Sustainable Performance Of Banking Sectors Through Corporate Governance With Reference To Salem Region

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Abstract: Business Corporations play vital role for nation's wealth creation in the present Global scenario and influence the society at the large. To serve this wealth creation function Banks play inevitable part which must focal point of their objectives and be accountable for their actions through the structure of best Corporate Governance. In day today business transactions 'Banking business are very widely diversified and is coupled with social, welfare objects and beneficial schemes to the society'. In modern times, banks have a vital role in enhancing and engineering the economy as inclusive of the fiscal systems. Modern commercial banks are operating in an extremely spirited scenario in a globally integrated market with an all pervasive influence of technology. Banks have developed their methods to the inclusive perspectives i.e. from local to global, mass banking to class banking, and further customer satisfaction have been converted from acceptable level to delighted level. CG is the main task of a Bank business compliance with regulatory requirements, it's adherence to standards that recognize the worthiness of business ethics and obligation to the society's interest to reputation and prolonged success for its sustainability. This study could portray the CG practices of banking sectors in Salem Region, differences in functioning and change in outlook in executing corporate governance.

Index Terms: Corporate Governance (CG), Sustainability, banking sectors, Salem region, mass banking, customer satisfaction, business ethics, regulatory requirements.

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1 INTRODUCTION

CG is explained as disclosure, clarity and accountability and practices followed by institutions and corporations which is implemented by the government and the SEBI regulators. Principles primarily aimed to promote confidence in capital markets, but also have general application. Business morals, corporate disclosures and social commitment are the three essential rudiments of corporations. Key aspects of best CG principles include truthfulness, integrity, transparency, performance, orientation, responsibility, liability, trust and respect among each other and obligation to the firm. "CG can be defined as the balance between financial and social objectives, and between individual and communal objectives. The governance structure is there to promote the utilization of resources competently and to handle with accountability for the stewardship of those resources equally. The goal is to balance the concern of individual, businesses and society"

2 HISTORY OF CG IN INDIA

The inventiveness of CG in country was not activated by nationwide financial crisis, bankruptcy and economic fall down which was badly felt in South- East and East Asia, unlike most OECD countries, but in India Voluntary code of CG practices was determined as tasks by Confederation of Indian Industry and Industry association which has to be accomplished.

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The code was released in April 1998. It was named CG code for benchmark. Between 1998 and 2000, the code was voluntarily adopted by more than 25 leading companies: Bajaj Auto, Hindalco, Infosys, Dr Reddy's Laboratories and many more. The companies Act 1956 was amended in accord with the provisions suggested by the Chamber of Indian Industries, SEBI and Department of company affairs to inflict the provisions of CG pertains to indecency of audit committees and directors. The accounting principles were changed in 2001-02 to improvise the financial disclosures as stated below:

- Disclosure of associated party transactions
- Disclosure of segment income: revenues, profits and wealth employed
- Over dues of tax liabilities or property
- Summarized form of accounts

Initiatives are being taken to (i) account for Employee Stock Options, (ii) additional amplified form of disclosures, and (iii) put in place systems that can further strengthen auditors' autonomy.

2.1 CG and Sustainability

Best practices of CG enables the betterment of performance by increased mobilization of capital from outside sources. A well governed company is committed and held responsible to their shareholders through their transparency of information's and in turn beneficiary to the customers and entire society. The stakeholder theory is approached with broader perspectives which includes employees, creditors and outside investorsBetter CG allows companies to recognize and act to accomplish their environmental and communal responsibilities.It thus contributes sustained, longterm growth. CG's basic purpose is to enhance investor value, with the wellbeing of other stakeholders ' and CG is a Way of Life rather than a Code.

3 NEED OF THE STUDY

In general, banks have a devastating leading position in growing the financial system of the economy, and are immensely vital growth engines, as the financial markets of the country are underdeveloped, banks in India are the most vital source of finance for most firms in the Indian industry. Banks also serve as the platforms by which the country's savings are collected and used for investment. India has changed its financial framework through privatization, disinvestments and has diminished the job of monetary principles and guidelines. Subsequently bank managers have accomplished more noteworthy independence and liberty with respect to functioning of banks. This would require their watching finest corporate practices to recoup the confidence of investors now that the government authority does not protect them anymore. Role of commercial banks in the modern economic world becomes vital for the formation of new capital in the nation and thus help the development of country.

4 STATEMENT OF THE PROBLEM

Corporate governance regulation naturally includes a wide range of regulations in India. The responsibility of fiscal regulation of Indian banks have minimized due to liberalization and privatization. Therefore, bank's managers have obtained greater independence in managing their banks. In spite of the 'CG revolution', there exists no universal standard for efficient level of revelation and lucidity. This paves means for rampant mis-governance like scams and scandals. All the above factors made the researcher to feel the dire need to study the CG practices of Indian banks, No such approach has been carried out in the specific area so far and hence the present topic is chosen.

5 OBJECTIVES

- To observe the existing disclosure practices of banking sectors
- To compute the disclosure practices by using CG disclosure index
- To suggest the best practices for betterment of fiduciary relationship between Directors and stakeholders

6 METHODOLOGY

6.1 Sample size

A sample of 10 listed scheduled banks is taken. Proportionately the sample size includes both private and public sector banks. The study population includes 50 banks where, 7 are SBI and their associates, 20 are nationalized banks and 23 are other scheduled commercial banks that come under the SEBI regulations in the form of clause 49 that are applicable to all scheduled banks listed.

6.2 Sampling Procedure

Non probability (purposive) sampling procedure was adopted. The banks that are selected were listed on both NSE and BSE. The selection criteria were number of offices, Deposits and Capital reserves and surplus. The banks have been selected on the ground that they are renewed organization in the banking industry and their scripts dominate and influence the stock market movement of the country.

TABLE 1

The list of selected banks is as follows:

Public Sector Banks	Private Sector Banks
Bank of India	Axis Bank
Bank of Baroda	ICICI Bank
Punjab National Bank	HDFC Bank
Canara Bank	Federal Bank
State Bank of India	KotakMahindra Bank

6.3 Data Collection

Primary data was collected through a non structured, non disguised interview which focused on Knowing respondents perceptions on CG and Decision making attributes.

Respondent's profile

Free and frank conversations with higher officials like Bank Managers, Auditors, Advocates, retired senior Bank Managers and other various important personalities have lime lighted on the CG disclosure practices. Their ideas, views and suggestions are accommodated in appropriate parts of this research paper.

The interview covered the following topics:

Notion of CG in Banks, barriers for implementation, laws relating to CG and their implementation effects, role of audit committee, Independent Directors, whistle blowers and unethical. Secondary data: Annual bank reports were examined to look at the existence of nine large proportions as indicated by SEBI. Such dimensions were drawn as a base for calculating disclosure scores which would in turn reflect the bank's effectiveness in governance. The agreements included both compulsory and non-compulsory regulatory stipulation.

6.4 CGDI

A corporate governance disclosure index was computed using the following formula which was used by Bhuiyan and Biswas (2007)

$$\textbf{CDGI} = \frac{\text{Total Score of the Individual Company}}{\text{Maximum Possible score}} \times 100$$

CGDI ranges in value from 0 to 100. Maximum score reflects best disclosure practices and lower score represents bad practices. In the annual report CGDI indicates the disclosure / existence of an item. The disclosure quality and scope are in the findings section.

6.5 Statistical Tools

One way anova with Multiple Comparison, Kendall's coefficient of concordance and Simple percentage analysis are the tools used in this research.

Anova
Basically it is used to examine the differences among the population by analyzing the variations of the samples observed, relative to the variation. In each test, the disclosure category is taken as dependant variable and the banks are taken as independent variable.

7 REVIEW OF LITERATURE
Review of literature is the indispensable component of every research. As the past, present and future are inseparably interrelated and interdependent; the researcher has to be more familiar with the research of the past. Solomon (2004) Views that “disclosure can be observed from twin perspectives: company disclosure and financial book-keeping disclosure” A.C.Fernando (2006) in his book highlights the need to protect the interest of depositors for banks. Observing of Banking functions cannot be efficient unless and otherwise it compliance with CG practices which ensures the trust of investors. Parker, (2007) It is a significance of accounting principles, to ensure that users have adequate and timely availability of information to compete in the market on an informed basis,. Subhash Chandra Das (2009) in his book, has adopted an explorative, conceptual and empirical study of CG on selected industries. One among them is the banking industry. It was observed that the CG standards and practices of the two private sector banks viz. ICICI and HDFC are better than that of public sector banks.

8 CLAUSE 49 OF THE LISTING AGREEMENT
Clause 49 was designed to implement some basic CG practices in Indian companies when it was first introduced, and brought about a number of important improvements in governance and disclosures In view of the proposals of Narayana Murthy advisory group, SEBI gave an adjusted Clause 49 on October 29, 2004 (the presence on January 1, 2006). Changed Clause 49 of the Listing Agreement in India required every single recorded organization to document each quarter a CG report. According to SEBI regulations, Clause 49 guidelines manage the following: organization of the top managerial staff, structure and functioning of the review board of trustees, administration and dvulgences with regard to auxiliary organizations, organization reports, accreditation of moneyrelated performance by the CEO / CFO and writing about CG as part of the annual report.

9 INDIAN BANKING INDUSTRY
- The age of Indian banking is about 200 years of history and has undergone many changes since independence.
- The impact of Globalization, privatization and liberalization realized by ongoing changes in Indian banking sectors.
- Banks were enjoying the absolute monopoly status being a part of public sector from the state intervention.
- In 1969, 14 banks prominently underwent the nationalization process and 6 other private sectors came under the control of government in 1980.
- The Banker of Bank (RBI of India) as a supervisory body has the liability on the nature of CG in the banking sector. Regulation of banking activities is required to safeguard depositors

10 DISCLOSURES
Disclosure practices help the investors to come nearer to the company dealings and reduce the gap between management and shareholders. Hence, it is the mandatory for the firms to reveal financial and non-financial information’s which could be an easy accessible to the outside investors to decide their investments based on the promptly provided data. According to the OECD’s(2006), ‘Guidance on Best Practices in CG Disclosure’, “All of the company's relevant issues relating to CG should be stated in an appropriate fashion. The disclosure should be transparent, concise, factual and properly regulated by the substance over from principle.”

11 FINDINGS
Based on the data analysis and the free and frank talks with a wide range of people related to Governance mechanism of the banks, the findings have been arrived. The results of the study, cases of non-compliance, the present governance scenario and the views of the people involved are all taken into account and the final conclusion has been framed.

TABLE 2

Sl.No.	Name of the Bank	CGDI score for 5 yrs	CGDI Score Percentage for 5 yrs	Rank
1.	Bank of Baroda	328	77.18	3
2.	Bank of India	285	67.06	10
3.	PNB	301	71.36	6
4.	SBI	288	68	9
5.	Canara	298	70.8	8
6.	Axis	317	72.8	5
7.	ICICI	339	77.93	2
8.	HDFC	363	83.44	1
9.	Federal	310	71.25	7
10.	Kotak Mahindra	325	74.72	4

Source: Computed from the annual reports of the sample banks - Bank of Baroda, Bank of India, PNB, SBI, Canara, Axis, ICICI, HDFC, Federal and Kotak Mahindra

The Board of Directors Plays vital role in CG Practices
- All the public sector banks have a score above 66 percentage. Bank of Baroda and HDFC bank have 80 percentage of disclosure score with respect to Board of Directors. The disclosure score of ICICI bank is 56 percentage which is the lowest among the ten banks. When compared to private sector banks, the disclosure score of public sector banks is better with respect to Board of Directors.
- Each and every banks have invariably failed to furnish details on the appointment of the lead independent Director.
- Retirement age or tenure of directors is not

disclosed by 90 percentage of the banks. Only Canara bank has disclosed for all the five years. Disclosure of selection procedure also lacks transparency in 90 percentage of the banks. HDFC bank has disclosed it for all the 5 years.
- Regarding the training provided to board members, there is only 30 percent disclosure. Bank of Baroda, Canara bank and HDFC bank are the only banks that have disclosed the details.

The audit committee is seen as a key fulcrum of any company.
- Federal bank has secured 92.5 percent disclosure score for audit committee. The minimum score is 75 percent and SBI, Canara, Axis and ICICI have scored this. HDFC, which is overall first in the list has 87.5 percent and the same is the case with Punjab National Bank.
- Information on the subsistence of at least one financial specialist in the audit committee is the area where there is very less disclosure.
- Information on participation of head of finance, chief internal auditor and independent auditor in the meeting is not furnished by 90 percentage of the banks. The disclosures shows improvement during the five years.
- The disclosure of private sector banks is far better with regard to remuneration committee. Axis bank and ICICI have a disclosure score of 81.90 percentage while the three other private banks have scored 72.80 percentage.
- The disclosure on shareholders committee is satisfactory in general. Bank of Baroda and Bank of India have 100 percentage disclosure score amongst the public sector banks. HDFC bank has 100 percentage among private sector banks.
- The findings have revealed areas of poor disclosure. A strong commitment to CG by the Banks would have definitely reflected in the scores.
- As good CG is a must in our corporate structure for today's multi-faceted business environment to ensure sustainability, the Governance need an improvement.

12 SUGGESTIONS

Audit committee
It is desirable for at least two members of the audit committee to possess an industry experience and must have courage and authority to ask demanding questions (For banking industry, they should have good financial expertise and sound accounting knowledge).

Tenure of independent directors
The majority of corporate outrages and controls can be checked if independent directors release their obligations by investigating and checking the presentation and deeds of the overseeing and promoter directors.

Whistle Blowing
Banks should provide the necessary condition and methodology that can encourage interior whistle blowing for example giving a site inside the association where representatives can make significant exposures about any wrongdoings in the association, giving phone numbers to submitting prompt questions, simple openness to concerned authorities, and so forth.

Board Performance Assessment
The board should embark on a formal and meticulous yearly assessment of its performance and that of its board and individual directors. The duty of directors extends much beyond integrity in financial reporting.

Roles of chairman and CEO
Separating the duties of Chairman and Chief Executive Officer (CEO) will improve a company's board effectiveness. It is the responsibility of the board and chairman to supervise and evaluate the success of a company while a CEO serves for the management team. When the CEO role is disconnected he becomes more accountable.

Shareholder voting
To improve the clearness of shareholder meetings, to permit all shareholders to partake fully in these meetings and make an informed vote, the following measures are to be adopted.
1. Banks must ensure that information quality, clarity and trustworthiness in shareholder meeting agendas are sufficient to allow responsible investors to make informed voting decisions on each resolution.
2. The meeting notice (final agenda) and explanatory notes (detailed circular) for all annual general meetings should be posted on the company’s official website.
3. The past ten years’ notice should be maintained on both the Bank website and on the BSE and NSE websites.
4. Twentyeight days reflect global best practices for issuing AGM agendas . (The current rule is 21 days in India) Therefore, reports and explanatory notes shall be released at least 28 days before the annual general meetings

13 CONCLUSION
This research was undertaken within a short span to the concise of Salem region due to the increasing importance of CG across the world in general and India in specific. Indian economy is fast growing and Indian banks face a stiff competition with the entry of foreign banks. Frameworks for CG in country are on par with global standards Indian banking can utilize this environment by strengthening their Sustainable performance and its Governance standards.

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