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AN EMPIRICAL INVESTIGATION ON CORPORATE GOVERNANCE PRACTICES IN SELECTED PUBLIC BANKS

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ABSTRACT

Corporate Governance is getting a focused attention particularly after market and public confidence become fragile after a series of high profile corporate failures in which the absence of effective governance was a major factor. Good Governance is becoming a source of competitive advantage among economies for attracting international capital. Responsibility, Transparency, Fairness and Accountability are the four vital pillars for strong Corporate Governance. Corporate Governance helps in establishing a system where a director is showered with duties and responsibilities of the affairs of the Company. The bank fulfilled the mandatory requirements in all sub-indices of the Clause 49. Bank has complied with all the applicable mandatory requirements of the Code of Corporate Governance as prescribed under the SEBI Listing Agreement. Banks should be followed Corporate Governance practices in more efficient manner and SEBI should be taken action for any Non-compliance by any companies.

KEYWORDS: Banks, Public, SEBI, Governance, Listing.

INTRODUCTION

Globalization and Liberalization of economies has brought corporate organization to the centre stage of social development. As a result in the process of corporate decision making, managers contribute consciously or unconsciously to the shaping of human society. It is not a choice between profit and ethics, but profit is an ethical manner. This mantra has lead to the evolution of corporate governance. Corporate governance is getting attention for satisfying the divergent interests of the stakeholders of the business enterprise, especially after the corporate scandals and loss of shareholders' value at Enron and several other large companies in a recent past, which focused more attention on the issue of shareholder rights, calling for greater transparency and accountability and enhancing corporate reporting and disclosure. Corporate governance is concerning with direction and control of corporate bodies. These activities are for more basic as compared to profitability and performance of companies. Thus the need for a major improvement in transparency both "accounting" and "public disclosures" becomes imperative. Now a days, disclosure about corporate governance is a fundamental them of the modern corporate regulatory system, which encompasses providing information by a company to the public in a variety of ways. In India, the question of corporate governance has come up mainly in the wake of economic liberalization and deregulation of industry and business as well as the demand for a new corporate ethics and stricter compliance with the legislation.

CORPORATE GOVERNANCE IN BANK

Corporate governance is evolutionary and ever-changing. Banks must innovate and adapt their corporate governance practices in order to remain competitive. It may be noted here that there is a basic difference between the private sector banks and public sector banks as far as the Reserve Bank's role in governance matters relevant to banking is concerned. The current regulatory framework relating to prudential norms set up by the Reserve Bank of India gives the same treatment to private banks and public sector banks. However, where governance aspects are concerned, the Reserve Bank prescribes the policy framework only for private sector banks. For private sector banks, it forwards suggestions based on the same framework to the Government for consideration.

OBJECTIVES OF THE STUDY

- To develop Corporate Governance Disclosure Index on the basic of Mandatory and Non-Mandatory requirement issued by SEBI.
- To determine the corporate governance practices in selected public banks.

REVIEW OF LITERATURE

Kearney,W.D and Kruger,H.A. (2017) described a framework based on a value-focused approach which is used to identify unique dimensions for evaluation in a large organization. The study comprises of three main steps. First, the value focused approach was followed to identify the different dimensions of corporate governance. Secondly, a survey was conducted to evaluate the identified dimensions and Third, A practical phishing exercise was conducted to show how organizational learning can take place from security incident which may improve

Tan and Anchor (2018) investigated the relationship among efficiency, risk and competition in 100 banks for the period of eleven years. The efficiency was measured through DEA technique using both CCR and VRS model. The intermediation approach was used for the selection of inputs and outputs. The inputs included interest expenses, non-interest expenses, ratio of interest expenses to total deposits, ratio of non-interest expenses to fixed assets. The outputs included non-interest income, loans, securities, total deposits.

Gafoor and Thyagarajan (2019) analyzed the impact of corporate governance on the performance of 36 Scheduled commercial Indian banks i.e. private banks for a period of fourteen years i.e. from 2001 to 2014. The independent variables included board characteristics of banks i.e. board size, board independence and CEO duality. The study has shown significant positive impact of board size and board independence on bank performance. On the other hand, no significant relationship was found between CEO duality and bank performance.

PRINCIPLES OF CORPORATE GOVERNANCE

The Principles of Corporate Governance has been recognized for decades as an authoritative voice on matters affecting American business corporations and meaningful and effective corporate governance practices. Since Business Roundtable last updated Principles of Corporate Governance in 2012, U.S. public companies have continued to adapt and refine their governance practices within the framework of evolving laws and stock exchange rules. Business Roundtable CEOs continue to believe that the United States has the best corporate governance, financial reporting and securities markets systems in the world. These systems work because they give public companies not only a framework of laws and regulations that establish minimum requirements but also the flexibility to implement customized practices that suit the companies' needs and to modify those practices in light of changing conditions and standards.

SCOPE OF CORPORATE GOVERNANCE

Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing. Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market- oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization is significant factors urging corporate governance.

PUBLIC SECTOR BANKS

Public Sector Banks (PSBs) are a major type of government owned banks in India, where a majority stake (i.e. more than 50%) is held by the Ministry of Finance of the Government of India or State Ministry of Finance of various State Governments of India. The officers working for these entities and their subsidiaries are gazette officers. The employees subordinate to the officers working for these respective entities and their subsidiaries are also full-fledged government employees. The shares of these banks are listed on stock exchanges. Their main objective is social welfare.

The public sector banks help in introducing a high degree of professional management and marketing concept into banking. It helps the private sector banks as well to develop similar skill and technology. They provide a healthy competition on general efficiency levels in the banking system. For my research, I make a study on these banks.

- State Bank of India
- Canara Bank
- Indian bank
- Union bank of India
- Bank of Baroda

CORPORATE GOVERNANCE IN STATE BANK OF INDIA

State Bank of India is committed to the best practices in the area of Corporate Governance, in letter and in spirit. The Bank believes that good Corporate Governance is much more than complying with legal and regulatory requirements. Good governance facilitates effective management and control of business, enables the Bank to maintain a high level of business ethics and to optimize the value for all its stakeholders. The Bank has complied with the provisions of Corporate Governance as per Clause 49 of the Listing Agreement with the Stock Exchanges except where the provisions of Clause 49 are not in conformity with SBI Act, 1955 and the directives issued by RBI/GOI. In terms of Govt. of India advices, a Board Committee to Monitor Recovery was constituted by the Central Board at its meeting for oversight on Recovery of Loans and Advances. The Committee has six members consisting of Chairman, four Managing Directors and the Govt. Nominee Director. The Committee met three times during the year and reviewed the NPA management and large NPA accounts of the Bank. The Bank has not entered into any materially significant related party transactions with its Promoters, Directors, or Management, their subsidiaries or relatives, etc., that may have potential conflict with the interests of the Bank at large. The Bank has complied with applicable rules and regulations prescribed by Stock Exchanges, SEBI, RBI or any other statutory authority relating to the capital markets. During the last three years, no penalties or strictures have been imposed by them on the Bank. A Whistle Blower Policy has been put in place and displayed on “State Bank Times” for reporting any unethical practices or behavior by employees in violation of their service rules, with a provision for protection of interest / identity of the whistleblower.

CORPORATE GOVERNANCE IN CANARA BANK

The Bank's confidential information is a valuable asset. It includes all trade related information, trade secrets, confidential and privileged information, customer information, employee related information, strategies, administration, research in connection with the Bank and commercial, legal, scientific, technical data that are either provided to or made available to each member of the Board of Directors and the Core Management by the Bank either in paper form or electronic media to facilitate their work or that they are able to know or obtain access by virtue of their position with the Bank. All confidential information must be used for Bank's business purposes only. The Bank has many kinds of business relationships with many companies and individuals. Sometimes, they will volunteer confidential information about their products or business plans to induce the Bank to enter into a business relationship. At other times, the Bank may request that a third party provide confidential information to permit the Bank to evaluate a potential business relationship with that party. Therefore, special care must be taken by the Board of Directors and members of the Core Management to handle the confidential information of others responsibly. Any waiver of any provision of this Code of Conduct for a member of the Bank's Board of Directors or a member of the Core Management must be approved in writing by the Board of Directors of the Bank.

CORPORATE GOVERNANCE IN INDIAN BANK

The Bank shall continue its endeavor to enhance its shareholder's value by protecting their interest by ensuring performance at all levels, and maximizing returns with optimal use of resources in its pursuit of excellence. The Bank shall comply with not only the statutory requirements, but also voluntarily formulate and adhere to a set of strong Corporate Governance practices. The Bank believes in setting high standards of ethical values, transparency and a disciplined approach to achieve excellence in all its sphere of activities. The Bank is also committed to follow the best practices. The Bank shall strive hard to best serve the interests of its stakeholders comprising shareholders, customers, Government and society at large. Thrust of the Corporate Governance of the Bank is to enhance shareholders‟ value by pursuing ethical practices in the conduct of its business and maintaining high standard of disclosure and transparency. The Bank has adopted best practices, and standards of governance are monitored by various Committees of the Board. The Board, the Executives and other functionaries have distinctly demarcated roles in achieving the Corporate goals – improved performance and enhanced shareholders value.

CORPORATE GOVERNANCE IN UNION BANK OF INDIA

Union Bank of India has a tradition of good corporate governance practices. The Bank has laid emphasis on the cardinal values of fairness, transparency and accountability for performance at all levels, thereby enhancing the shareholders' value and protecting the interest of the stakeholders The Bank considers itself as trustee of its shareholders and acknowledges its responsibility towards them for creation and safeguarding shareholders' wealth. During the year under review, the Bank continued its pursuit of achieving these objectives through adoption and monitoring of corporate strategies, prudent business plans, monitoring of major risks of the Bank's business and pursuing policies and procedures to satisfy its legal and ethical responsibilities. The Bank has an effective mechanism for post meeting follow-up, review and reporting process for the actions taken on decisions of the Board and Committees. Action taken report on the decisions/minutes of the previous meeting(s) is placed to the Board at quarterly intervals The Board periodically reviews the compliance reports to ensure adherence to all applicable provisions of law, rules and guidelines.

CORPORATE GOVERNANCE IN BANK OF BARODA

The Bank has complied with all the applicable mandatory requirements as provided in SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015. Compliance function in the Bank is one of the key elements in its corporate governance structure. The compliance function in the Bank is adequately enabled and an independent function. The Board of Directors of the Bank oversees the management of the Bank's compliance risk. The Bank has put in place a robust compliance system including a well documented and Board approved Compliance Policy outlining the Compliance philosophy of the Bank. The Compliance function ensures strict observance of all statutory provisions contained in various legislations such as Banking Regulation Act, Reserve Bank of India Act, Foreign Exchange Management Act, Securities and Exchange Board of India Act and Prevention of Money Laundering Act etc. as well as ensures observance of other regulatory guidelines issued from time to time.

CONCLUSION

The effective implementation of good governance practices would ensure investors confidence in the corporate companies which will lead to greater investment in them ensuring their sustained growth. Thus good corporate governance would greatly benefit the companies enabling them to thrive and prosper. Along this dimension, corporate governance is effective measures of performance based on return on assets have the strongest association with CEO turnover, while listed firms have a weaker association. It is important to keep in mind that these concepts do not imply that corporate governance in selected public banks is perfect. Indeed, the results presented may contain seeds of concern for the future of emerging market corporate governance. As emerging markets like India continue to grow and become more integrated with the global economy, more research will be needed to examine if their corporate governance systems also mature.

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