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CORPORATE GOVERNANCE IN INDIAN BANKING SECTOR A BRIEF STUDY ON SELECTED INDIAN BANKS

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Abstract

The Banking system is the backbone of the Indian Economy. Strong and Healthy economy is the reflection of sound Banking system. Corporate Governance enhances the longterm shareholders value through accountability, transparency and its statutory disclosures. This paper discuss the Corporate Governance as an internal mechanism in banks and which is very essential for good governance. Evolution and Need for Corporate Governance in Indian Banking sector to achieve its shareholders protection and agency problem is reviewed through various studies are considered. This paper briefly studied the relationship between Board Size, Board Meetings and CSR spendings with Financial Performance of the Banks. 4 banks are considered for the study in which 2 are public sector banks(State Bank of India & Punjab National Bnak) and 2 are Private Banks (AXIS Bank & HDFC Bank)It is found that there is no significant relationship between Board Size, Board Meetings ,CSR spendings with Financial Performance.

Keywords: Banking, Corporate governance, Board size and Meetings ,

Introduction

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights.

"Corporate governance is the combination of rules, processes and laws by which businesses are operated, regulated and controlled. The term encompasses the internal and external factors that affect the interests of a company's stakeholders, including shareholders, customers, suppliers, government regulators and management."

EVOLUTION OF CORPORATE GOVERNANCE IN INDIAN BANKING SYSTEM

To name a few, an advisory group on corporate governance was formed under the chairmanship of Dr. R. H. Patil, in March 2001.Subsequently, another consultative group was formed in November 2001 under the Chairmanship of Dr. A.S. Ganguly, with an objective to strengthen the internal supervisory role of the Boards in banks. In continuation, an advisory group on banking supervision was initiated under the Chairmanship of Shri M.S.Verma. Based on the recommendations of these advisory groups and considering the global corporate governance experience, RBI had undertaken several measures to strengthen the corporate governance in the Indian banking sector. Various areas, which were potentially important and needed attention, were emphasized. It included defined role of supervisors, ensuring an environment supportive to the sound corporate governance, effective organizational structure to have responsible board of directors, etc. Considering the fact that Indian banking sector is dominated by the government-managed banks (including public sector banks, nationalized banks and rural banks, etc.), these issues were further examined. In this phenomenon, corporate governance issue was important for public sector banks, especially because they constitute major share of business in the banking sector. The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) established in 1992 are two important statutory bodies empowered to regulate and maintain the standard required for the effective corporate governance. Another global initiative in 1999 of the Basel Committee also brought important principles on corporate governance for banks.

Corporate governance initiatives launched in India since the mid-1990s.

1. 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.
2. The second was by the SEBI, now enshrined as Clause 49 of the listing agreement.
3. The third was the Naresh Chandra Committee, which submitted its report in 2002.
4. The fourth was again by SEBI — the Narayana Murthy Committee, which also submitted its report in 2002.,
5. 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.

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 nonfinancial 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

LITERATURE REVIEW

1. (Levine 2004; Adams and Mehran 2012; Liang et al., 2013; Yermack 1996; Eisenberg et al., 1998; Pathan, 2009) provide support by showing that firms with small boards have better financial performance. However, other researchers (Adams and Mehran 2012; Malik et al., 2014) argue that larger boards improve firm performances by facilitating manager supervision. Fu a nd Heffernan (2009) study the relationship between market structure and performance in China's banking structure for the period 1985 to 2002 and find that the private sector banks have higher efficiency and better profitability than the public sector banks.
2. Pathan (2009) examine a sample of 212 large US bank holding companies from 1997 to 2004 and finds that small, less restrictive boards positively affect bank risk-taking. Nguyen and Nielsen (2010) observe that the stock price drops following the sudden death of independent directors. Rowe et al. (2011) use a sample of 41 banks and examines the impact of board size, percentage of shares held by the directors, percentage of executive directors and independent directors, on Chinese's bank performance. They find that the percentage of executive directors in the boards has a significantly negative impact and the percentage of shares owned by the board has a significantly positive impact on bank performance.

3. Adams and Mehran (2012) use a sample of 35 publicly traded in US for the period 1986 to 1999 and investigate the relationship between board governance and its performance. The study finds that board size is positively correlated with performance. Francis et al. (2012) find that a board with strong independent directors shows positive and significant relationship with firm performance.
4. (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.
5. Benton, George (1999). Regulating Financial Markets: A Critique and Some Proposals. Washington, D.C:. American Enterprise institute. between insiders and outsiders in banking make it even more difficult for diffused equity and debt holders to keep a vigil on bank managers. (b) As stated earlier, Government too plays a key role in corporate Governance by creating the legal framework and exercising the same (especially in case of private sector banks). Apart from creating an atmosphere of legal barriers the Government may directly influence corporate governance. On one hand, the Government owns a firm, so that it is liable for monitoring the managerial decisions and limiting the ability of managers to maximise private benefits at the cost of the society. On the other hand, Government regulates corporations.
6. Dalton et al. (1999) conducted a meta-analysis of 131 studies and concluded that there exists a nonzero positive relationship between board size and corporate performance. Boards of directors in banks and their effectiveness have received only a limited attention. One of the reasons that may be behind this is because of the difference in regulation and control. Hence our study raises another question that whether board effect is industry specific. Banking sector constitutes a crucial component of any economy. It acts as the most important intermediary for channalising resources from ultimate lenders to final borrowers.

7. John and Senbet, (1998). These studies have focused on three board attributes: board size, board leadership and board composition. Chagnanati et al. (1985) argues that board size is a significant board attribute and affects board functions and eventually corporate performance. Jensen (1993) and Lipton and Lorsch (1992) asserted that large boards could be less effective than small boards. Increase in board's size, occurs with increase in agency problems (such as director free-riding) within the board and the board becomes less effective. Jensen (1993) also supported the theory of Lorsch (1992) and further added that the decision-making power of the board becomes slower with the involvement of more people. Eisenberg et al. (1998) documented a similar pattern for a sample of small and midsize Finnish firms. Their study also revealed that board size and firm value are negatively correlated.

8. (Eldomiaty and Choi, 2003). In a developing economy such as India, the growth of efficient corporate governance principles in banks has been partly held back due to weak legal protection, poor disclosure prerequisites and overriding owners (Arun and Turner, 2002a). Moreover, the private banking sector is purposely opting to ignore certain corporate governance ethics as it has vested interest of some parties

HYPOTHESES FOR THE STUDY

1. There is no relationship between Board Size and Financial Performance
2. There is no relationship between no of Board Meetings held in a year and Financial Performance
3. There is no relationship between CSR spendings and Financial Performance

OBJECTIVE OF THE STUDY

1. To know the relationship between Board Size of the banks and its Financial performance.
2. To know the relationship between Board Meetings Held in a year by banks and its financial performance.
3. To know the relationship between CSR Spendings done by the company in a particular year and the financial performance of the bank.

DATA COLLECTION

Data has been collected from the Annual Reports of the Banks through their official Websites, Money Control and Company Check websites. The Study for the period of 5 years i.e.. from 2018-2022.The data has been analysed by using the simple linear regression model

Table :1 Board Size of the Banks Yearwise

Board Size						
Public Sector						
Bank Name	**2022**	**2021**	**2020**	**2019**	**2018**	**Average**
State Bank Of India	16	19	18	16	17	17
Punjab National Bank	15	11	16	14	14	14
Private Sector						
Axis Bank	19	18	18	19	18	18
Kotak Mahindra Bank	14	17	15	13	14	15

Table :1 Shows the Board size i.e.. no of directors in the board yearwise the maximum and minimum no of directors in public sector bank 1. State Bank of India is 19 is maximum in the year 2019 minimum is 16 in the year 2019. Punjab National Bank 16 in the year 2020.Similarly in private sector bank the maximum and minimum respectively number of directors 1 AXIS Bank 19 is the in the year 20190and 2022, 2 Kotak Mahindra Bank 17 in the year 2021 and minimum is 13 in the year 2019.

Table : 2 Number of Board Meetings Yearwise

Board Meetings						
Public Sector						
Bank Name	**2022**	**2021**	**2020**	**2019**	**2018**	**Average**
State Bank Of India	1	5	7	6	7	5
Punjab National Bank	1	7	6	8	7	6
Private Sector						
Axis Bank	1	4	5	7	5	4
Kotak Mahindra Bank	1	5	6	5	5	4

Table :2 The table shows the number of Board Meetings held by the Banks –public sector banks SBI max is 7 in 2018 and 1 in 2022, PNB Max is 8 in 2019 , min is 1 in 2022. Private Sector –AXIS Bnak max is 7in 2019 and min is 1 in 2022,Kotak Mahindra Bank max is 6 in 2020 and 1 in 2022.

Table :3 Debt-Equity ratio yearwise

Debt Equity Ratio						
Public Sector						
Bank Name	**2022**	**2021**	**2020**	**2019**	**2018**	**Average**
State Bank Of India	1.66	1.81	1.51	2.05	1.86	1.7780
Punjab National Bank	0.52	0.51	0.85	0.95	1.63	0.8920
Private Sector						
Axis Bank	1.61	1.41	1.74	2.29	2.33	1.8760
Kotak Mahindra Bank	0.37	0.38	0.79	0.77	0.67	0.5960

Table :3 shows the Debt Equity ratio of all the four banks in which SBI – 1.51 and 2.05 min and max respectively, PNB 0.51 to 0.95 min and max respectively. In private sector Axis Banks 1.41 and 2.29 ,in Kotak Mahindra Bank 0.37 and 0.79 min and max respectively

Table : 4 Liquidity ratio yearwise

Liquidity Ratio						
Public Sector						
Bank Name	**2022**	**2021**	**2020**	**2019**	**2018**	**Average**
State Bank Of India	3.51	4	3.53	4.28	3.53	3.7700
Punjab National Bank	8.52	7.97	5.27	5.87	4.65	6.4560
Private Sector						
Axis Bank	3.01	2.35	3.42	3.02	2.6	2.8800
Kotak Mahindra Bank	1.96	2.2	2.12	1.87	2.31	2.0920

Table :4 shows the Liquidity ratio of all the four banks for 2022 PNB's 8.52 and in private sector Axis Bank 3.01 in the year 2022.minimun is 3.53 in 2022 and SBI , in private sector 1.87 in the year 2019Table : 5 CSR Spendings by banks yearwise

CSR Spendings (Rs. in Crores)										
Public Sector										
Bank Name	2022		2021		2020		2019		2018	
	CSR amount as per Companies Act 2013	Actual Amount Spent on CSR	CSR amount as per Companies Act 2013	Actual Amount Spent on CSR	CSR amount as per Companies Act 2013	Actual Amount Spent on CSR	CSR amount as per Companies Act 2013	Actual Amount Spent on CSR	CSR amount as per Companies Act 2013	Actual Amount Spent on CSR
State Bank Of India	-	204.10	-	144.88	-	27.47	-	16.46	-	112.96
Punjab National Bank	-	50.2	-	40.38	-	29.21	-	29.54	-	28.62
Private Sector										
Axis Bank	138.06	138.25	90.65	90.93	100.62	100.96	127.94	137.59	186.82	133.77
Kotak Mahindra Bank	161.83	65.94	142.27	79.4	124.23	85.20	96.27	36.55	73.97	26.4

Table :5 Section 135 of the Act, Companies (Corporate Social Responsibility Policy) Rules, 2014 The Board shall ensure that the company spends, in every financial year , atleast 2% of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy. The above table shows the spendings made by all the four banks yearwise .hence both public sector and Private Sector banks have followed the statutory regulations of the Comapanies Act 2013

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