

# A STUDY ON CORPORATE GOVERNANCE PRACTICES IN HDFC BANK

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**ABSTRACT:** The main purpose of this research paper is to examine corporate governance practices of HDFC (The Housing Development Finance Corporation) bank and to know the relationship between market valuation and operating performance of HDFC bank in India. Exploratory design has been used. In this paper, one bank has been selected on the basis of market capitalization. For this purpose of analyzing the data a period of 5 year (i.e. from 1 April 2013-14 to 31 March 2017-18) has been taken into consideration. In order to analyze the relationship between the market valuation and operating performance, this study is based on secondary data. The secondary data has been collected through banks websites, sebi, bse india and other information collected from other source of secondary data would be journals, books, newspapers and magazines. The data analyzed by, Mean, percentage, correlation analysis, t-test and multivariate regression have been used for the purpose of analysis. The sales & CG of HDFC(The Housing Development Finance Corporation) bank have significant positive correlation at level of significance and R multiple correlation coefficient is 0.664, R<sup>2</sup> is 44.6 less than 50 percent so the model is not valid and the impact of CG on sales of HDFC bank is statistically significant. There is a significant positive correlation between PAT and Sales of HDFC bank. The mean of CG Score is 98% during the study period. The CG Performance of HDFC Bank 100 percent in all years from 2014-15 to 2017-18 except one year i.e. 2014-15. The impact of CG on PAT & DPR is not statistical significant. Therefore, HDFC bank to enhance its sales revenue, Profits after taxes and maintain optimum dividend policy for maximizing the corporate excellence which ultimately enhance the CG (Corporate Governance).

**Keywords:** Disclosures, Banks, Corporate Governance Score, Market capitalization, DPR, PAT

## I. INTRODUCTION

Corporate Governance is maintaining an appropriate balance of accountability between three key players: owners, directors & manager. Disclosure is playing a key role in corporate governance. They demonstrate the quality and reliability of information financial and non-financial these information provided by the managers to lenders, shareholders and public. Indeed, increase disclosure requirement are response to the recent corporate governance failure for Enron, WorldCom, satyam that have made headlines. Increased disclosures perceived as better governance because disclosure enables better decision making by actors in the capital markets. Corporate disclosure is a process through which a corporate entity communicates business and financial information to their stakeholders. High quality corporate disclosure helps investors and other capital market participants by enabling them to make proper assessment of the potential risks and rewards of alternatives investments.

Corporate Governance has at its backbone, a set of transparent relationship between an institution management, its board, shareholders and other stakeholders. It therefore, needs to take into account a number of aspects such as, enhancement of shareholders value, protection of shareholder right, composition and role of board of director, integrity of accounting principles and disclosure norms. The system of corporate governance provides for timely information on true and fair on all material matters.

The global financial crisis has heightened the need for corporate boards of directors to provide well informed strategic direction and engaged oversight that stretches beyond short term financial performance. Company generates wealth for shareholders through an increase in business opportunity and broader access to markets. Thus better governance practices are essential for long term strategic of the company.

## II. OBJECTIVES OF THE STUDY

- To Study the Corporate Governance practices in HDFC bank.
- To identify the relationship between Market valuation and operating performance with the score of corporate governance practices.

## III. REVIEW OF LITERATURES:

- ✚ **Jordi Paniagua, Rafael Rivelles and Juan Sapena (2018) “Corporate Governance and Financial performance: The role of ownership and board structure”** This study examines how corporate governance and ownership structure relate to the financial performance of firms. For this objective, multi method approach was used. The result of the study is based on the agency theory, which provides the theoretical foundations that we used to study the link between corporate governance and financial performance. The study helps CFOs and CEO design corporate financial strategies.

- ✚ **Ekta Selarkh (2018) “Corporate Governance practices in India.** This paper provides the overview of corporate governance practices in India. SEBI Clause 49 guideline followed in India for the companies.
- ✚ **Syed Abdul Hameed (2016) “A Comparative Study on Corporate Governance Standards and Practices with Special Reference to Indian Banking Industry”** In this paper they examine the, comparative study between Corporate Governance practices adopted by SBI & ICICI bank. Bank has been drafted to assess the structure and process of corporate governance followed by select banks in india and their effectiveness in the content of substance and quality of reporting of corporate governance activities in the annual report. ICICI bank has incorporated conventions of best practices in corporate governance.
- ✚ **Rajesh K Pillania (2015) “Corporate Governance In India: Study of the top 100 firms”** The paper studies the corporate governance in the top 100 companies in India. The study find that in all industries irrespective of sector all companies practices some sort of corporate governance at least as said in their annual reports due to mandatory requirements. We find that corporate governance practices have a major impact on the performance of the companies. Companies have no major plan to change their corporate governance practices in near future.
- ✚ **Ankita Asthana & M.L.Dutt (2013) “The extent of disclosure code of CG in India: A Comparative study of Public and Private banks”** This study examine public & private sector banks adopted Corporate Governance code in their annual reports and to compare and understand the extent of compliance and non-compliance among sub parameters in public and private sector banks. From the analysis the percentage score of public sector banks and private sector banks are somewhat similar in total disclosure where the average is 73.13% and 74.27% respectively. The extent of non-mandatory compliance in public sector bank is 60% and in private sector it was 71% respectively, which shows that there is a scope for improvement.
- ✚ **Jyotindra M. Jani (2013) “A Comparative study on disclosure of corporate governance of B.P.C.L & I.O.C.L”** This paper tries to compare the disclosure practices of B.P.C.L & I.O.C.L .It find out that the both IOCL and BPCL followed the corporate disclosure guidelines provided by SEBI. BPCL & IOC have scored 34 and 37 i.e. highest score in the year and both have least score of 29 and 34 in the year respectively. There is no large difference in the score of both companies for the year.
- ✚ **Barghva singh (2008) “Disclosures of Corporate Governance”** In this paper, examine the disclosure i.e. financial and non-financial information in the annual report. It consists of 40 public sector enterprises on the basis of index of disclosure card that included the 35 items so they indicate that there were differences in quality of disclosure made by sample companies.

#### IV. HYPOTHESES

- **HO1:** The PAT (Profit after Tax) of the HDFC bank is not influencing significantly its Corporate Governance.
- **HO2:** The DPR (Dividend Payout Ratio) of the HDFC bank is not positively influencing its Corporate Governance.
- **HO3:** Sales of HDFC bank is not influencing significantly its/on Corporate Governance.

#### V. RESEARCH DESIGN AND METHODOLOGY

Exploratory Research Design has been used in the study. For the purpose of analysis, Secondary data has been collected. The secondary data which is collected from the published sources such as books, journals, and bank websites. A score of 1 was awarded if an item was reported otherwise a score of 0 was awarded. A bank can score a maximum of 10 points and a minimum of 0. CG score is calculated, on the basis of Clause 49 of SEBI.

- ❖ **Research Design** Exploratory Design has been used in the study.
- ❖ **Data Collection** Secondary data has been used in this study. Secondary data which is collected from the published sources such as Books, Journals, Websites and research paper.
- ❖ **Scope of the study** the scope of study is constrained to corporate governance practices of HDFC bank of India.
- ❖ **Sample of the study** one bank has been selected on the basis of market capitalization.
- ❖ **Duration of the study** Data collected from 2013-14 to 2017-18.
- ❖ **Statistical Tools** Mean, Regression, Correlation Analysis, Coefficient of determination and t-test.

#### VI. DATA ANALYSIS & INTERPRETATION OF THE STUDY

On the basis of clause 49 of SEBI, parameter has been taken from annual reports for five years. A score of 1 was awarded if an item was reported otherwise a score of 0 was awarded. A bank can score a maximum of 10 points and a minimum of 0. CG score is calculated, on the basis of Clause 49 of SEBI.

### Company Philosophy on Corporate Governance

Bank believes that proper corporate governance facilitates effective management and control of business, which enables the bank to maintain a high level of business ethics and to optimize values for all stakeholders. It is important tool for shareholder protection and maximization of shareholder values.

### Formation of the Board of Director

There are 12 members of board. In this board, there are 3 executive director, 2 Non Executive director, 6 Independent directors and 1 additional director.

### Organization committees in HDFC bank

Audit Committee, Nomination & Remuneration Committee, Stakeholders Relationship Committee, Risk policy and monitoring Committee, Credit Approval Committee, Customer Service Committee, Fraud monitoring Committee, Corporate Social responsibility Committee.

### Additional Information

Information regarding AGM of shareholders, Market Price, pattern of shareholders, Profile of members as disclosed in the Corporate Governance Report and annual report of banks. RBI notified that all banks include separate section in their annual report.

**Table 6.1: Corporate Governance Score of HDFC Bank**

CG Parameters	Allotted Score	2013-14	2014-15	2015-16	2016-17	2017-18
Philosophy	1	1	1	1	1	1
<b>Composition of BODs</b>						
Formation of Board	1	1	1	1	1	1
Board Meeting	1	1	1	1	1	1
Audit Committee	1	1	1	1	1	1
Nomination and Remuneration Committee	1	1	1	1	1	1
Shareholders Grievance Committee	1	1	1	1	1	1
Risk & Monitoring Committee	1	0	1	1	1	1
Disclosure	1	1	1	1	1	1
CEO/CFO Certification	1	1	1	1	1	1
Non Mandatory	1	1	1	1	1	1
<b>Total Score</b>	<b>10</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Mean Score</b>	<b>9.8</b>					

*Source: Prepared by Author from the Annual Report of the HDFC Bank*

The above table reveals that Corporate Governance Score of HDFC bank is increasing trend during the study period of 2014-15 to 2017-18 except 2013-14. The mean Score of HDFC bank is 9.8 so imply that bank is following the better corporate governance practices.

Table 6.2: Dependent and Independent Variables

Year	SALES	PAT	DPR	EPS	ROE	ROA	CG (%) SCORE
2013-14	41135.54	3478.40	19.53	80.62	19.50	1.71	90
2014-15	48469.97	4392.83	19.62	80.38	16.47	1.94	100
2015-16	60221.4	5885.66	19.53	80.47	16.91	1.72	100
2016-17	69305.9	8606.97	17.00	56.78	16.26	1.71	100
2017-18	80241.35	8606.97	13.00	67.38	16.45	1.83	100
<b>Mean</b>	<b>59874.83</b>	<b>6194.16</b>	<b>17.73</b>	<b>73.12</b>	<b>17.11</b>	<b>1.78</b>	<b>98%</b>
<b>SD</b>	<b>15693.08</b>	<b>2364.24</b>	<b>2.87</b>	<b>10.75</b>	<b>1.35</b>	<b>.10</b>	<b>.04</b>

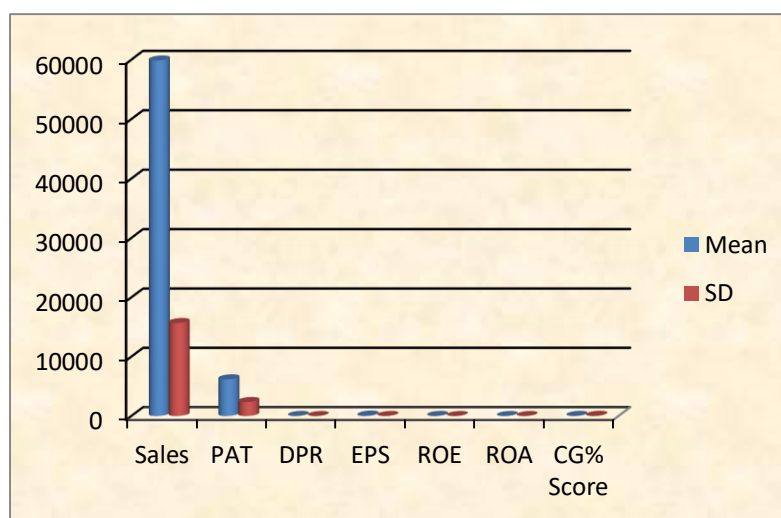


Figure- 6.1

The above table shows that Sales of banks is increasing trend from 2013-14 to 2017-18 and also increase PAT ratio from 2013-14 to 2016-17 and then in 2017-18 remain constant. The dividend payout ratio is increasing from 2013-14 to 2014-15 except 2017-18. EPS are increasing trend from 2013-14 to 2015-16 except 2016-17. The Return on Equity of HDFC bank are in decreasing trend from 2014-15 to 2017-18 except in 2013-14. The mean of (ROA) Return on Asset is 1.78 and it is in decreasing to increasing trend from 2013-14 to 2017-18 except 2014-15. The mean CG score of HDFC bank is 98% and it is increasing from 2013-14 to 2017-18. The mean and standard deviation of EPS and DPR of HDFC bank is 73.12, 10.75 & 17.73, 2.87 respectively.

Table 6.3: Correlation Matrix

	SALES	PAT	DPR	EPS	ROE	ROA	CG
SALES	1						
PAT	0.965	1					
DPR	-0.876	-0.811	1				
EPS	-0.728	-0.875	0.644	1			
ROE	-0.695	-0.697	0.417	0.507	1		
ROA	-0.027	-0.133	-0.100	0.240	0.420	1	
CG	-0.688	-0.642	0.349	0.389	0.984	-0.395	1

Note: PAT= Profit After Tax, DPR= Dividend payout Ratio, EPS= Return on Equity, ROE= Return on Equity, ROA= Return on Asset,

CG= Corporate Governance.

- The Calculated value of t ( $t_{cal} = 1.45$ ) which is less than critical t- value of 1.63 at 3 degree of freedom at level of significance so accept  $H_0$ . Therefore profit After Tax of HDFC bank is not influencing on Corporate Governance.
- The Calculated value of t ( $t_{cal} = 0.646$ ) which is less than t-table value of 1.63 at 3 degree of freedom at 0.20 level of significance so accept  $H_0$ . Therefore DPR (Dividend Payout Ratio) of the HDFC bank is not positively influencing its Corporate Governance.
- The Calculated value of t ( $t_{cal} = 1.55$ ) which is less than t-table value of 1.63 at 3 degree of freedom at 0.20 level of significance so accept  $H_0$ . Therefore Sales of HDFC bank is not influencing on Corporate Governance.
- The relation between ROA and CG is negative and not significant as correlation coefficient is -0.39. The correlation coefficient between ROE and CG is positive and highly significant. The relationship between EPS and CG is positive correlation.

## OPERATING PERFORMANCE

It is the measure of profitability in relation to sales revenue, this ratio regulate net income earned on the sales revenue generated. Enhancing the performance is related with profitability, which in turn is return of brand image. It also protect the viability of business by regarding the customer confidence and market trust.

This section of the study is to determine the impact of corporate governance on operating performance (Revenue and PAT) OF HDFC bank for the years

**Table 6.4: Impact of CG (Corporate Governance) on PAT of HDFC Bank**

Variable	Regression Coefficient	Standard Error of Regression Coefficient	t value	Sig.t.
Constant	7297.446	1205.914	6.051	.009
CG	.642	29.248	1.451	.243
Multiple R=.642	$R^2=.412$	Adj. $R^2=.216$	S.E. of R =2092.79	

Source- SPSS

**Table 6.5: ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	9219231.208	1	9219231.208	2.105	.243
Residual	13139387.38	3	4379795.79		
Total	22358618.59	4			

There is no significant impact of corporate governance on PAT of HDFC bank as F-table for  $n_1=1, n_2=3$  degree of freedom at  $0.05=10.13$  which is more than F-cal value of 2.105. The PAT and corporate Governance of HDFC bank are positively correlated as R is 0.642. The coefficient of determination is 41.2%. The analysis indicates that sales have positive impact on Corporate Governance as beta value is 0.642. For one unit increase in Corporate Governance; sales of HDFC (*The Housing Development Finance Corporation*) bank are increased by 0.642 units. The model is valid and R value is 64.2% which is more than 50% and it is significant.

**Table 6.6- Impact of CG (Corporate Governance) On DPR of HDFC Banks**

Variable	Regression Coefficient	Standard Error of Regression Coefficient	t value	Sig.t.
Constant	17.007	1.790	9.504	.002
CG	.028	.043	0.646	.564
Multiple R=.028	$R^2=.122$	Adj. $R^2= -.171$	S.E. of R = 3.10562	

Source- SPSS



Table 6.7- ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4.023	1	4.023	.417	.564
Residual	28.935	3	9.645		
Total	32.958	4			

There is no significant impact of corporate governance on DPR of HDFC (*The Housing Development Finance Corporation*) bank as F-table for  $n_1=1, n_2=3$  degree of freedom at  $0.05=10.13$  which is more than F-cal value of .417. The PAT and corporate Governance of HDFC bank are positively correlated as R is .349. The coefficient of determination is 12.2%. The analysis indicates that sales have positive impact on Corporate Governance as beta value is .028. For one unit increase in Corporate Governance; sales of HDFC bank are increased by .028 units. The model is not valid and R value is 12.2% which is less than 50% and R is not statistically significant.

Table 6.8: Impact of CG (Corporate Governance) On Sales of HDFC Banks

Variable	Regression Coefficient	Standard Error of Regression Coefficient	t value	Sig.t.
Constant	67487.66	7774.65	8.68	.003
CG	.668	188.56	-1.553	.218
Multiple R=.668	R <sup>2</sup> =.446	Adj. R <sup>2</sup> =.261	S.E. of R = 13492.47	

Source- SPSS

Table 6.9: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	438951330.8	1	438951330.8	2.411	.218
Residual	546140819.5	3	182046939.8		
Total	985092150.3	4			

There is no significant evidence of impact of Corporate Governance (CG) on sales or turnover of HDFC bank as F table for  $n_1=1, n_2=3$  degree of freedom at  $0.05=10.13$  which is more than F-cal value of 2.411. The sales and corporate Governance of HDFC bank are positively correlated as R is 0.668. The coefficient of determination is 44.6%. The analysis indicates that sales have positive impact on Corporate Governance as beta value is 0.668. For one unit increase in Corporate Governance; sales of HDFC bank are increased by 0.668 units. The model is valid and R value is 66.8% which is more than 50% and it is not statistically significant.

## CONCLUSION

Thus, it is observed that HDFC (*The Housing Development Finance Corporation*) bank is in keen implementing best practices with regard to Corporate Governance practices as the mean score of CG is 98 percent and is in increasing trend. The positive aspects of HDFC Bank CG include Corporate Governance philosophy, Number of board members & Board meeting with large representation of Executive, NED, Independent directors and all necessary information which useful is disclosed by bank. One more thing positive aspect of HDFC bank practices is enhancing Corporate Governance practices year by year.

Some negative aspects like not disclosing information on dematerialization of shares, credit rating information by Indian and foreign Rating agencies, employee stock option details, Whistle blower policy and information on director is no given in annual reports. The data analyzed by correlation analysis, multiple regression and t-test reveals that sales, market capitalization, DPR, PAT, and CG Score are positively correlated. The study show that sales and CG have significant positive correlated at significance level and multiple R .642, the model is valid. The impact of DPR & Sales is not statistically significant. Therefore, HDFC bank enhances its Sales, DPR and PAT and maintains dividend policy for maximizing the corporate excellence which ultimately enhances the CG.

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