ABSTRACT

Introduction

Corporate governance is an active area of research and public debate. Global economic integration affects the different systems of corporate ownership and governance. Sound governance is of paramount importance to avoid corporate disasters such as Enron, Adelphia, Tyco Laboratories and WorldCom. Corporate governance is the process by which companies are directed, administered and controlled. Systems and processes deal with delegation of authority, performance measures, assurance mechanisms, reporting requirements and accountabilities. Its structure spells out the rules and procedures for making decisions on corporate affairs. It provides the structure through which the company objectives are set, as well as the means of attaining and monitoring the performance of those objectives. It is the relationship among various participants in determining the direction and performance of corporations. These participants are the shareholders, management, and board of directors. It is externally controlled by the governing or regulatory body and stock exchanges. Other stakeholders who take part include suppliers, employees, creditors, customers and the community at large. Board of directors play a key role in corporate governance. Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organisation.

Corporate Governance in Banking Sector:-

Banking as a sector has been unique and the interests of other stakeholders appear more important to it than in the case of non-banking and non-financial organizations. About four-fifths of the banking business in India is under the control of public sector banks. This phenomenon complicates the corporate governance since the effective management vests with the government, while top management and board of banks operate merely as functionaries. There is a national debate whether corporate governance is compatible with the present form of public ownership as it makes the head of the institution accountable to political institutions. From a banking industry perspective, corporate governance involves the manner in which their boards of directors and senior management govern the business and affairs of individual banks, affecting how banks set their corporate objectives, run day-to-day operations, consider the interests of various stakeholders and corporate activities with the expectation that banks will operate in a safe and sound manner and in compliance with applicable laws and regulations and protect the interests of depositors. 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.
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Significance of the Study

The study provides a comprehensive comparative analysis of corporate governance regulatory system of the selected public and private sector banks. It proposes a methodology to create detailed corporate governance indices which capture the major feature of corporate governance norms in the Indian banking sector. The study analyses the present scenario of boards and committees, structure to redress the grievances of stakeholders, policies and principles of corporate social responsibilities, and impact of corporate social responsibilities initiatives upon the different stakeholders of the public and private sector banks. The study also tries to know the disclosure practices of the public and private sector banks. Since, the corporate governance of banks covers its stakeholders from the every corner, hence the study focused to investigate the perception of corporate governance among employees, customers and the executives of the selected public and private sector banks of India.

Objective of the study

The objectives of the study are as following:-

1. To study the Corporate Governance practices in Indian banking sector.
2. To examine the corporate governance policies and practices of public and private sector banks in India.
3. To find out the working of complaint and redressal system of both the public and private sector banks in India.
4. To study the impact of corporate social responsibility initiatives adopted by the public and private sector banks in India.
5. To examine the compliance of public and private sector banks in India with reference to clause -49 of Listing Agreement of SEBI.

Research Methodology

Both primary and secondary data have been collected to enrich the study. Primary data have been collected from three stakeholders of the banks i.e. Customers, Employees, and Executive Officers. It has been collected from both the public and private sector banks by way of personal interview and questionnaire. The secondary data has been collected from various sources like annual report of the banks, newspapers, articles, journals, magazines, relevant books, research papers and RBI reports.

The study mainly concentrates on the key elements of corporate governance of banking sector i.e corporate governance policies and practices, disclosures and transparency, audit practices, shareholders rights and responsibilities, performance, risk management, customers’ and investors’ grievances cell, corporate social responsibility and whistle blower policy and compliances of clause-49 of listing agreement issued by SEBI.

The type of study is based on descriptive in nature. Non probability Judgment and Quota sampling method has been used. The samples selected for the study have been identified without specific consideration for the actual size of the population. The sample size consists of 500 from three categories namely Customers, Employees and Executives. The number of samples selected for the study have been mentioned in the reliability test. The collected primary data has been
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analyzed through various statistical tools such as chi-square test and t-test, mean, standard deviation, percentage and correlation. The secondary data that has been collected from the annual report of the concerned banks analyzed through the ranking and scoring method for the testing of adherence of compliances with clause- 49 of the listing agreement of SEBI of public and private sector banks. Charts and Graphs have been used to analyze both the primary and secondary data.

Major Findings

1. It has been found that the average corporate governance score obtained by the selected public and private sector banks from the year 2009-10 to 2013-14 based on the assigned points according to the corporate governance parameter. It is found that among the public sector banks two banks (IDBI Bank, DENA Bank) shown “Excellent” performance and three Banks (SBI, UBI and CBI) exhibited “Very Good” performance. So far as the private sector banks are concerned four banks (ICICI Bank, HDFC Bank, AXIS Bank and YES Bank) shown “Excellent” performance and one bank (Indusind Bank) exhibited “Very Good” performance.

2. On the basis of results based on the testing of parameters of corporate governance it has been found that private sector banks have followed all principals in a better way than public sector banks on the corporate governance standards and effectiveness.

I. From the point of view of Customers

1. Awareness of Corporate Governance:-

It has been found that only 29% customers from public sector banks and 48% customers from private sector banks are well aware with the knowledge of corporate governance. The t–test result shows that there is statistically significant difference of customers’ awareness of corporate governance between public and private sector banks.

2. Hidden Charges Levied by Banks:-

It has been observed that 29% of the public sector banks and 29% of private sector banks customers have dissatisfied on the hidden charges levied by the banks on their transactions. The t-test finds that there is no significant difference of hidden charges levied on transactions between public and private sector banks.

3. Grading of CSR Practices:-

It has been studied that 24% customers of public sector banks and 19% customers of private sector banks ranked the grade for Good CSR practices. At the second level 33% customers of public sector banks and 28% customers of private sector banks felt the average performance of CSR practices performed by banks. But 43% customers of public sector banks and 53% customers of private sector banks, did not give any option for corporate social responsibilities in their banks. The t-test conveys that there is no significant difference of grading done by customers on CSR between public and private sector banks.

4. Time taken for Complaint Settlement:-

It has been observed that 37% customers from public sector and 39% customers from private sector banks have witnessed on the spot response have taken by the banks. Maximum customers i.e. 45% from public sector banks and 46% from private sector banks have witnessed that the banks usually took one week to resolve the complaints. The t-test shows
that there is no statistically significant difference of time taken for settlement of complaint between public and private sector banks.

5. Charges levied on Complaint Settlement:

It has been observed that 51% customers of public sector banks and 64% customers of private sector banks have satisfied with the charges levied on their complaint settlement procedures. On the other hand, 30% customers of public sector banks and 20% customers of private sector banks who have dissatisfied by the charges levied on their complaint settlement procedures. The t-test also approved that there is no statistically significant difference of charges levied on settlement of complaint between public and private sector banks.

6. Complaint Redressal System:

It has been identified that 52% customers of public sector banks and 59% customers of private sector banks have satisfied with the complaint settlement procedures of their banks, while 22% customers of public sector banks and 25% customers have dissatisfied with the complaint redressal system of their banks. The t-test is proved that there is no statistically significant difference of complaint settlement procedures between public and private sector banks.

II. From the point of view of Employees

1. Awareness of Corporate Governance:

It has been found that 57% employees of public sector banks and 74% employees of private sector banks are aware of Corporate Governance. The t-test result found that there is statistically significant difference between employees’ awareness about corporate governance between public and private sector banks.

2. Code of Corporate Governance:

It has been identified that only 61% employees of public sector banks and 59% employees of private sector banks are aware and agreed on code of corporate governance. The result of t-test indicates that there is no statistically significant difference in the opinion of employees related to code of corporate governance between public and private sector banks.

3. Implementation of Corporate Governance Practices:

It has been observed that 58% employees of public sector banks and 58% employees of private sector banks have positive perception on implementation of corporate governance practices and always abiding to the guidelines of Corporate Governance. There is no statistically significant difference in the opinion of employees about the implementation of corporate governance practices between public and private sector banks as per the result of t-test.

4. Working of Customers’ and Investors’ Grievances Cell:

It has been found that 81% employees of public sector banks and 73% employees of private sector banks have satisfied with the customers’ and investors’ grievance cell of their respective banks. The result of t-test found that there is significant difference in the opinion
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of employees about the working of customers’ and investors’ grievances cell between public and private sector banks.

5. **Raising voice on Malfunctioning:**

It has been observed that 40% employees of public sector banks and 43% employees of private sector banks have raised their voice whenever needed against the malfunctioning of their respective banks. It has been proved by applying t-test that there is no statistically significant difference on raising of voice by employees on malfunctioning between public and private sector banks.

6. **Awareness of Whistle Blower Policy:**

It has been revealed from the study that 94% employees of public sector banks cent percent employees of private sector banks have awareness of whistle blower policy of their banks. It has been proved by applying t-test that there is statistically significant difference between employees’ awareness about whistle blower policy between public and private sector banks.

7. **Disclosing information as per Clause- 49:**

It has been found that 63% employees of public sector banks and 62 % employees of private sector banks have totally agreed that their banks disclosed information strictly according to clause-49. It has been proved by applying t-test that there is no statistically significant difference in the opinion of employees about the disclosing of information as per clause -49 between public and private sector banks.

III. **From the point of view of Executives**

1. **Adherence of Employees to the Code of Conduct:**

It has been found that 94 % executives from the public sector bank and 84 % from private sector banks have agreed that the employees are strictly adhere the code of conduct. 16% executives from the private sector banks denied on the code of conduct followed by the employees. The t- test result proved that there is no statistically significant difference between the adherence of employees to the code of conduct of public and private sector banks.

2. **Disclosing of information as per Clause-49:**

It has been found that 68% executives of public sector banks and 68 % of private sector banks have totally agreed that the banks disclose information strictly according to clause 49. On the other hand, 24 % executives from public sector banks and 20% of private sector banks have totally disagreed on the disclosing of information as per clause -49. As per the result of t-test it has been found that there is no statistically significant difference between the disclosing of mandatory and non mandatory information as per clause- 49 of public and private sector banks.

3. **Quality of audit committee:**

It has been found that 98 % executives of public sector banks and cent percent executives from private sector banks have satisfied with the quality of audit committee of the banks and stated that the role of audit committee in their banks proved a milestone in the banks to
menace the fraud. As per the result of t-test there is no statistically significant difference between the quality of audit committee of public and private sector banks.

4. **Non financial information to shareholders:**

It has been observed that 90% respondent executives of the public sector banks and cent-percent of private sector banks have agreed that high reliable and accurate information is provided to the shareholders. While 10% executives from public sector banks said that the information that are provided are speed transmitted on time. There is no statistically significant difference between the providing of non-financial information of public and private sector banks as proved by t-test.

5. **Working of Investors’ Grievance Cell:**

It has been observed that 58% executives/officials of public sector banks and 72% of private sector banks are satisfied with the working of investors’ grievance cell. There is no statistically significant difference between the working of investors’ grievance cell of public and private sector banks and the same is proved by t-test.

6. **Satisfaction with the CSR practices:**

It has been found that 96% from public sector banks and 78% from private sector banks have positive perception and satisfied with the CSR activities run in the banks. On the other hand, 4% from public sector banks and 16% from private sector banks are dissatisfied with the CSR activities of the bank. The t-test proved that there is no statistically significant difference between the activities of corporate social responsibilities of public and private sector banks.

7. **Working of Whistle Blower Policy:**

It has been found that 66% executives of public sector banks and 12% from private sector banks are dissatisfied with the whistle blower policy of the banks. However, 80% executives of private sector banks are satisfied with the working of whistle blower policy of their banks. The result of t-test proved that there is no statistically significant difference between the working of whistle blower policy of public and private sector banks.

**Conclusion**

A sound corporate governance particularly in banks is very important. The rapid changes brought about by globalization, deregulation and technological advances are increasing the risk in the banking system. A good corporate governance, sound investment policy, effective internal control system, better credit risk management, better customer services, better whistle blower policy, can identify the Indian banking sector to be able to wrestle with forthcoming challenges and renovate them into opportunities.

From the study it has been concluded that both public and private sector banks are performing well corporate governance practices. The study basically aimed to know the present phenomena of corporate governance practices followed by the banks in India. The study is purely based on the perception of customers, branch level employees, and top level executives of both public and private sector banks. Since the, corporate governance is based on the Clause-49 of Listing agreement issued by SEBI, all the public and private sector banks are honestly implementing the mandatory requirements of clause-49 of listing agreement. However most of the banks also have been seen active for the non mandatory requirements of clause-49. The disclosing practices of the banks have been studied with sixteen parameters of corporate governance and it has been concluded that there is no significant difference in disclosing practices followed by the banks as per clause-49. There are not very much differences of disclosing
practices between public and private sector banks. But on the basis of the result it can be concluded that private banks are better than the public sector banks in the terms of disclosing practices. None of the banks obtained hundred points in the scoring of parameters of disclosing requirements. The study has been done for last five years, it has been found that all the banks changing drastically their corporate governance practices towards a good corporate governance.

Further, it is concluded that most of employees did not aware about corporate governance practices followed by their banks. Complaints of customers are not settled timely by the banks and sometimes charges are also taken for the settlement of complaints of customers. It has been found that banks have shown lack of will to implement CSR practices despite of making it mandatory by the government. None of the banks have disclosed their expenses on CSR activity. The implementation of WBP is also not up to the mark in both public sector banks or private sector banks. Since, employees are dissatisfied with the WBP followed by their banks. It has also been found that there is not a strong mechanism to fight with the malfunctioning of banks.

Suggestions

1. During the study period it has been found that most of the employees didn’t aware of Corporate Governance Practices. Banks should take initiate massive awareness campaign and specially should make every employee aware about corporate governance policies and practices followed by bank. There should be seminars on corporate governance periodically so that the every employee could know about the every aspects of corporate governance. Banks should also make aware customers about corporate governance at least corporate customers.

2. So far as the code of corporate governance of banks is concerned, it should develop its own code of corporate governance. Along with the uniform code of corporate governance a separate code of corporate governance should be developed to enhance its transparency.

3. Board should more emphasis on developing strategy and policy framework for the banks, and monitor the compliance of those policies and empower the day to day management discussions to the management.

4. Along with corporate governance practices all banks should start a campaign (seminars, workshop) for the awareness about Corporate Social Responsibility in their banks for employees and customers. The bank should clearly mention the amount spent for CSR activities in their annual report. None of the banks have disclosed their budget for CSR activities; hence it is advised that banks should disclose their CSR budget publically. It should be the prime responsibility of every bank to make their customers aware about their CSR activities performed by them.

5. Since banks have disclosed their financial and non-financial information but still a lot of facts are missing from the annual report. Hence, both the banks should disclose all their relevant financial and non-financial information on their website to have it leads to more access of information by the stakeholders.

6. During the study period it has been found that most of the banks levied hidden charges from the customers. Banks should clarify to the customers about all the hidden charges levied by them. There should be proper form of transparent mechanism for all charges whatever the banks levied on their transactions.

7. Public sector banks exhibits best performance however SBI, UBI, and CBI need to improve to maintain the voluntary guidelines of revised clause -49 (Issued in 2004).

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