Corporate Governance Practices in Indian Banks

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ABSTRACT
Corporate Governance has fast emerged as a benchmark for judging corporate excellence in the context of national and international business practices. From guidelines and desirable code of conduct some decade ago, corporate governance is now recognized as a paradigm for improving competitiveness and enhancing efficiency and thus improving investors’ confidence and accessing capital, both domestic as well as foreign. What is important is that corporate governance has become a dynamic concept and not static one. Banks form a crucial link in a country’s financial system and their well-being is imperative for the economy. The significant transformation of the banking industry in India is clearly evident from the changes that have occurred in the financial markets, institutions and products. While deregulation has opened up new vistas for banks to augment revenues, it has entailed greater competition and consequently greater risks. Cross-border flows and the entry of new products have significantly influenced the domestic banking sector, forcing banks to adjust the product mix, as also to effect rapid changes in their processes and operations in order to remain competitive in the globalized environment. These developments have facilitated greater choices for consumers who have become more discerning and demanding compelling banks to offer a broader range of products through diverse distribution channels. In such scenario, implementation of good corporate governance practices in banks can ensure them to cope with the changing environment. Today’s corporate governance means to do everything better and provides for risk assessment, risk cover, early warning systems against failure as well as prompt corrective action. This paper examines the practices of corporate governance attributes in banking sector and how they adhere to corporate governance practices.

Key Words: Corporate Governance, SEBI, CEO, Board of Directors, Stakeholders.

Introduction
Corporate governance is "the system by which companies are directed and controlled". It involves regulatory and market mechanisms, and the roles and relationships between a company’s management, its board, its shareholders and other stakeholders, and the goals for which the corporation is governed. In contemporary business corporations, the main external stakeholder groups are shareholders, debt-holders, trade creditors, suppliers, customers and communities affected by the corporation's activities. Internal stakeholders are the board of directors, executives, and other employees. Much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interests between stakeholders. Ways of mitigating or preventing these conflicts of interests include the processes, customs, policies, laws, and institutions which have an impact on the way a company is controlled. An important theme of corporate governance is the nature and extent of accountability of people in the business. A related but separate thread of discussions focuses on the impact of a corporate governance system on economic efficiency, with a strong emphasis on shareholders' welfare. In large firms where there is a separation of ownership and management and no controlling shareholder, the principal–agent issue arises between upper-management (the "agent") which may have very different interests, and by definition considerably more information, than shareholders (the "principals"). The danger arises that rather than overseeing management on behalf of shareholders, the board of directors may become insulated from shareholders and beholden to management. This aspect is particularly present in contemporary public debates and developments in regulatory policy. (see regulation and policy regulation). There has been renewed interest in the corporate governance practices of modern corporations, particularly in relation to accountability, since the high-profile collapses of a number of large corporations during 2001-2002, most of which involved accounting fraud. Corporate scandals of various forms have maintained public and political interest in the regulation of corporate governance. In the U.S., these include Enron Corporation and MCI Inc. (formerly WorldCom). Their demise is associated with the U.S. federal government passing the Sarbanes-Oxley Act in 2002, intending to restore public confidence in corporate governance.
Background of the Research
The subjective evidence of the 1997 Asian crisis showed that poor corporate governance contributed to the collapse of many banks and corporate firms in Thailand, Malaysia, South Korea and Indonesia. Since then, there has been a sincere effort to improve corporate governance in the crisis ridden countries (Gan et al, 2001). The financial crisis in some Asian countries in late 1990s prompted most of the countries to give improved corporate governance a priority. “The losses due to weak corporate governance practices and corruption are estimated at nearly 15 percent of China’s GDP, though the figure may be much higher”. An annual collaborative study of the corporate governance landscape of Asian markets titled "Spreading the World: CG Watch 2004-05" was undertaken by independent stockbrokers. From this forum the awareness and importance of corporate governance in Asian countries was realized. Asian countries do realize that CG practices would not change overnight; hence patience is the key to success in this field.

Considering the importance of this subject, Asian Corporate Governance Association (ACGA), made a report during 2004-05, on the state of affairs of corporate governance in Asian markets, emphasizing on some key determinants behind assessing corporate governance standards such as rules and regulations, enforcement, political and regulatory environment, the adoption of international accounting standards, and corporate governance culture.

In India Corporate governance has most recently been debated after the corporate fraud by Satyam founder and Chairman Ramalinga Raju. In fact, trouble started brewing at Satyam around December 16, 2008 when Satyam announced its decision to buy stakes in Maytas Properties and Infrastructure for $1.3 billion. The deal was soon called off owing to major discontentment on the part of shareholders and plummeting share-price. However, in what has been seen as one of the largest corporate frauds in India, Raju confessed that the profits in the Satyam books had been inflated and that the cash reserve with the company was minimal. Ironically, Satyam had received the Golden Peacock Global Award for Excellence in Corporate Governance in September 2008 but was stripped of it soon after Raju's confession.

Corporate governance has been on the top priority of Asian countries with most markets introducing comprehensive regulations. Although it cannot be called a fully satisfied accomplishment from the evidence of its achievements, but the ethos of corporate governance is yet to come out fully. During the same period, the need for corporate governance was also felt in line with the international trend. The first initiative for ensuring corporate governance among Indian companies came from the corporate sector itself. The Confederation of Indian Industry (CII) came up with the Code of Desirable Corporate Governance in 1998. Then the Securities Exchange Commission of India (SEBI) which is the regulator of Indian financial market, appointed 'Kumaramangalam Birla Corporate Governance Committee'. Most of the recommendations made by the Committee were accepted and implemented by SEBI in the year 2000.

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<table>
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<tr>
<th>Rules and Regulations</th>
<th>China</th>
<th>Hong Kong</th>
<th>India</th>
<th>Indonesia</th>
<th>Korea</th>
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<th>Philippines</th>
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<td>Most companies report their annual results within 2 months?</td>
<td>N</td>
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<td>Have reporting deadlines been shortened in the past 3 years?</td>
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<td>Is quarterly reporting mandatory?</td>
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<td>Do securities laws require disclosure of ownership stakes above 5%?</td>
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<td>Do securities laws require prompt disclosure of share transactions by directors and controlling shareholders?</td>
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<td>Are class-action lawsuits permitted?</td>
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<td>Is voting by poll mandatory for resolutions at AGMs?</td>
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<td>Can shareholders easily remove a director who has been convicted of fraud or other serious corporate crimes?</td>
<td>S</td>
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<td>Will share option expensing become mandatory over the next 10 months?</td>
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<td>Y</td>
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**Enforcement**

| Is there an independent commission against corruption (or its equivalent) that is seen to be effective in taking public and private sector companies? | N     | Y         | S     | N         | S     | S        | N           | Y         | N       | N        |

**Political and Regulatory Environment**

| Is the statutory regulatory (i.e., securities Commission autonomous of government) not part of the Finance Ministry? | S     | Y         | S     | N         | S     | S        | S           | S         | S       | S        |

**Accounting and Auditing**

| Do the rules require disclosure of Consolidated accounts? | Y     | Y         | Y     | Y         | Y     | Y        | Y           | Y         | S       | Y        |
| Do the rules require segment reporting? | Y     | Y         | Y     | S         | Y     | Y        | Y           | Y         | S       | Y        |
| Do the rules require disclosure of audit and Non-audit fees paid to the external auditor? | Y     | Y         | Y     | N         | Y     | Y        | S           | S         | Y       | Y        |
| Does the Government or the Accounting Regulator have a policy of following international standards on auditing? | Y     | Y         | S     | S         | S     | Y        | Y           | Y         | Y       | S        |

**Institutional Mechanism and Corporate Culture**

| Are institutional investors engaged in Promoting better corporate governance practices? | N     | S         | S     | N         | S     | S        | N           | S         | S       | S        |
| Are any retail investors engaged in promoting better corporate governance practices? | N     | Y         | S     | N         | Y     | S        | N           | Y         | N       | N        |
Need of Corporate Governance in Banking

As we are marching forward towards global economy, there are many economic issues coming up in the process for developing, emerging and transitional economies. These can be correctly identified as structural changes in market institutions. It brought about much awareness among investors, bankers and public at large. Such economy faced a retarded growth in spite of having economic reform like privatization, liberalization and lifting licensing raj. Despite flow of money in such economy, the growth could not take its stand due to unbalanced approach. The holder of ‘para-state’ institutions such as privatization funds remain in the hands of largest shareholders of companies. As a result, the de facto power remains loaded in the hands of few individuals considered as internal owners, while the external owners do not have enough power to control the companies and thereby can’t ensure themselves to get appropriate returns (Fernando, 2002). Another important factor in banking industry in developing countries is that banks are mostly owned by government. In such situation, banks are mostly guided by government bodies and many laws based on stereotype procedures. The accountability idea is less apparent as the concept of government job discourages the spirit of competition. The need for corporate governance in developing, emerging and transitional economies not only arises from resolving problems of ownership and control, but also from ensuring transparency in achieving the desired goal of corporate governance. In many cases, developing and emerging economies are beset with issues such as the lack of property rights, the abuse of minority shareholders, contract violations, asset stripping and self-dealing. Ownership pattern, regulatory environment, societal pressure (on the developmental role of banks) and the broad structure would be the key elements in the design of a governance framework of banking. While government ownership does provide core strength to banks, the structural inefficiencies and lack of management autonomy appears to have weakened the ability of our banks (Public sector) to compete effectively in the current market situation (Ravisankar, 1999). Banks and financial institutions have been making pivotal contributions over the years to nation’s economic growth and development. Government-owned (Public Sector) banks have played a major role in economic development. During the last few years, these institutions are slowly getting “corporatized” and consequently corporate governance issues in banks assumes greater significance in the coming years. Considering the importance of banking sector the practice of corporate governance and how it helps banking industry in India in terms of bringing more transparency and overall growth of banking sector. So the research will identify the attributes of corporate governance and to what extent it is being implemented in India’s banking sector.

Research Objectives

The research aims at studying the attributes of corporate governance in Indian banking sector. The research maintains following objectives to study in this research:

- To highlight the development of corporate governance and examine the present status of corporate governance practices in Indian Banking Sector.
- To assess the decisive action to be taken by both public a private sector bank in India in regards to corporate governance.
- To enlist the regulatory framework in regards to corporate governance in Indian Banking Sector.
- To conduct a qualitative analysis of selected banks in regards to the implementation of good corporate governance practices.

Scope of the Research

This study attempts to find the implementations of some attributes of corporate governance by Indian Banking sector. Though there is a lot of corporate governance codes recommended by different committee, this study is based on some prominent governance codes in recommendations made so far. Transparency in decision making, accountability and responsibility, disclosure of important
Literature Review
The literature on corporate governance in its wide subtext covers a variety of aspects, such as protection of shareholder’s rights, improving shareholders’ value, board matters etc. However, the importance of corporate governance in banking sector weighs very much due to very nature of banking transactions. Banking is the crucial factor effecting economic development of an economy. It is the life-blood of a country. It is responsible for the flow of credit and for maintaining the financial balances of the economy. In India, since the nationalization process banks emerged as a tool of economic development along with social justice. Corporate Governance has become very important for banks to perform and remain in competition in this era of liberalization and globalization.

History of Corporate Governance in India-
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 recommendations 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.

A) 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.

B) Desirable Disclosure:
“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.”

C) 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.

D) The constitutions of Committee:
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. These matters are currently being examined over here. The committee had received good comments from almost all experts’ institutions, chamber of commerce Adrian Cadbury – Cadbury Committee etc.

E) Corporate Governance Objectives:
Corporate Governance has several claimants – shareholders, suppliers, customers, creditors, the
banks, 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 C.G. as company’s principles rather than just act. The company should treat corporate governance as way of life rather than code.

F) 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.

G) 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.

H) 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.

I) 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) Audit Committee of the Board
  iv) Auditors
  v) Secretarial Audit
  vi) Institution of mechanism for Whistle Blowing

Corporate Governance in banks
Indian Banking productivity Excellence has perennial relevance, but is much more relevant now, as going forward incremental growth will depend increasingly on productivity growth. India witnessed remarkable growth acceleration in the years before the crisis; many of the factors that aided this have been acknowledged. But, as it had seen before, one of the unacknowledged drivers of that growth performance has been the improvement in the quantum and quality of financial intermediation led by the commercial banking sector. It is needed to build on that achievement, and productivity improvement is by far the most vital instrument for doing so. Some relevant questions are:

A) How is Corporate Governance of Banks Different?
Banks are different from other corporates in important respects, and that makes corporate governance of banks not only different but also more critical. Banks lubricate the wheels of the real economy, are the conduits of monetary policy transmission and constitute the economy’s payment and settlement system. By the very nature of their business, banks are highly leveraged. They accept large amounts of uncollateralized public funds as deposits in a fiduciary capacity and further leverage those funds through credit creation. The presence of a large and dispersed base of depositors in the stakeholders group sets banks apart from other corporates.

B) Regulation and Corporate Governance of Banks
Regulation has historically had a significant role in the evolution of corporate governance principles in the banking industry. However, to believe on this basis that good regulation can offset bad corporate governance will be patently wrong. Regulation can complement corporate governance, but cannot substitute for it. The crisis has triggered a swathe of financial reforms to mitigate some of the known risks revealed by it. Understandably, these reforms also encompass corporate governance. Several countries
have effected major structural changes to improve the functioning of their financial institutions, to ensure the robustness of their risk management systems and to make their operations more transparent. By far the most notable has been the Dodd-Frank Act in the United States which, among other things, aims to induce greater transparency with regard to the board and the top management positions and their compensation.

C) Evolution of Corporate Governance of Banks in India
Let briefly sketch the evolution of corporate governance of banks in India. In the pre-reform era, there were very few regulatory guidelines covering corporate governance of banks. This was reflective of the dominance of public sector banks and relatively few private banks. That scenario changed after the reforms in 1991 when public sector banks saw a dilution of government shareholding and a larger number of private sector banks came on the scene. How did these changes shape the post-reform standards of corporate governance?

First:
The competition brought in by the entry of new private sector banks and their growing market share forced banks across board to pay greater attention to customer service. As customers were now able to vote with their feet, the quality of customer service became an important variable in protecting, and then increasing, market share.

Second:
Post-reform, banking regulation shifted from being prescriptive to being prudential. This implied a shift in balance away from regulation and towards corporate governance. Banks now had greater freedom and flexibility to draw up their own business plans and implementation strategies consistent with their comparative advantage. The boards of banks had to assume the primary responsibility for overseeing this. This required directors to be more knowledgeable and aware and also exercise informed judgment on the various strategy and policy choices.

Third:
Two reform measures pertaining to public sector banks - entry of institutional and retail shareholders and listing on stock exchanges - brought about marked changes in their corporate governance standards. Directors representing private shareholders brought new perspectives to board deliberations, and the interests of private shareholders began to have an impact on strategic decisions. On top of this, the listing requirements of SEBI enhanced the standards of disclosure and transparency.

Fourth:
To enable them to face the growing competition, public sector banks were accorded larger autonomy. They could now decide on virtually the entire gamut of human resources issues, and subject to prevailing regulation, were free to undertake acquisition of businesses, close or merge unviable branches, open overseas offices, set up subsidiaries, take up new lines of business or exit existing ones, all without any need for prior approval from the Government. All this meant that greater autonomy to the boards of public sector banks came with bigger responsibility.

Fifth:
A series of structural reforms raised the profile and importance of corporate governance in banks. The ‘structural’ reform measures included mandating a higher proportion of independent directors on the boards; inducting board members with diverse sets of skills and expertise; and setting up of board committees for key functions like risk management, compensation, investor grievances redressal and nomination of directors. Structural reforms were furthered by the implementation of the Ganguly Committee recommendations relating to the role and responsibilities of the boards of directors, training facilities for directors, and most importantly, application of ‘fit and proper’ norms for directors.

Results & Discussion
This current research tries to study the attributes of corporate governance practices which exist in the Indian Banking sector within the strict authoritarian structure. It tries to evaluate the implementation of corporate governance attributes by bank. Also the author tries to assess the competence of these banks in terms of substance and quality of reporting in their annual reports. For this purpose an empirical study has been undertaken on 5 banks in India. The research has been undertaken to assess the level of compliance of key governance parameter in these banks in tune with statutory and non-mandatory requirements given by SEBI (Securities Exchange Board of India) under clause 49 of the listing agreement.

Based on literature review and secondary research analysis, Interviews of senior bank managers were conducted meticulously. The primary motive behind interview method was to draw opinions on those attributes by those professionals and how far it is practical in normal business practices. Since banks and financial institutions occupy very important role in financial system of a country, attributes of corporate governance has a solidifying effect that ensures governance of bank.

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Considering the paucity of time and convenience of interviewee, the format of interview was prepared in a systematic manner so that the opinions of bank professionals were correctly depicted. Only 5 interviews could be taken out of 5 banks. It was due to the practical difficulties to get an appointment with senior bank branch manager who can say something about corporate governance. The outcomes of the interviews were connected with research objectives and research questions. Since time allotted by interviewee was limited, interview procedure was organized in some specific question format based on literature survey. Interviewees were requested to score on those attributes after giving their valuable opinion. The outcome of the interview with senior professionals of different banks helped the research analysis as their views supported many secondary researches. Most importantly, corporate governance in Indian banking is not a new phenomenon, but the outcomes of the effectiveness of its attributes are not known to many bank professionals. Though Indian banking has been opened up for private participation a major chunk of banking pie is still controlled by public sector banks. These banks owing to their government ownership had no need to adopt all principles of corporate governance practices.

Outcome of the primary analysis

Q1. How do you score on these key attributes of good corporate governance in Indian Banking Sector?
1) Transparency of Financial Statements
2) Ensuring ethical Practices by banks
3) Protecting minority shareholder rights
4) Adhering to all legal compliance of governance
5) Ensuring shareholder value
6) Sound risk management practices.

Respondents emphasize on transparency of financial statement as the mean score is touching 5. It clearly indicates that transparency of financial statements will repose faith on banks from governance point of view. The misgivings of fraud and malpractice will automatically erase from the mind of investors and will lead to increase shareholders’ value. In addition, the respondents were very much positive about the other attributes of corporate governance practices like ethical practice, protecting minority shareholders’ right and legal compliance. All these attributes certainly creates an environment of trust and confidence of shareholders and public at large. Since banks are characterized by repository of finance, bank’s executives consider it very much important to maintain transparency of financial statements and compliance with corporate governance principles.

Q2. How do you score on those attributes of good Corporate Governance?

1. High level of disclosures
2. Shareholding patterns
3. Appropriate governance structure
4. Presence of a strong and independent Board of Directors
5. Adequate Committee Structure
6. Means of Communication
Adequate committee structure, governance structure and strong independent board are some major variables where the mean score is more than 5. From this score it revealed that the attributes of corporate governance can be properly implemented with the help of adequate committee structure and presence of strong and independent board. The outcome of respondents matches with the literature survey emphasizing on committee and board structure. Secondary research analysis from annual report also corroborates this stand to full extent as banks have emphasized on board structure and committee.

Q3. How do you score on some concerns from the point of view of management of banks which necessitates implementation of Corporate Governance in banking sector?
1. Unethical practices adopted by banks
2. Practice of Insider trading and selective leak of sensitive information
3. Deviation from standard accounting practice
4. Neglecting for minority shareholders
5. Excessive Promoter Control in Management
6. Unrelated Policies & Risk
Practice of insider trading, unrelated risk undertaken by banks and excessive promoters’ control in public sector banks are some of major problems highlighted by respondents which necessitates implementation of corporate governance in banking sector. The banking scams in Asian countries are some of the glaring examples. From the secondary research analysis, it was revealed that government holds maximum stake in public sector banks as a result there is greater possibilities of neglecting minority shareholders necessities implementation of corporate governance in banking sector. The banking scams in Asian countries are some of the glaring examples. From the secondary research analysis, it was revealed that government holds maximum stake in public sector banks as a result there is greater possibilities of neglecting minority shareholders necessities implementation of corporate governance in banking sector. The banking scams in Asian countries are some of the glaring examples. From the secondary research analysis, it was revealed that government holds maximum stake in public sector banks as a result there is greater possibilities of neglecting minority shareholders.

Q4. What is your opinion about those measures that can ensure a high level of transparency and disclosures?

1. Proper means of Communication to interested parties.
2. Speedy dissemination of sensitive information.
3. Presentation of all relevant details in Annual Report.
4. High quality of Management Discussion and Analysis (MDA).
5. Responsiveness to investor’s queries.
6. Periodic review of Analyst meeting.

Since transparency and disclosure are two important pillars of corporate governance measures the executives of banks were requested to score on those variables. This question is aimed at taking opinion from bank’s executives how to ensure transparency and disclosure. From the response, it is clear that proper disclosure of information in annual report, speedy dissemination of sensitive information and satisfying investors’ queries are some important variables which can bring more transparency in governance. The mean score is nearly 6, justifying their opinion about those variables.

Q .5How do you score the importance of various committees from Corporate Governance point of view?

1. Audit Committee
2. Remuneration Committee
3. Management Committee
4. Investor’s Grievance Committee
5. Fraud Management Committee
6. Risk Monitoring Committee
Study of literature and annual report revealed that formation of committee is very important for corporate governance implementation. Among all the committees audit committee, remuneration committee, investors’ grievance committee are some of the mandatory requirements, the outcome of this question support the efforts of banks in implementing this decision through various committees. Except management committee, all other committees are being almost set up by various banks, where the mean score is more than 5. Thus, it can be correctly said that formation of those committees are very much important for corporate governance implementation.

Q 6 What is your opinion about the importance of segment reporting to ensure a high level of transparency and disclosure?

![Importance of Segmental Reporting](chart.png)

1) Very important, 2) Moderate Important, 3) Not important.)

This question was put to senior bank’s executives in order to know the importance of segment reporting. Segment reporting is a non-mandatory requirements of governance principles, but 90% respondents are in opinion that segment reporting is very much necessary to ensure good corporate governance. So, the authorities should ponder over to make segment reporting as a mandatory requirement for good corporate governance.

Q.7 What according to you are the most desirable characteristic of the Board of Directors?

1. Presence of skilled and effective Independent
2. Majority of Independent Directors

3. Separate MD and Chairman

Presence of skilled and effective independent directors is the desirable characteristic to ensure proper board that can discharge good corporate governance practices in banks as reflected from its mean score 5. The respondents were very much categorical about this characteristic. The average score of this feature is touching the maximum point compared to other characteristics. Hence, banks should try to establish an efficient board for better governance practices.

Q. 8. **What do you think regarding the effectiveness of audit committee in preventing fraud?**

Greatly effective, 2) somewhat effective, 3) Ineffective

Audit committee is considered very important as reflected from secondary research analysis. Both public and private sector banks were having their audit committee as mentioned in primary research analysis. However, the respondents were not in the same opinion about the efficacy of audit committee. When asked about the efficacy of preventing fraud, more than 50% respondents were of opinion that it is somewhat effective, because there is a provision of fraud monitoring committee to ensure non-happening of fraud in banking sector.

Q. 9. **Will you try to achieve the maximum effectiveness in terms of good corporate governance in your Bank?**

1) Yes 2) Sometime Yes 3) No 4) only in exceptional case 5) Never.
Senior Bank executives participate in decision making process. Hence, this question was asked to find out their role in achieving good corporate governance. Nearly 90% executives expressed their opinion to do effort in order to achieve corporate governance.

Q (10) What percentage of good corporate governance practices can you expect to achieve in your bank?
(Rank them in order 1) more than 20% 2) 10%-20% 3) Less than 10% 4) difficult to quantify

Although it is not easy to quantify, nearly 50% respondents were of opinion that they should try to achieve good corporate governance practices.

Key Findings
The key findings from the interviews conducted are as follows:

- It is of high exigency that corporate Governance in banking sector is very much in demand due to global awareness regarding corporate governance and global banking to ensure transparent service to citizens. Proper and adequate corporate governance can handle many complex banking issues and will create a transparent globalization economic environment.
- “Ensuring transparency in financial statements” and “expected on ethical behaviors” and “protection shareholders’ interest” are the key attributes of good Corporate Governance. Adherence to those attributes ensures transparency of banking transactions and minimizes the chance of fraud and malpractices.
- Some major concerns like “Insider trading”, “selective release of sensitive information”, and “resorting to unfair accounting practices” are the biggest concerns from the Corporate Governance perspective. However adequate corporate governance practices implemented by banks helps bank to ensure shareholder’s interest in the long run.
- It is not possible to differentiate Corporate Governance practices on the basis of ownership. Since certain attributes of corporate governance practices are mandatory, regulated by Reserve Bank of India, attributes of corporate governance put same impact on bank’s performance irrespective of ownership.
- Corporate Governance is as important as other quantifiable factors, such as likely growth in earnings, from the point of view of investment decisions. Since the outcome of some attributes minimizes the chances of fraud, it enhances shareholder’s confidence; as a result increases share value.
- The most important factor while studying Corporate Governance in a bank is the perceived integrity of financial statements. The facts that well governed banks are less likely to indulge in malpractice and poor-governance and more likely to protect the interests of minority shareholders. Not only that it protects the public fund by acting like a watchdog, it inculcates the habits of ethics in business.

Other notable findings from secondary research analysis reflect that corporate governance in banks is in a formative state. It is fast evolving and long way to go. While setting accountability standards for Board, there is need for enhanced transparency and disclosure in respect of various aspects of board constitution and functioning. Both private and public sector banks are not practicing completely the corporate governance code in spite of its mandatory in nature. Still, the outcome is very much satisfactory.
Analysis from secondary Research

Sample Size, Period of Study and Rationale: The sample of study comprises five banks operating in India. These banks have been selected on the ground that they are renowned banks in the banking sector in India, and their scripts practically dictate the movement of the stock market in the country. The banks are State Bank of India, ICICI Bank, Bank of Baroda, HDFC Bank, and Axis Bank. The period of study is one year (2010-11) only as it will show the latest development of corporate governance attributes in banks. Thus, it's quite sensible to evaluate the situation which highlights the status of CG observance by these financial institutions. Considering this, the 2010-2011 annual report of banks was considered appropriate for this study. This would definitely provide some useful insight about the present state of corporate governance practices and disclosure norms. To evaluate the structure and procedure of corporate governance adopted by banks commitment to adhere it in their annual report. As a result the author has conducted a comparison study based on statutory and non-mandatory requirements stipulated by the revised clause 49 of the listing agreement and provisions required by the Banking Act.

Conclusion

It has been highlighted how banks are different from other corporates and how this casts larger and more complex responsibilities on their corporate governance. It also briefly traced the changes in the Indian banking structure following the reforms in 1991 and how this has had important implications for corporate governance. The findings from primary research were quite satisfactory because the respondents were quite categorical in highlighting the attribute of good corporate governance. It was a qualitative analysis that reflects the prevalence of corporate governance practices in Indian Banking sector. The outcome of secondary research analysis has already established the fact that good corporate governance is a reality and Indian Banking sector has left no stone unturned to achieve this. Corroborating this outcome of secondary research, primary research was aimed at to draw significant insight into it. The outcome of primary research also reflected the sheer sincerity of senior bank’s executive to take this mission forward to the zenith of success. However, while Corporate Governance has emerged as a potential force for the success of banking sector, most of the executives find it difficult to specify the degree of implementation of good Corporate Governance practices. Not surprisingly, the executives are very much concerned about the integrity of accounting statements and quality of transparency and disclosures and feel that selective leak of sensitive information and dubious accounting practices have been the biggest concerns from the Corporate Governance perspective. The research on corporate governance in Indian Banking Sector produced some important results. Banking has become complex and it has been recognized that there is a need to attach more importance to qualitative standards such as internal controls and risk management, composition and role of the board and disclosure standards. Corporate Governance has become very important for banks to perform and remain in competition in the era of liberalization and globalization. The success of corporate governance rests on the awareness on the part of the banks of their own responsibilities. While law can control and regularize certain practices, the ultimate responsibility of being ethical and moral remains with the banks. It is this enlightenment that would bring banks closure to their goals. However, while all this looks good on paper, it runs into considerable difficulty during implementation. The difficulty is compounded given the fact that there are easier ways, which give faster returns that are no less valuable because they are acquired through questionable means.

REFERENCES


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