CONSTRUCTION OF INDEX TO MEASURE THE IMPACT OF CORPORATE GOVERNANCE ON PERFORMANCE OF INDIAN FINANCIAL INSTITUIONS

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Abstract:
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Research Question/Issue: The objective of the study is to construct an index in order to identify the impact of corporate governance (CG) on performance of Indian financial Institutions (FIs).The review of existing literature on the impact of CG on firm's performance gives a mixed result. Moreover, there is no Indian study till date which has focused on the said topic post amendments of the Companies Act, 2013. Hence, there is a need was felt to carry out an in-depth study especially in Indian financial institutions.
Research Findings/Insights: In the private sector banks, the banks having low capital base are having low CG index as compared to the banks having high capitalization. Apart from capitalization the spread of the bank branches seems to have an influence on the CG scores. The banks having a pan-India presence score high on CG index as compared to banks concentrated in few regions. Although few of the private sector banks which are very old as compared to new private sector banks have low CG scores which may be due to small scale of operations and less requirement of fresh capital.
Theoretical/Academic Implications: The CG index developed in this study is going to help the researchers and practitioners to use extensively in order to find out the effectiveness of CG practices.
Practitioner/Policy Implications: Most of the banks in India require recapitalization in order to follow Basel III norms; recapitalization involves rising of funds from various domestic and foreign sources, for which the CG parameters are of paramount importance. The decision to invest funds depends heavily on CG apart from other factors. In view of this the banks put utmost effort to meet the mandatory requirements of CG and also try to fulfill non mandatory requirements so as to reflect transparency in its operations.
Index Terms **- Corporate Governance, Board, Director, Audit Committee, Corporate Governance Index**

I. INTRODUCTION

Following the sudden and impactful scandals of Enron, Parmalat, WorldCom or Lehman Brothers, significant essence has been felt worldwide for effective corporate governance (CG). Worldwide there was sense of emergent need was felt for effective corporate governance practices. Against an uncertain business environment, there was a demand to evaluate the existing regular CG practices. Globally, there has been much debate on 'what constitutes good governance?' The focus was primarily on the higher responsibilities, tighter regulation for the board of directors and the increase in shareholder activism. However, there was no standard metrics to determine the success of corporate governance practices. The prevailing mandatory checklist approach for corporate governance has severe limitations in terms of its effectiveness. Similarly, relying entirely on an overarching set of principles without any binding rules has also its shortcomings.

II. INDIAN SCENARIO OF CORPORATE GOVERNANCE

The fiscal crisis in 1991, had pushed the Indian government to take serious measures by adopting reformative actions for economic stabilization. These reforms were part of macro strategy of building industrial capabilities. Such reforms also involved a wide range of institutional and corporate level initiatives, which have reflected a good sign of corporate responsiveness and transparency in subsequent years. As a liberalization measure, the Government amended the Companies Act, 1956 many times including in 1999, 2000, 2002 and 2003. Several measures have been adopted by the government, which includes empowering the stock market regulator - Securities and Exchange Board of India (SEBI) and also by improving specific measures for more disclosures and enhancing transparency. Some of the major corporate governance initiatives taken since 1990s by the Government of India are listed below.

- THE CONFEDERATION OF INDIAN INDUSTRY (CII) CODE (1998)
- THE KUMAR MANGALAM BIRLA COMMITTEE (2000)
- THE REPORT OF TASK FORCE ON CORPORATE EXCELLENCE (2000)
- RBI ADVISORY GROUP ON CORPORATE GOVERNANCE (2001)
- RBI CONSULTATIVE GROUP OF DIRECTORS OF BANKS/ FINANCIAL INSTITUTIONS (2002)
- THE NARESH CHANDRA COMMITTEE (2002)
- THE NARAYANA MURTHY COMMITTEE (2003)
- THE J.J. IRANI COMMITTEE (2005)
- CENTRAL COORDINATION AND MONITORING COMMITTEE
- ICSI RECOMMENDATIONS TO STRENGTHEN CORPORATE GOVERNANCE FRAMEWORK (2010)
- SHRI ADI GODREJ COMMITTEE (2012)
- THE COMPANIES ACT, 2013
    - ENABLING TRANSPARENCY (SEC. 120)
    - CORPORATE SOCIAL RESPONSIBILITY (SEC. 135)
    - APPOINTMENT OF AUDITORS, SEC. 139 AND NOT TO RENDER CERTAIN SERVICES (SEC. 144)
    - STRUCTURE OF BOARD OF DIRECTORS (SEC. 149)
    - DUTIES OF DIRECTOR (SEC. 166)
    - CODE FOR INDEPENDENT DIRECTORS (SCHEDULE IV)
    - STRUCTURE OF AUDIT COMMITTEE AND ITS FUNCTION (SEC. 177)
    - PROHIBITION ON INSIDER TRADING OF SECURITIES (SEC. 195)
    - APPOINTMENT OF KEY MANAGERIAL PERSONNEL (KMP) (SEC. 203)
    - SECRETARIAL AUDIT FOR BIGGER COMPANIES (SEC. 204)
    - DEFINED FUNCTIONS OF COMPANY SECRETARY (SEC. 205)
    - ESTABLISHMENT OF SERIOUS FRAUD INVESTIGATION OFFICE (SEC. 211 AND 212)

- SEBI GUIDELINES, 2014
- SECURITIES AND EXCHANGE BOARD OF INDIA (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015
    - BOARD COMPOSITION
    - AUDIT COMMITTEE
    - NOMINATION AND REMUNERATION COMMITTEE

III. CORPORATE GOVERNANCE IN BANKS

Banking and financial institutions are the strong backbone of any economy. This results in healthy economic condition of a country, which positively correlates with sound functioning of its banking sector. Functioning of banking and financial institutions differs with other corporate entities in many ways that makes corporate governance of banks very different and critical too. So, if a corporate fails on corporate governance front, the fall outs can be restricted to the stakeholders, but on the other hand, if a banking or financial institution fails, the impact can spread rapidly through other banks and financial institutions, which ultimately have serious implication on financial system and economy at large. Thus, corporate governance has critical importance in case of banks and financial institutions. In Indian market, the concept of corporate governance evolved and made considerable progress in the liberalization, privatization and globalization phase, whereby institutionalization of financial markets, foreign institutional investors (FIIs) became dominant players in the stock markets. This phase also left private sector companies with a realization that 'investors keep invested in those corporate, which create values for their investors'. Thus, in this way, corporate essentially requires to adhere with the honest, fair and transparent corporate procedures and practices.

IV. EVOLUTION OF CORPORATE GOVERNANCE IN INDIAN BANKING SYSTEM

Considering the changing role of corporate governance, various advisory groups and consultative groups were formed to deeply study baking sector in the light of effective corporate governance. 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 context, 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) in 1934 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. Additionally, Banking Regulation Act, 1949, Foreign Exchange Management Act (FEMA), 1999, Payment and Settlement Systems Act, 2007, New Companies Act, 2013 and other directives/ regulations/ guidelines/ instructions issued by RBI and SEBI from time to time have created a positive environment and further scope for enhancing corporate governance. This evolution phase of corporate governance and banking industry experiences created long way of development and setting global standards for corporate governance, which make it more robust and sophisticated in today's time frame.

V. NEED OF EFFECTIVE GOVERNANCE IN BANKS

There are various parameters, which refer the crucial need of corporate governance in banking sector. It cannot be denied that banking sector plays important role of managing funds and its circulation. They have access to capital market as well to maintain the statutory requirement of having sound capital adequacy ratio (CAR). This way they also have open-ended investors from the capital market as well as major shareholders. Investors believe that a bank with good governance will provide them a safe place for investment and also give better returns. Therefore, good corporate governance is important factor in retaining existing investors and attracting new investors. Another aspect of greater transparency and fairness motivate its investors, customers, employees and vendors to maintaining long-term relationship with the bank. Important practices in good corporate governance such as assessment of credit risks pertaining to lending process has an encouragement for the corporate sector, as in turn it will improve their internal corporate governance practices and standards, which is conditioned by the global tendency to consolidation in the banking sector. Another aspect of corporate governance need in the banking is influenced by the fact that boards of directors and senior management govern the business and affairs of individual banks, and at any point of time, any imbalance within the effective corporate governance framework will led to corporate failure. In the light of above, the need of corporate governance in banking sector is essentially required in order:

- to establish a capable, effective and reliable board of directors and their composition
- to have an effective and operating audit committee, compensation committee and nominating/ corporate governance committee
- to establish corporate governance procedures in order to enhance shareholder's value
- to establish a corporate code of ethics
- to disclose the information in a timely and transparent manner

VI. RBI'S ROLE IN ENSURING CORPORATE GOVERNANCE IN BANKS

RBI, being the central bank and banking sector regulator in India has major role in formulating, implementing and promoting the standards of corporate governance for India's banking sector. Originally, RBI had task to regulate issue of currency, maintaining forex reserve, financing five-year plan, establishing specialized institutions to promote saving and to fulfill needs of priority sector. Afterwards post librelisation phase, it also started focusing on facilitation of efficient functioning of capital and money market, fixing interest rates, providing necessary operational framework to banks for setting various transparency and disclosures norms. It also focuses on stabilizing the financial system. Apart from main functions of RBI, it also has supervisory and regulatory powers for public sector banks, private sector banks, regional rural banks, foreign banks, non-banking financing companies (NBFC), Small Industries Development Bank of India (SIDBI), cooperative banks and various institutions formed under special acts (including SBI Act, IDBI Act, Industrial Finance Corporation, NABARD Act, Deposit Insurance and Credit Guarantee Corporation Act and National Housing Bank Act).

RBI also follows the important functions guided by the Board of Financial Supervision (BFS), which inspects and monitor the banks through its CAMELS approach (capital adequacy, asset quality, management, earnings, liquidity, and systems & control). Here primary objective of BFS is to undertake consolidated supervision of the financial sector. It also look after the Department of banking Supervision, Department of Non Banking Supervision and the Financial Institution Division, in terms of issuing necessary directions for important regulatory matters. Within the supervision and regulatory powers, RBI has discretion over bank licensing, asset liquidity, branch expansion and methods of amalgamation and liquidation, etc., which further empower RBI to play leading role of formulating and implementation of effective corporate governance mechanism for the institutions within banking sector.

RBI follows three important parameters in maintaining and managing effective corporate governance, namely, prompt disclosure and transparency norms, off-site surveillance and timely appropriate corrective action.

VII. IMPORTANT COMMITTEES OF BOARD

Most of the guidelines are based on SEBI guidelines, New Companies Act 2013, Norms set by the RBI or by the Ministry of Corporate Affair. Some of the important guidelines are focused on the following:

- Board Composition
- Audit Committee
- Remuneration and Nomination Committee
- Risk Management Committee
- Stakeholders Relationship Committee
- Corporate Social Responsibility Committee

IMPORTANT GUIDELINES OF RBI ON CORPORATE GOVERNANCE

RBI issues important guidelines from time to time to the banks, NBFC and other financial institutions, which comes under its supervisory control. Some of the key guidelines are as below:

- Guidelines for Licensing of ‘Payments Banks’
- Corporate Governance Directions for Non-Banking Financial Companies (NBFC’s)
- Fit & Proper Criteria for Directors

BASEL COMMITTEE ON CORPORATE GOVERNANCE PRINCIPLES FOR BANKS

The Basel Committee on banking supervision was setup in 1975 by the Central Bank Governors of the G10 developed countries. It is empowered as the banking supervisory authority. Since its inception, it has introduced the Basel Capital Accord in, the New Basel Capital Accord in 2003. BIS (2015) have come out with guidelines on corporate governance principles for banks with an objective of promoting the adoption of sound corporate governance practices by banks worldwide.

VIII. REVIEW OF LITERATURE

Several researches have been conducted to analyse the different aspects of CG. But there are very few research and literature available on the subject related to CG practices in banking and financial sector companies in India and especially the impact of CG on firm’s performance. The available literature and researches related to the present study are divided into CG practices and its impact on performance of financial institutions; Board size and firm performance; Independent Director and Firm performance; and Board diversity. Important literature available in this context is being referred below:

a. CG Practice and its impact on performance of Financial Institutions

Adnan *et al.* (2011) investigated the impact of CG on efficiency of Malaysian listed banks, using a panel data analysis. Mang'unyi (2011) also examined empirically the ownership structure, CG and its effects on performance of firms in Kenya with reference to banks. Pandya (2011) opines that there is a significant relationship between governance structures and firm performance. The author studies the effect of CG structures, particularly board independence and CEO duality, on the performance of selected Indian banks measured by ROA and ROE.

Al-Musalli *et al.* (2012) studied the determinants of intellectual capital performance of listed banks in Arab Gulf Cooperation Council (GCC) countries by inspecting the impact of various CG variables on intellectual capital performance. Emmanuel *et al.* (2012) analysed the CG impact on the bank performance by taking the sample of the Nigerian bank and found that the size of the board of directors and the number of the shareholders had positive impact on the return on equity and return on the assets. Similarly, Mohammed (2012) studied the impact of CG on the performance of banks in Nigeria.

Gowd *et al.* (2013) attempted to study the CG practices of SBI and examine the relationship between market valuation and operating performance with CG score of SBI. Hoque *et al.* (2013) empirically investigated the influence of CG mechanisms on financial performance of 25 listed banking companies in Bangladesh during 2003-2011. Under the study, it was found that the general public ownership is positively and significantly associated with ROA and ROE and concluded that presence of independent directors have a significant positive effect on bank performance. Similarly, another study by Thomas *et al.* (2014) investigated the impact of CG on performance of listed Indian banks by using a panel data analysis.

b. Board Size and Firm Performance

Faleye and Krishnan (2010) employ three measures of bank risk taking in lending decisions, namely the borrower’s long-term S&P credit rating, the inclusion of financial covenants in loan contracts, and the bank’s decision to diversify its lending risk through syndication The inclusion of financial covenants is not related to board size.

Hardwick *et al.* (2011) test for a non-linear relationship but find no support for it, while Grove *et al.* (2011) find some evidence for an inverted U-shaped relationship between ROA and board size.Another research by Upadhyay and Sriram (2011), revealed that a larger board has greater resources than a smaller board to monitor managerial performance.

Adams and Mehran (2012) examined the relationship between board size, board composition and performance, where the later is proxied by Tobin’s Q. Researcher found that the natural logarithm of board size is, on average, positively related to Tobin’s Q in their sample. Aebi *et al.* (2012) revealed that board size is positively related to their indicators of 372 US banks’ performance (i.e., buy-and-hold returns and ROE) measured over the time period July 1, 2007, to December 31, 2008. Similarly, Beltratti and Stulz (2012) investigated the relationship between CG and bank performance during the credit crisis (July 2007 – December 2008) in an international sample of 164 large banks (having assets over $50 billion).

c. Independent Directors and Firm Performance

Minton *et al.* (2010), Fernandes and Fich (2009), and Adams and Mehran (2012) do not find a positive association between board independence and firm performance, while Aebi *et al.* (2012) found that the coefficient of the percentage of independent outside directors on the board of directors is even negative, although it is only significant in some regressions. An exception is the study by Cornett *et al.* (2010) who investigated the relationship between several CG mechanisms and bank performance during crisis phase in a sample of approximately 300 publicly traded US banks. They showed that a more independent board is positively related to banks’ performance during the crisis.

IX. PRESENT STUDY

The review of existing literature on the impact of CG on firm’s performance gives a mixed result. Moreover, there is no Indian study till date which has focused on the said topic post amendments of the Companies Act, 2013. Hence, there is a need was felt to carry out an in-depth study especially in Indian financial institutions.

In order to assess the impact of CG on the performance of FIs we have undertaken the following processes

1. Analysis of the structural dynamics of the board attributes which are the main drivers of CG practices;

2. Construction of an index to measure CG practices as envisaged in the Companies Act, 2013 and SEBI (LODR) Guidelines, 2015. based on the fact that the main driver of CG;
3. Assessment of impact of CG on financial performance of the FIs.

In this paper we are only highlighting on the construction of Corporate Governance Index (CGI) and the calculation of CGI in selected Indian financial institutions.

Sample Selection

In the present study we have selected sixteen sample FIs consisting of eight public sector banks and eight private sector banks. In India the banking sector comprises of private sector banks, public sector banks, foreign banks and cooperative banks. In this study, we have chosen eight public sector banks and eight private sector banks. *Table-1* shows the sample FIs and their market capitalization. The basic criteria for selecting the banks were:

1. Listed on the stock exchange;
2. Highest and lowest market capitalization in the list of top ten FIs in particular category like public sector banks, private sector banks.

Table 1: Sample of the Study

Category	Bank Name	Market Capitalization (in million) as on 31st March, 2012
Public Sector Banks	State Bank of India (SBI)	1521919
	Punjab National Bank (PNB)	336636
	Bank of Baroda (BoB)	336502
	Central Bank of India (CBI)	73758
	Dena Bank (DB)	28530
	United Bank of India (UBI)	28357
	Punjab and Sindh Bank (PSB)	27325
	State Bank of Mysore (SBM)	23573
Private Sector Banks	HDFC Bank Ltd. (HDFC)	1134625
	ICICI Bank Ltd. (ICICI)	1025805
	Axis Bank (AB)	491915
	Kotak Mahindra Bank Ltd. (KMBL)	365901
	Karnataka Bank Ltd. (KB)	18546
	DCB Bank Ltd. (DCB)	11672
	Lakhsmi Vilas Bank Ltd. (LVBL)	8367
	Dhanlaxmi Bank Ltd. (DB)	7310

Data Sources

For the purpose of this study, majorly data were collected from the annual reports of the respective FIs, websites of NSE, BSE and RBI from its database on Indian banks. The timeframe of analysis was from FY 2011-12 to 2015-16.

X. CONSTRUCTION OF CORPORATE GOVERNANCE INDEX

There is a wide perceptional difference among different stakeholders about CG. Some of the practioners define CG in a very formal way, where the management is primarily accountable only to the shareholders, whereas others draw a wide boundary encompassing entire society to whom the management is accountable. CG deals with the ways in which the suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer and Vishny, 1997). Similarly, the CII report on CG puts forward the argument "CG deals with laws, procedure, practices and implicit rules that determine a company's ability to take managerial decisions vis-a vis its claimants in particular its shareholders, creditors. There is a global consensus about the objectives of good CG maximizing shareholders' value".

The CG process consists of large number of variables (both external and internal), which needs to be processed to measure and analyse the state of CG in any company.

Construction CG index is subject to methodological shortcomings and individual biases. In order to overcome individual biases, we have taken all the scores from published annual reports of these companies and scoring was done on the basis of the information available in the annual reports. The annual reports are the primary source of information for all the stakeholders in contrast to the ratings done by the commercial agencies. There is great amount of information asymmetry between commercial rating agencies and the general stakeholder.

To construct the various sub-indices, we have taken take the attribute associated with a specified governance mechanism and score each attribute on the requirements of clause 49 of the listing agreements and the provisions of the Companies Act, 2013. Each of the indicators used in this index construction is quantified depending upon the mandatory requirements. Some of the indicators which are non mandatory in nature but are important CG mechanism are also included in the index construction.

One of the most important CG mechanisms is the functioning of the board which is reflected by its structure (diversity, proportion of independent directors, executive/non- executive chairman) size, frequency of meetings, training of independent directors and related governance mechanisms.

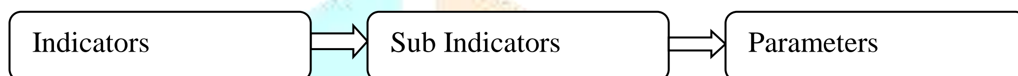
In complex business environments, the board may require inputs for specialized and technical decision making. In view of this the Companies Act, 2013 stipulates certain mandatory and non mandatory board committees left at the discretion of the board. A board committee is a small working group identified by the board, consisting of board members, for the purpose of supporting the board's work. Committees are usually formed as a means of improving board effectiveness and efficiency. The applicability, constitution and functions are different for different committees.

It is generally perceived that the operations of the FIs are opaque in nature. Simultaneously, failure of any one of the FIs can have a disastrous cascading effect on the whole of the financial system through counter party default. The capital requirements of the FIs are quite huge and supplied by various stakeholders. In order to reduce information asymmetry among managers and stakeholders, disclosures plays an important role to reflect the underlined health of the FIs.

Similarly, due to the inherent risk involved in operations of FIs these are heavily regulated by various agencies. The snapshot of compliance requirements and adherence to regulations provide confidence to the various stakeholders and suppliers of capital. Disclosure about mandatory and non mandatory compliance may reduce the cost of funds for FIs.

In order to analyse the state of CG in the sample FIs, an index is constructed using important measurable CG mechanisms under three broad indicators (*Table 2*) namely *Board, Committees of the board and Disclosure requirements.*

Under each of these indicators, we have identified number of sub -indicators (total fifteen). The sub indicators are quantified using parameters which exist as essential CG stipulations.



Basing on the various studies 60 % of the weightage in the index is assigned to the indicators pertaining to a. Board and b. Board committees. Rest 40% is assigned to c. Disclosures and compliance as both of these lead to transparency and reduced information asymmetry for diffuse shareholders and debt-holders, which is as considered as the cornerstone for sound CG practice.

Table 2: Indicators of CG Index Construction

Indicator	Sub indicator	Parameter
Board	Board of directors	• Proportion of ID • Women director • Board meeting frequency • Limit of number of directorship • Separate meeting of ID • Training of ID • CG philosophy • Code of Conduct • Whistle blower policy
Board Committees	1. Audit Committee 2. Nomination Committee 3. Remuneration Committee 4. Risk Management Committee 5. Shareholder's Relationship Committee 6 Monitoring of large value frauds 7. Customer Service Committee 8. IT Strategy Committee 9. Management Committee of the Board 10. CSR committee 11. Recovery and Identification of willful defaulters/ non cooperative borrowers 12. Investment committee 13. Allotment committee 14. Management committee 15. Bond issue committee 16. Asset Liability Management Committee	• Applicability • Composition • Function

Disclosures and Compliance	1. Disclosures 2. Report on CG 3. Compliance certificate	• Disclosure in annual report

XI. CORPORATE GOVERNANCE INDEX OF SELECTED INDIAN FIs

We have used the above mentioned CGI for calculating the index score of the entire sample FIs. For representing the scores, we have divided the sample FIs into four sub groups i.e public sector banks and private sector banks. The scores and related analysis is presented in the following paragraphs.

Table 3: CG Index of Public Sector Banks

Sl. No.	Bank	2015-16	2014-15	2013-14	2012-13	2011-12
1.	SBI	96	96	96	96	96
2.	PNB	92	92	90	92	92
3.	BOB	92	90	88	90	90
4.	UBI	92	92	92	92	92
5.	CBI	86	86	86	84	84
6.	PSB	92	92	90	88	88
7.	SBM	75	73	59	79	79
8.	DB	92	92	92	90	90

Table 4: CG Index of Private Banks

Sl. No.	Bank	2015-16	2014-15	2013-14	2012-13	2011-12
1.	ICICI	92	92	88	92	92
2.	AXIS	96	96	92	90	90
3.	KOTAK	94	94	86	80	80
4.	HDFC	90	90	90	90	88
5.	KARNATAKA	96	96	94	92	75
6.	DCB	92	90	88	88	86
7.	DB	94	86	86	86	86
8.	LVB	94	88	57	57	57

Table 3 and 4 indicate that the CGI of public and private sector banks is gradually increasing during the sample period. The CGI scores of the banks having large capital are relatively stable over the period of time and not much variation is seen. This can be explained by the fact that large banks have well established internal control mechanisms and there prevail a regulatory oversight from multiple agencies on these banks. The banks having highest market capitalization such as SBI, PNB, BOB and UBI consistently show higher CG scores with least variation. Whereas, the banks having low market capitalization are showing lower CG scores and greater degree of variation. One of the reasons for overall increase in CG index after 2012-13 has been the promulgation of the Companies Act, 2013 which had made certain parameters of the present CG index as mandatory.

XII.CONCLUSION

In the private sector banks, the banks having low capital base are having low CG index as compared to the banks having high capitalization. Apart from capitalization the spread of the bank branches seems to have an influence on the CG scores. The banks having a pan-India presence score high on CG index as compared to banks concentrated in few regions. Although few of the private sector banks which are very old as compared to new private sector banks have low CG scores which may be due to small scale of operations and less requirement of fresh capital. The CG scores of the private sector banks have changed towards the upper side after 2012-13 partly due to the promulgation of the Companies Act, 2013 which has made certain parameters of the present CG index as mandatory.

Most of the banks in India require recapitalization in order to follow Basel III norms; recapitalization involves rising of funds from various domestic and foreign sources, for whom the CG parameters are of paramount importance. The decision to invest funds depends heavily on CG apart from other factors. In view of this the banks put utmost effort to meet the mandatory requirements of CG and also try to fulfill non mandatory requirements so as to reflect transparency in its operations.

The CG in public and private sector banks is enforced through board and various committees of the board. The selection to the board and committees is governed in a manner which is semi rigid as a consequence the management is not able to influence the

functioning of the board and committees. Thereby, preserving the independence of the board and committees from the executive which results in higher CG score.

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