors -Quarterly result & presentation -Share-transfers -Director's responsibility Statement	Disclosed Compliance	Disclosed Compliance

Observation of Table 8:

- Both public sector and private sector banks have not entered into any materially significant related party transaction that may have potential conflict with the interest of the bank.

- Non-Compliance related to capital market matters during the financial year. There were no penalties or strictures have been imposed in public sector banks except in case of Central Bank and IDBI Bank. Whereas all private sector banks are imposed with penalties or strictures during the period of last 3 years.

- Shareholder information on appointment of new directors/retiring directors/reappointment, quarterly result & presentation, share transfer, directors responsibility statement have been disclosed in Annual report of banks.

7. NON-MANDATORY STATUTORY DISCLOSURES:

Following table shows the non-mandatory statutory disclosures of public & private sector banks:

Table 9: Non-Mandatory statutory disclosures; Annual Report 2015-16

SN	Items of Statutory Disclosures	Public Sector Banks	Private Sector Banks
1	Shareholder right (e.g. information & half yearly declaration of financial performance sent to shareholders)	The quarterly / Annual Financial Results of all Banks are sent to NSE/BSE, published in newspapers and placed on Bank's website including highlights. Annual reports are also sent to the shareholders before AGM.	The quarterly / Annual Financial Results of all Banks are sent to NSE/BSE, published in newspapers and placed on Bank's website including highlights. Annual reports are also sent to the shareholders before AGM.
2	Evaluation of Non-Executive directors	Information provided in corporate governance report.	Information provided in corporate governance report.
3	Whistle Blower Policy	Information provided in corporate governance report.	Information provided in corporate governance report.

Observation of Table 9:

- Both public sector and private sector banks have disclosed shareholder right, evaluation of Non-Executive Directors and whistle blower policy adopted by bank in Annual report/Corporate governance report.

13. CONCLUSION

After studying the above stated, seven disclosure practices of both public and private sector banks following points of conclusion are drawn-

1. Both public and private sector banks have maintained an optimum combination of executive, non-executive and independent directors.

2. Both public sector and private sector banks are fulfilling the minimum criteria of at least four board meetings in a financial year with maximum number of attendance of executive, non-executive as well as independent directors.

3. Both public sector and private sector banks are fulfilling the requirements of Audit committee with regard to transparency in composition of committee, number of board meetings, consultation with external auditors regarding financial reports/accounts etc.

4. Both public sector and private sector banks are fulfilling the requirements of clause 49 of the listing Agreements in regard to composition of shareholders grievance committee. In all the banks total meetings are four in a year, there is transparency in the composition of committee, the number and nature of complaints and queries received, disposed and pending are clearly stated in the Annual report of banks.

5. Both public sector and private sector banks are fulfilling the requirements of Remuneration committee. There is transparency in composition of committee; numbers of meetings, the amount of remuneration/allowances paid to directors are enlisted in bank's annual report.

6. Both public sector and private sector banks have not entered into any materially significant related party transaction that may have potential conflict with the interest of the bank. There were no penalties or strictures have been imposed in public sector banks except in case of Central Bank and IDBI Bank whereas, all private sector banks are imposed with penalties or strictures during the period of last 3 years. Shareholder information on appointment of new directors/retiring directors/reappointment, quarterly result & presentation, share transfer, directors responsibility statement have been disclosed in Annual report of banks.

7. Both public sector and private sector banks have disclosed shareholder right, evaluation of Non-Executive Directors and whistle blower policy adopted by bank in Annual report/Corporate governance report.

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