ABSTRACT

India adopted a liberalized deregulated economic policy since 1990-91, and new era of globalization of activities in respect of trade and commerce, finance and management commenced. It has resulted into the flow of foreign investment, multinational trade and openness of Indian market, industry in a very big way. These salient features of policy stimulated the growth of Indian economy.

In banking sector there was emergence of new private sector banks, entry of new foreign banks, opening of offices of multinational financial giants. Thus the financial, banking sector underwent a sea change in India.

This has necessitated the stricter compliance of national, international legislation regulatory norms of the respective countries and there by introduction and implementation of full proof good governance policy and professional management amongst Indian financial, banking and corporate sector to protect the interest of stakeholders, depositors, consumers, investors and other related and for development of country.

At international level due to failures of high profile corporate like Enron, World com, HIH Insurance group, China, Aviation OIL, Paramalt in the countries like Europe, Australia Water gate scandal in USA ,Sub prime lending crises caught US banking business UBS worlds one of the largest bank was biggest losers in the sub prime case.

Similarly Nigeria lost almost 75 banks since 1914 primarily because of factors related to poor governance, and bad management by board of directors .In case of Pakistan frauds and financial scam in Bank of credit and commerce international [BCCI] and Mehran bank scandals occurred due to involvement of banks in anti social activities, and money laundering acts. Central bank of Bangladesh is very weak in effective monitoring as central authority which has resulted into wide spared .corruption in banking sector

Governance is almost at no existence level. Early 2000 massive bankruptcies and criminal offences of Enron Power World Com Layman Brothers and scandals in other corporate created a heat of political interest across the world. Poor governance is acknowledged as an important cause of recent East Asian financial crisis of 1997.Many industrial houses were collapsed in U.K. during 1980. With cases like I.B.M. Kodak ,Honeywell.

Cadbury committee report in U.K .the combined code of London stock exchange, The Blue
Ribbon committee appointed by United states securities and exchange commission, OPCD code of 1998 jointly with World Bank developed benchmarks in the corporate governance which qualify as best practices under the standard and codes identified by Financial stability forum which has consolidated all the deliberation and debate in the last twenty years.

The Sarba Oxley Act in the USA in July 2002 and Euro shareholders corporate governance guidelines 2000 has recommended timely and reliable public disclosure of financial statements, audit remarks, in the annual report of the company.


However Indian banking sector was strong enough to protect itself and absorb the shock because of strong measures by Reserve bank of India regulator of banking, financial sector of country.

Study reveled that all big corporate involved in scandals and mismanagement had a financial support from banks which has resulted into failure of banks due to overlooking, non detecting the affairs of the company.

On this background corporate governance topic has attracted worldwide attention of all the stakeholders i.e. shareholders, depositors, creditors, investors, and general public at large. Good corporate governance in banking sector has emerged with greater importance as global banking has become very complex in nature.

In case of India corporate governance in Indian companies assumed greater importance in recent past as it was found that despite the companies act specifying the elements of governance such as boards authority, responsibility, accountability, penalty for violation of company act, rule, due to growth of financial markets, multinational trade, and business under WTO and change from company to corporate world in India it was felt necessary to prepare comprehensive code of corporate governance. The Indian companies were among the first in the corporate sector to take initiative for ensuring corporate governance.

The Confederation of Indian Industry [CII] formulated code of desirable corporate governance in April 1988 Associated chamber of commerce and industry [ASSOCHAM]. By taking the points of recommendations of Cadbury committee Securities Board of Exchange India [SEBI]
appointed committee under the chairmanship of Kumarmangalam Birla 1999 to prepare voluntary code of corporate governance for the listed companies. Accordingly the listed companies with SEBI including banks whose share are listed at Bombay Stock Exchange [BSE], National Stock Exchange [NSE] are obliged to comply with the recommendations of Birla committee.

One of the important recommendation is disclosure of corporate governance philosophy, status of compliance, transparency in information accounting standard and financial reporting in annual reports of the company.

Ramakrishna commission report 1999 emphasized amongst other the need for autonomy in professionalism of board of public sector undertakings, financial companies, and banks etc. as they are directly related to monetary business of the company. Similarly CII, ASSOCHAM also made separate studies on the role of board of directors and need to observe code of best practices. Finance ministry of Govt. of India set up Nareshchandra committee to examine role of Auditor, independent director in ensuring governance. Similarly Narayan Murthy committee was set up for recommendations of good corporate governance.

However all these committees were having common view for strong code of ethics including having more non executive and preferably independent directors in the board and formation of various committees like remuneration nomination, audit, investors grievances committees etc.

In short Indian corporate sector has to face challenges by following international trade practices and international accounting standards with strong corporate governance philosophy and disclosures in the reports for the knowledge of investors.

Corporate governance in Indian banking sector is recent development of a decade as after banking reforms as per Narshivism committee report and Basel committee norms of 1999. Banking sector in India is subject to stricter guidelines and financial parameters.

As per Basel committee recommendations banks have to display financial performance, transparency, in balance sheet, profit & loss account and compliance with other norms laid down by section 49 of corporate governance rules. Annual reports should disclose accounting standards norms, ratio relating to profit, assets, gross NPA, net NPA, Movement of NPA, Investment pattern, ownership pattern, CRAR, etc. Statutory auditor of bank has to certify compliance of corporate governance standard by banks.
During the last two decades even government owned public sector banks has gradually reduced its stake and these banks are getting corporatize with the stake of other financial institutions. Hence corporate governance issues assumes greater importance. In India since nationalization process bank emerged as a tool of economic development along with social justice. Corporate governance for banks has become very important to perform and remain in competition in the era of liberalization and globalization.

Cooperative are also member driven organization including cooperatives banks hence the recommendations of committees for Corporate are also applicable for Cooperatives as cooperative enroll ordinary members, work on democratic principles. They serve their members, depositors, borrowers who are also owners of cooperatives.

Cooperative governance is therefore about ensuring co-operative relevance and performance by connecting to members, management employees in the decision making process. However unfortunately as there is no formal system of governance in the co-operatives sector.

The area of corporate governance and professionalism of management in cooperative banking sector has come into sharp focus in 2000-2001 on account of failure of few co-op banks in rural and urban areas, resulting into serious problems, and loss of public confidence and threat to the profile and identity of the entire cooperative system, and set back to the cooperative banking sector. Serious irregularities, financial scams, mismanagement, by board of directors were most common in the cooperative banking sector.

However there are lot of hurdles for good governance in Indian banking sector in general which are discussed in relevant chapters. Like corporate governance the area of professionalism of management is lagging behind.

In banking sector professional management implies dividing the ownership of the bank from operational management of affairs of the bank. General body [shareholders], Board of directors, Chief executive officer constitute three pillars of co-op bank. For effective management it is required that role to be played by three are kept at a safe distant level.

However in cooperative banking the dividing line between these two is thin and majority functions are overlapping each other. Due to undefined hierarchy position, level of delegation, decision power is concentrated in few hands of the board. Unprofessional approach, lack of qualification of board members,
political nexus, limited powers to CEO are hurdles of professionalism in co-op banking sector. Management structure of co-op banks i.e. cadre, hierarchy system is not related to the size of business. Organization structure is not standardized in relation to size, growth, requirement of business. Due to undefined hierarchy position level of delegation assigned to professional differ from bank to bank leaving entire decision making power in few hands of board. Lack of professional management is one of the areas of major concern about the urban co-op banks as identified by RBI at present it is not at comfortable level.

RBI appointed various committees, study groups to suggest measures for the improvement in working of co-op banks, governance, professionalism, accounting standard and financial disclosures in annual reports etc and initiated action for implementations. Malegam committee has strongly recommended the segregation of role of board of directors, members, professional management, executives and powerful role of chief executive officer.

In case of financially weak and non-viable banks all sorts of supervisory actions are being exercised by RBI, such as issue of caution notice, show cause, issue of directives, moratorium, appointment of administrator, supersession of board of directors and conducting enquiry. Merger, amalgamation, acquisition policy is being implemented for takeover of weak, non-viable banks with/by financially strong co-op banks, public sector banks before liquidation, and cancellation of banking license of such banks.

On the above background the study examines the role of central governments, state government, regularity authorities i.e. Reserve bank of India, state and central registrars of co-operatives, recommendations of various committees, study groups, consequences of failures of governance and professional management in urban co-op banks it present status etc.

The study is finally concluded with recommendations measures, and suggestions for confronting challenges of co-operative banking sector by strengthening the good governance and professional management.