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Corporate Governance Practices in Indian Banking Sector

[1]GULSHAN KAUR and [2]PROF: S.BASAK
[1]*Research Scholar, Department of Commerce, J.D Birla Institute, Kolkata, West Bengal*
[2]*Professor, Department of Commerce, J.D Birla Institute, Kolkata, West Bengal*

ABSTRACT:
Corporate Governance consists of the combination of rules and regulations by which businesses are operated and controlled. The 4 P's of Corporate governance are people, process, performance and purpose. These 4 are the essential parts of Corporate Governance that help function everything in a smooth way. In this project, Corporate Governance of the Banks has been discussed . The performance of the bank's in relation with Corporate Governance has been discussed in this project. Statistical tests like t-test and regression analysis has been conducted to analyze the findings related to objectives of the study. The results revealed an impact on the performance of the banks in relation with the corporate governance rules..
***KEY WORD**: Keywords: Performance of Banks, Independent Directors, Women Directors, Composition of the Board, Board of Directors, Corporate Governance, Public sector Banks and Private Sector Banks*

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I. INTRODUCTION

1.1 What Is Corporate Governance?

According to the Chartered Governance Institute of UK & Ireland, Corporate Governance refers to the way in which companies are governed and to what purpose. It identifies who has powers and accountability and who makes decisions. It is, in essence , a toolkit that enables management and the board to deal more effectively with the challenges of running a company. Corporate governance ensures that businesses have appropriate decision-making processes and controls in place so that the interests of all stakeholders (shareholders, employees, suppliers, customers and the community) are balanced.

Thus, we can say that corporate governance is basically a set of principles according to which a company is governed and managed. It helps by making the workings of a company transparent and helps us conclude who is responsible to whom. As the Businesses have a separate legal entity, corporate governance came into light to protect the rights of its members, shareholders, employees and customers.

1.2 What Are The Principles Of Corporate Governance?

Corporate governance practices basically revolves around these three principles:
1.Transparency: The basic of good corporate governance includes transparency. The disclosure of important information and decisions should be published in front of its members which would ensure that its members develop a high level of trust for the company.
2.Accountability: Accountability means to take responsibility for. This means that the board who takes the decision will be doing everything in the interest of its members.
3.Independence: To ensure good corporate governance, it is important that the management is not biased and is independent for its decision making.

1.3 Corporate Governance Framework In India.

The framework of corporate governance is structured out from a number of rules and regulations of various Acts. They are, as follows:
1. The Companies Act 2013: The Companies Act lays down the provisions regarding the Board Constitution, Independent Directors, Auditing process of the Companies, meetings of the company, etc.
2.SEBI (Securities and Exchange Board of India): SEBI was established to curb the malpractices and protect the right of the investors. SEBI came up with detailed Corporate Governance norms in order to ensure fair corporate governance practices.
3.Accounting standards issued by ICAI : ICAI is an autonomous body issuing accounting standards which provides guidelines for disclosure of financial information. The financial statements shall give a true and fair view of the state of affairs of the company.

4.Secretarial Standards issued by ICSI: It issues the secretarial standards of the company. It lays out the principles for conducting meetings of the companies and also for conducting various types of procedures like postal ballot and e-voting.

1.4 Corporate Governance Of Banks- As Laid Down By RBI

In a recent notification by RBI, the corporate governance of banks are laid down as follows:

Applicability

It is applicable to all the private banks, including Small finance Banks and wholly owned subsidiaries of Foreign Banks and Public sector banks.

Composition of the board

According to section 149 of the Companies Act, there should be at least 1 director who has lived in India for a minimum 182 days in the previous year. at least 1 woman director must be appointed by the company. One-third of the proportion of the directors must be independent directors.

Chair and meetings of the board

Independent director shall be the chair of the board . In case the chairman is not present, the meeting should be presided by an Independent director. The quorum for the board meetings will be 1/3rd of the total directors or 3 directors whichever is higher.

Committees of the board

I. Audit Committee of the Board (ACB)

The audit Committee of the Board only consists of non-executive directors. The Chair of the board is barred from being the member of the ACB. Only an Independent Director can be chair of the ACB and that person cannot chair any other committees of the board. At least 1 meeting should be held in each quarter.

II. Nomination and Remuneration Committee(NRC)

The Board shall consist only of Non Executive Directors. Half of the members attending the meeting of NRC shall be independent directors and 1 should be a member of the Risk Management Committee. Here also, the chair of the meeting shall be an independent director. The meeting can be held as and when required.

III. Risk Management Committee of the Board (RMCB)

The majority of members of this board shall be Non Executive Directors. At least half of the members attending the meeting shall be independent directors of which at least 1 member must have professional expertise in risk management. Here also, the chair should be an independent director. At least 1 meeting should be held in each quarter.

Age and tenure of Non Executive Directors (NEDs)

The upper limit has been kept 75 years for the non executive directors as well as for the chair of the board. After attaining the age of 75, no person can continue in these positions.

On the board of the bank, the total tenure of the NEDs should not exceed for more than 8 years, continuously or otherwise. They shall be considered for re-appointment only after a minimum gap of 3 years.

Remuneration

In addition to sitting fees and expenses associated with attending meetings of the board and its committees as per existing statutory norms/ practices, the bank might give for payment of compensation to NEDs within the type of a set remuneration proportionate with a personal director's responsibilities and demands on time and that are considered adequate to draw in qualified competent people. However, such fixed remuneration for an NED, apart from the Chair of the board, shall not exceed Rs.20 lakh per annum.

1.5 Recent Initiatives Taken By Banks

- Inclusion of Non-Executive members on the Board.
- Constitution of varied Committees like Management Committee, Audit committee, Investor's Grievances committee, ALM Committee etc.
- Gradual implementation of prudent norms as prescribed by RBI.
- Introduction of Citizens Charter in Banks.
- Implementation of "Know Your Customer" concept, the primary responsibility permanently governance lies with the Board of Directors and the senior management of the Bank.

1.6 Background Information

In the January of 2009, Satyam scandal came to light revealing the flaws of the Indian system and the corporate governance practices. Satyam scandal worked as a mere catalyst in restructuring of the corporate governance and brought about significant changes like the fixation of liabilities of the auditors and amendment of Clause 49 of SEBI regulations.. The Ricoh case, ICICI Bank scam case and Kingfisher Airlines and United Spirits case proved that mere presence of Corporate Governance framework does not ensure its results.

1.7 Significance of the study

Corporate Governance in banks is significant as banks are important for the stability of the economy. To ensure that the banks are conforming to the rules and regulations, various committees have been established. Banks have to display their corporate governance practices through their disclose in annual reports relating to the accounting ratios , NPA, investments, loans , deposits, operating profits, etc.

1.8 Scope of Study.

- See whether the composition of the directors impact the banks performance.
- To see the impact of composition of directors on employee turnover ratio.
- To see if there is any difference in the composition between public and private sector banks.

II. LITERATURE REVIEW

Goswami, Karthikeyan, and Srivastava (1999) Until the mid-1990s, India suffered from the worst of both types of agency costs. Dysfunctional economic and trade policies combined with low equity ownership to allow companies to thrive in uncompetitive ways, which became problematic when the economy started opening up to international competition. Corporate value eroded dramatically as measured in terms of economic value added, which is the difference between the return on capital employed and the opportunity cost of capital. However, ascertaining how much of this value destruction was due to poor corporate governance and how much was due to the companies' inertia and historical inability to deal with increased competition is difficult.

OECD (1999) defined corporate governance as "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance."

La Porta, Silanes and Shliefer (2000, 2002) view corporate governance as a set of mechanisms through which outside investors (shareholders) protect themselves from inside investors (managers).

Oman (2001) defined corporate governance as a term refers to the private and public institutions that include laws, regulations and the business practices which governs the relationship between the corporate managers and the stakeholders.

Murthy, N. R. N. (2006) Good corporate governance in a corporate set up leads to maximize the value of the shareholders legally, ethically and on a sustainable basis, while ensuring equity and transparency to every stakeholder – the company's customers, employees, investors, vendor-partners, the government of the land and the community as a whole.

Linnea, Mcord and Steven, Ferraro (2007), found that corporate frauds are increasing and it is the board of directors that have been adversely affected. Its role had been transformed from being spectator to evaluating and monitoring the performance of management.

Linnea, Mcord and Steven, Ferraro. (2007) found that corporate frauds are increasing and it is the board of directors that have been adversely affected. Its role had been transformed from being spectator to evaluating and monitoring the performance of management

Gupta, P. (2008) Corporate Governance in Indian Banking Sector, the research examines the practices of corporate governance attributes in banking sector and how they adhere to corporate governance practices. The results of this research indicate the practice of corporate governance is at nascent stage although corporate governance practices by Indian Banking Sector are more than a decade. However, hope is looming large for the proper implementation of corporate governance principles in Indian Banking Sector.

Kaur (2017) There are a wide variation and fragmentation among corporate governance studies in India across disciplinary fields including finance, corporate governance practices, earning management, firm performance, firm value, and some other issues. Different areas have been investigated with corporate governance such as corporate illegality.

III. METHODOLOGY

In this paper, a modest effort is made to discuss the reporting of 6 Banks comprising of 3 Public Sector Banks and 3 Private Sector Banks. The Sample selection was based of judgmental sampling and on secondary data which is compiled from various Government websites and available annual reports for the financial year 2020-21 have been taken into consideration.

SELECTED BANKS	
PUBLIC SECTOR BANKS	***PRIVATE SECTOR BANK***
State Bank of India	HDFC Bank
Canara Bank	ICICI Bank
IDBI Bank	Axis Bank

3.1 Hypothesis

3.1.1H_0= Composition of Board of Directors does not affects bank performance.
H_1= Composition of Board of Directors affect bank's performance.

3.1.2H_0= The Composition of the Board does not Affects employee turnover ratio.
H_1= The Composition of the Board employee Affects turnover ratio.

3.1.3 H_0= There is no difference in the composition of the Board of Public and Private Sector Banks.
H_1= There is difference in the composition of the Board of Public and Private Sector Banks.

3.2 Data Collection sources

Secondary data has been used to conduct the research. Secondary data is a type of data which has been collected by someone else . In this type of data, the researcher generally uses the secondary data already available to her and conducts the research witch an unique angle.

For this research, the annual reports of the Banks and corporate governance disclosure reports have been used.

3.3 Tools used

Data has been analyzed with the help of Microsoft Excel and data collected has been represented by: Tables, Bar Charts, T-test, Linear Regression,

3.4 Data Analysis technique

The data collected by questionnaire has been analyzed by using quantitative method. The definitions of the data analysis used for this study are explained below:

Linear Regression: Linear regression is the next scale up after correlation. The value of one variable is predicted based on the value of another variable. The variable that needs to predict is called dependent variable. The variable used for the prediction of the other variable's value is called independent variable.

The equation has the form of

Y= a + bX, whereY is the dependent variable , X is the independent variable.

Dependent variable

T-test:A t-test is a statistical test that is used to compare the means of two groups. The main purpose of it in hypothesis testing is to determine whether a process has any effect on the population's interest, or two groups are unrelated

IV. RESULTS AND DISCUSSIONS

ANALYSING CORPORATE GOVERNANCE AFFECT ON BANK'S PERFORMANCE

The following model is being used to test Hypotheses 3.1.1

PERFORMANCE (ROA) $= \alpha+\beta_1 IND+ \beta_2 SIZE+ \beta_3 WDIR$

Where,

ROA Return on assets.
IND Independent directors of the board in proportion.
SIZE Number of directors on the board.
WDIR Women directors of the board in proportion.

Table 1 presents the descriptive statistics for full sample. It provides means, medians and standard deviations for the main variables of the sample. The average number of directors are 12.5 or 13, out of which , 6.167 or 7 form the independent directors and 2 women directors.

Variable	Mean	Median	Standard Deviation
ROA	0.08433	0.291	1.39883
IND	6.1667	6.5	1.94079
SIZE	12.5	12	1.2247
WDIR	2	2	1.095445
TURNOVER RATIO	0.0733	0.07	0.0052

Table 1 Descriptive Statistics

ROA means Return on Assets which is a financial ratio which represents how profitable a company is in relation to its total assets. it is often expressed as follows:

$ROA = \frac{Net\ Income}{Average\ total\ Assets}$

So, In order to see the effect of Corporate governance we have taken ROA of 3 Public sector banks and 3 Private sector banks. The proportion of Independent Directors, Woman Directors and Number of directors on the board will help us to know whether or not their presence has an effect on the bank's performance.

REGRESSION ANALYSIS

In order to find the major determinants effecting Bank performance, the author chose to perform Linear Regression testing.

Here, **3.1.1**H_0= Composition of Board of Directors does not affects bank performance.

H_1= Composition of Board of Directors affect bank's performance

Dependent variable: ROA (Return on Assets)

Independent variable: Proportion of Independent Directors, Women Directors, Total number of Directors.

Regression Statistics	
Multiple R	0.800105174
R Square	0.640168289
Adjusted R Square	0.100420732
Standard Error	1.326744072
Observations	6

Table 2 A tabular formation showing Model Summary of the data

Table 2 presents the R and R^2 values. The Simple Correlation is Represented by the *R-value* which is 0.8, which indicates a high degree of correlation. The R^2 value of 0.6 implies the total variation in the dependent variable that can be expressed as the independent variable.

ANOVA					
	df	**SS**	**MS**	**F**	**Significance F**
Regression	3	6.26342	2.087747	1.186051	0.487798
Residual	2	3.5205	1.76025		
Total	5	9.783739			

Table 3 A tabular formation showing ANOVA Table of the data

The statistical significance of the regression model is indicated by Table 3. Here, *p-value:* 0.48, which is more than 0.05, indicates the regression model statistically predicts good fit but there is no significant relationship between the variables.

	Coefficients	**Standard Error**	**T Stat**	**P-value**
Intercept	31.55	18.50	1.71	0.23
IND	1.03	0.86	1.20	0.35
SIZE	-2.681060241	1.63	-1.65	0.24
WDIR	-2.163518072	1.59	-1.36	0.31

Table 4 A tabular formation showing Coefficient Table of the data

The **Coefficients** Table 4 provides the necessary information to predict whether dependent variables contribute statistically significantly to the model. IND in the table stands for the proportion of Independent Directors, SIZE stands for the total number of board of directors, turnover ratio stands for the turnover ratios of the bank, WDIR stands for the proportion of Women Directors.

According to the above table, it is observed that the proportion of Independent directors does not affect the Bank performance (p-value is more than 0.05) , the number of board of directors also, does not affects the Bank's performance (p-value is more than 0.05), it is observed that The proportion of women director appeared to be negative (p-value more than 0.05) does not affect the bank's performance. Hence, the null hypothesis is being accepted at a 5% level of significance.

ANALYSING CORPORATE GOVERNANCE AFFECT ON EMPLOYEE TURNOVER RATIO

$TURNOVER\ RATIO = \alpha+\beta_1 IND+\beta_2 SIZE+\beta_3 WDIR+\beta NED$

Where,

IND *Independent directors of the board in proportion.*

SIZE *Number of directors on the board.*

WDIR *Women directors of the board in proportion.*

NED *Non Executive Directors*

REGRESSION ANALYSIS

In order to find the major determinants effecting Bank performance, the author chose to perform Linear Regression testing.

Here, **3.1.2**H_0= The Composition of the Board does not Affects employee turnover ratio.

H_1= The Composition of the Board Affects employee turnover ratio.

Dependent variable: Turnover ratio

Independent variable: Proportion of Independent Directors, Women Directors, Total number of Directors and Non executive directors.

Regression Statistics	
Multiple R	0.92924491
R Square	0.863496102
Adjusted R Square	0.317480511
Standard Error	0.004266207
Observations	6

Table 5 A tabular formation showing Model Summary of the data

Table 5 presents the R and R^2 values. The Simple Correlation is Represented by the *R-value* which is 0.9, which indicates a high degree of correlation. The R^2 value of 0.86 implies the total variation in the dependent variable that can be expressed as the independent variable.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	0.000115133	2.88E-05	1.58145	0.528979847
Residual	1	1.82005E-05	1.82E-05		
Total	5	0.000133333			

Table 6 A tabular formation showing ANOVA Table of the data

The statistical significance of the regression model is indicated by Table 6, Here, *p-value:* 0.53, which is more than 0.05, indicates the regression model statistically predicts the good fit but the variables does not have a significant relationship.

	Coefficients	**Standard Error**	**t Stat**	**P-value**
Intercept	0.049613469	0.067135862	0.739001	0.59484
IND	-0.00392919	0.002946941	-1.33331	0.409671
SIZE	0.003203768	0.005876973	0.545139	0.682261
WDIR	0.004622131	0.006107181	0.756835	0.587559
NED	-0.000447163	0.000904324	-0.49447	0.707654

Table 7 A tabular formation showing Coefficient Table of the data

The **Coefficients** Table 7 provides the necessary information to predict whether dependent variables contribute statistically significantly to the model. IND in the table stands for the proportion of Independent Directors, SIZE stands for the total number of board of directors, WDIR stands for the proportion of Women Directors and NED stands for Non Executive Directors.

According to the above table, it is observed that the proportion of Independent directors does not affect the turnover ratio(p-value is more than 0.05) , the number of board of directors also, does not affects the Bank's performance (p-value is more than 0.05), it is observed that The proportion of women director (p-value more than 0.05) does not affect the bank's performance .Non executive directors has a p-value of 0.70.Thus we can say that Corporate Governance is not having any impact on the employee turnover ratio. Hence, the null hypothesis is being accepted at a 5% level of significance.

ANALYSING THE DIFFERENCE IN THE COMPOSITION OF THE BOARD OF PUBLIC SECTOR BANKS AND PRIVATE SECTOR BANKS

3.1.3 H_0= There is no difference in the composition of the Board of Public and Private Sector Banks.

H_1= There is difference in the composition of the Board of Public and Private Sector Banks.

	ICICI Bank	HDFC Bank	Axis Bank	Mean
Managing Director	1	1	1	1
Executive Director	3	1	2	2
Non Executive director	1	2	8	3.667
Independent Director	7	7	5	6.333
Government Nominee Director	1	0	3	1.333
Additional Independent Director	0	1	0	0.333
Women Director	3	1	3	2.333

Table 8 Composition of the Board of Private Sector Banks

The above table shows the number of each category of directors of the private sector banks, namely ICICI Bank, HDFC Bank and Axis Bank.

	Public Sector Banks	Private Sector Banks
Independent Directors	5	8
Women Directors	1	3
Non-Executive Directors	2	4

Table 9 Average directors of Public and Private sector Banks

T-test is a statistical test that is used to compare the means of the two groups. In order to Compare the composition of the board of public and private sector banks, independent directors, women directors and non executive directors of both the categories are taken into consideration. This can be observed from the above table.

	Public Sector Bank	Private Sector Bank
Mean	2.667	5
Variance	4.333	7
Observations	3	3
Pearson Correlations	0.998625429	
Hypothesized Mean Difference	0	
Df	2	
T Stat	-7	
P(T<=t) one tail	0.009901971	
T Critical one-tail	2.91998558	
P(T<=t) two-tail	0.019803941	
T Critical two-tail	4.30265273	

Table 10 A tabular formation showing the t-Test for the mean of the data

From table 10, it is evident that it is observed that the p-value is less than 0.05, which means that the null hypothesis is being rejected at 5% level of significance. This signifies that there is a difference between the composition of board of directors of private banks and public sector bank.

IV. CONCLUSION

The observations that appeared from the above study is that Corporate Governance was introduced to provide transparency and fair disclosure of the working to anyone related to the Banks or the general public. There has been many instances of fraud where this transparency of the banks have been questioned but the various rules imposed by various governing and statutory bodies has tried their best to curb the malpractices. The main question of this study was, what impact does Corporate Governance make? why should the Banks do it? One of the answers to my question was Bank's performance. The various ways of incorporating Corporate Governance into Banks can be as follows

- The inclusion of different categories of directors like Independent Directors and Non executive Directors
- The forming of various committees of the board
- Maintaining and requirement of Directors for categories of directors.

One of the ways to analyze the corporate governance practices was to see its implementation and changes in performance of the banks due to the incorporation of Corporate Governance. Bad corporate governance can cast doubt on a company's operations and its ultimate profitability. From the statistical analysis presented above, the study identifies the following as the most significant conclusion:

1. Corporate Governance does impact on the Bank's Performance
2. The Number of independent directors does not influence Bank's performance
3. The size of the Board of Directors does not impact Bank's performance
4. The inclusion of Women directors also does not impact Banks performance
5. There is a difference in the composition of the Board between the private and the public Sector Banks.

FUTURE RECOMMENDATION

- in order to be successful, the corporate governance should be implemented properly .
- The results show us that Corporate governance has no impact on Bank performance and turnover ratio which helps us to see a clear image that there is a need to make some changes to the corporate governance structure.
- There should be separate body for compliance of Corporate Governance Practices to make it easy and simple.
- There should be a uniform rule for both the Private Sector and Public Sector Banks for no discrimination.

LIMITATIONS OF THE STUDY

- This topic could be interpreted in a different angle and other factors could have been taken to analyze the profitability and performance of the Banking Sector
- Everything concluded here is on the basis of secondary data obtained from the Annual reports, Corporate governance reports and Statistics obtained. There was not any primary data collected.

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