A COMPARATIVE STUDY OF THE CORPORATE GOVERNANCE PRACTICES OF SELECTED PUBLIC AND PRIVATE SECTOR COMMERCIAL BANKS IN INDIA

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Abstract
Corporate governance has become a common topic about which every company speaks a lot and interest in corporate Governance is growing at an exponential rate. Now a day's most management schools teach it as a subject. At the same time it is imperative to analyse whether corporate governance has really become a vital component of successful business. Banking sector faces unique corporate governance challenges due to myriad reasons like bank ownership structures lack transparency, there are insufficient checks and balances on inappropriate activities, influences of insiders or controlling shareholders. Despite the 'corporate governance revolution', there exist no universal benchmark for effective level of disclosure and transparency. Here lies the need to study the corporate governance practices of Indian banks, differentiation in functioning, change in attitude in implementing corporate governance and the problems and difficulties faced by them in adopting the corporate governance procedures. This paper is based on empirical research conducted on corporate governance in the Indian banking sector. A comparative analysis of the disclosure practices of ten banks have been made for a period of five years and the findings are presented.

Key Words: Corporate Governance, Disclosures, Commercial Banks, Variations in Disclosure Patterns.

INTRODUCTION
Business ethics, corporate governance and social responsibility are the three essential elements of corporations. Key elements of good Corporate Governance principles include honesty, trust, integrity, openness, performance, orientation, responsibility, accountability, mutual respect and commitment to the organization. Though Corporate Governance and it's development is a new phenomenon of the recent years, the underlying theories are drawn from a variety of earlier disciplines including finance, economics, accounting, law, management and organizational behavior. This paper is based on empirical research conducted on disclosure practice of the Indian banking sector. A comparative analysis of the disclosure practices of ten banks have been made for a period of five years and the findings are presented.

CORPORATE GOVERNANCE AND BANKING SECTOR
According to Sir Adrian Cadbury(1992), Chairman of the Cadbury Committee, "Corporate governance is defined as holding the balance between economic and social goals and also between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society[i]".

Banks play a very important role in boosting and engineering the economy as part of the financial systems. Modern commercial banks are operating in a highly competitive environment in a globally integrated market with an all pervasive influence of technology. Banks have changed their approach from local to global, mass banking to class banking, customer satisfaction have transformed from acceptable level to delighted level. The trend in bank economy has changed from a cash economy to the plastic card economy.Given the important financial intermediation role of banks in an economy, the Basel[ii] committee on banking supervision (2006) asserted the need to safeguard depositors fund through effective corporate governance.

DISCLOSURES
Disclosures help investors to come closer to the company affairs and hence reduce the gap between management and investors. Therefore, it is imperative for a firm to make its financial and non- financial information available and easily accessible to outsiders in order that everyone can make decisions based on the given information. According to Healy and Palepu[iii] (2001), "Disclosure comprises all forms of voluntary corporate communications, for example, management forecasts, analyst's presentations, the annual general meetings, press releases, information placed on corporate websites and other corporate reports, such as, stand-alone environmental or social reports".

OBJECTIVES OF THE STUDY
- To review the existing system of corporate governance in Indian banking sector.
- To analyze the disclosure practices adopted by modern commercial banks and to measure the extent of variation in their disclosure patterns.

- To make suitable suggestions to improve the corporate governance practices of commercial banks.

RESEARCH METHODOLOGY

Period of the Study

This study is confined to a relatively shorter period of five years from 2005-06 to 2009-10 since the concept of corporate governance disclosure itself is very recent and Clause 49 of listing Agreement is in operation in India from 2000. The reason for the selection of the said period is that the annual reports of the banks during these years would give some glimpses of the state of corporate governance practices and disclosure norms in the light of the latest SEBI Clause 49.

Universe: The SEBI regulations in the form of clause 49 are applicable to all listed scheduled banks. The universe of study comprises of 50 banks in which, 7 are SBI and its associates, 20 are nationalized banks and 23 are other scheduled commercial banks.

Sample size :A sample size of 10 listed scheduled banks is taken. Five Public sector banks out of 27 and five Private sector banks out of 23 were selected for critical analysis.

Sample Selection: Non probability (purposive) sampling procedure was followed. All the selected banks are listed in both BSE and NSE. The criteria used for selection were number of offices, Deposits and Capital reserves and surplus.

The list of selected banks is as follows:

Public Sector Banks

1. Bank of Baroda
2. Bank of India
3. Punjab National Bank
4. State Bank of India
5. Canara Bank

Private Sector Banks

6. Axis Bank
7. ICICI Bank
8. HDFC Bank
9. Federal Bank
10. Kotak Mahindra Bank

Primary Data

Primary data was collected through a non structured, non disguised interview. Free and frank conversations with higher officials like Bank Managers, Auditors, Advocates, retired senior Bank Managers and other various important personalities have thrown light on the corporate governance disclosure practices. Their ideas, views and suggestions are accommodated in appropriate parts of this research paper.

Secondary Data

The corporate governance sections were extracted from the annual reports (hard copies) and some downloaded from the company's website. The contents of the annual reports were analyzed using the content analysis technique, a research tool used widely in social sciences, which objectively and quantitatively examines written or oral communication in order to make inferences about values, meanings or understandings.

An unweighted approach is employed for the study. According to the unweighted disclosure approach, a firm is scored 1 for an item disclosed in the annual report and 0 if it is not disclosed. The net score of a company was found by adding all the individual scores of various sub dimensions. The maximum score obtained by a bank could be 86 if all the items are disclosed.

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

$$\mathrm{CGDI} = \frac{\text{Total Score of the Individual Company}}{\text{Maximum Possible Score}} \times 100$$

The CGDI disclosure index includes the core principles of sound corporate Governance under the following headings amounting to a total score of 86.

1. Statement on company's philosophy on code of governance
2. Disclosure on Board of Directors
3. Disclosure of Audit Committee
4. Disclosure on Remuneration Committee
5. Disclosure on Shareholders Committee
6. Disclosure on General Body Meetings
7. Specific Disclosures
8. Disclosure on Means of Communication
9. Disclosure on General Shareholder Information
10. Disclosure on other corporate governance initiatives

The value of CGDI ranges between 0 and 100. Maximum score reflects best disclosure practices and minimum score reflects weak practices. CGDI indicates the disclosure/presence of an item in the annual report.

Statistical Tools
In this research, for each disclosure category such as Board of Directors, Audit committee, etc one way anova has been applied. For this purpose SPSS software has been made use of. In each test, the disclosure category is taken as dependant variable and the banks are taken as independent variable.

Post-Hoc Multiple Comparisons
Rejection of the null hypothesis in Anova only tells us that all population means are not equal. Multiple comparisons are used to assess which group means differ from which others, once the overall F-test shows that at least one difference exists. Many tests are listed under "Post-Hoc" in SPSS. Tukey HSD(honestly Significant difference) test is one of the most conservative and commonly used test and this has been employed.

Kendall's coefficient of concordance
Kendall's coefficient of concordance is used for determining the degree of association among several (k) sets of ranking of N objects or individuals. When there is perfect agreement, w equals 1.When maximum disagreement exists, w equals to 0. The ranks of the ten Banks over the five years is taken and tested for concordance.

Limitations

- The sample size is not very large owing to constraint of implementation.
- Free and frank talks carried out with managers and other higher officials are subject to recall bias of their views and ideas.
- This study is confined to ten public and private sector banks. Hence findings could be taken only as general indicators of the conditions of the banks.

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Clause 49 of the Listing Agreement
The term 'Clause 49' refers to clause number 49 of the Listing Agreement between a company and the Stock Exchanges on which it is listed.Listing helps in free transferability, leads to transparency in disclosure of information and ensures that official quotation is available. The Listing Agreement is identical for all Indian Stock Exchanges, including the NSE and BSE. The revised Clause 49 has suitably pushed forward the original intent of protecting the interests of investors through enhanced governance practices and disclosures. In this connection, Chakrabarti[v] (2008) very aptly commented as, "Similar in spirit and scope to the Sarbanes-Oxley measures in the USA, Clause 49 has clearly been a milestone in the evolution of CG practices in India."

ANALYSIS AND INTERPRETATIONS

Table : 1,CGDI Score for Five Years

Sl.No.	Name of the Bank	CGDI score for 5 yrs	CGDI Score Percentage for 5 yrs	Rank
1.	Bank of Baroda (BOB)	328	77.18	3
2.	Bank of India (BOI)	285	67.06	10
3.	PNB	301	71.36	6

4.	SBI	288	68	9
5.	Canara (CANRA)	298	70.8	8
6.	Axis	317	72.8	5
7.	ICICI	339	77.93	2
8.	HDFC	363	83.44	1
9.	Federal (FDRL)	310	71.25	7
10.	Kotak Mahindra (KM)	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.

Bank of Baroda has obtained rank three among the 10 banks. The average percentage for 5 years is 77.18%.BANK OF INDIA has obtained rank 10 thus coming last in the list with a score of 67.06%.PNB has secured rank 6 with 71.36%.SBI has gained 68% and is ranked 9th in the list. Canara bank has rank 8 with 70.9%.AXIS bank secures rank 5 with 72.8%.ICICI has bagged rank 2 with 78.9%.HDFC has emerged first with a disclosure score of 83.44%.FEDERAL bank has secured rank 7 with 71.25% and Kotak Mahindra is ranked fourth with 74.72%.

Table 2-Kendall's Coefficient for Ranking for Five Years

BANKS / YEAR	BOB	BOI	PNB	SBI	CANRA	AXIS	ICICI	HDFC	FDRL	KM
2004-5	5	10	7	8	9	4	2	1	6	3
2005-6	3	10	8	9	6	7	2	1	5	4
2006-7	3	9	5	10	7	8	2	1	6	4
2007-8	2	9	7	8	5	6	3	1	10	4
2008-9	2	10	6	8	7	4	3	1	9	5
Sum of ranks	15	48	33	43	34	29	12	5	36	20
$(R_j - R_j)^2$	156.25	420.25	30.25	240.25	42.25	2.25	240.25	506.25	72.25	56.25

Source : Computed from secondary data.

Null Hypothesis : There is no significant agreement in ranking of the sample banks over the five years.
Alternate Hypothesis : There is significant agreement in ranking of the sample banks over the five years

X^2 at 5 percent level for N-1,(10-1) = 9 is 16.919.The calculated value is 38.52 and this is considerably higher than the table value. This does not support the null hypothesis and as such it could be inferred that W is significant at 5% significant level. There is a significant agreement in the ranking over the five years as the five set of ranking are independent. The lowest value observed among the sum of ranks is 5 which correspond to HDFC and hence the best estimate of true ranking in this case is HDFC.

FINDINGS

The anova test and the multiple comparisons using Tukey HSD prove that there is a significant difference in the disclosure scores of the ten banks based on the Board of Directors, Audit Committee, Remuneration Committee, Shareholders Committee, General Body Meetings, Specific Disclosures, Means of Communication, General Shareholder Information and other corporate governance initiatives.

Nine Anova tests were done for various disclosure categories. The variability in disclosures is highest in Remuneration Committee followed by disclosure on General Body Meetings, other corporate governance initiatives and Board of Directors. In case of Remuneration Committee and General Body Meetings, the Private sector banks have considerably scored well than Public sector Banks and hence there is variability between the scores. Regarding disclosure on Board of Directors, HDFC and Bank of Baroda has performed extremely well than all other banks and hence there is a difference. Disclosure score of Public sector banks on other corporate governance initiatives is considerably higher and hence there is variability in the scores. The variability is less in disclosures of Audit Committee, Shareholders Committee, Specific Disclosures, Means of Communication and General Shareholder Information. It is clear that the banks need to improve their disclosures on these areas rather than presenting stereotyped information year after year. It is found through the Kendall's coefficient of concordance that there is a significant agreement in the ranking of the ten banks over the five years. The best estimate of true ranking in this case is HDFC.

Post Hoc Comparisons using the Tukey HSD test indicates that the disclosure scores between the following pair of Banks are significant as the p value obtained is 0.000.

BOB-BOI, BOB-PNB, BOB-SBI,BOB-CANRA,BOB-AXIS,BOB-ICICI, BOI-AXIS, BOI-HDFC, PNB-AXIS, PNB-HDFC, PNB-FDRL,SBI-AXIS,SBI-HDFC,CANRA-AXIS,CANRA-HDFC,AXIS-HDFC,AXIS-KM, ICICI-HDFC,HDFC-FDRL.

The variability obtained in Anova is only due to the difference in scores between these pairs. The mean difference is highest (5.4) for BOB-AXIS, followed by AXIS-HDFC (5.2) and HDFC-FDRL (4.2).The highest score obtained in this case is by bank of Baroda and the lowest is by Axis followed by Federal Bank. Hence a wide difference is found.

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 existence of at least one financial expert in the audit committee is the area where there is very less disclosure. SBI, Canara bank, Axis bank and ICICI have not disclosed this for any year.Information on participation of head of finance, chief internal auditor and independent auditor in the meeting is not furnished by 90 percentages of the banks. Only HDFC bank has furnished this detail for all the five years.

It is necessary here to quote J.J. Irani on the role of the audit committee: “Part of their role is that of policing. But their main role is to ensure that proper systems are followed, and if not, then their fact-finding role can be turned into a policing role. A good system needs to be in place”.Since audit committees are the bodies which are really independent, transparent, competent and have authorities to get the required performance, any lacunae or non compliance in audit committee could lead to severe consequences in governance. A score above 90 is desirable and anything below it signifies only its ineffectiveness. The disclosures on audit committee of the banks show improvement during the five years.

In general, the disclosure practices of private sector banks are better compared to Public sector Banks. This may be attributed to the intense competition they face and better Governance procedures adopted by them. As India has opened its gate to the entry of foreign banks, whose Governance standards are high due to stringent regulations, the private sector banks have been compelled to improve their disclosure practices. The Public sector Banks are less concerned in identifying this need for improvement and hence their disclosure standard is poor compared to Private sector banks. Difference exists in the quantity, quality and intensity of disclosures which is evident from the significant difference obtained in the scores.

From the interview with the experts, it’s found that corporate governance practices of Indian banks are far better than their foreign counterparts. But there are lots of bottlenecks faced while implementing. A retired senior bank manager opined that window dressing is a wide prevalent evil in Indian banking sector and it has to be curbed.

The legal and regulatory system of the country plays a crucial role in creating an effective corporate governance mechanism in the country, the development of markets and economic growth. Some of the Senior bank managers during the interview, agreed with the above view that politicians and regulators induce banks to divert the flow of credit to politically connected firms, or powerful banks tend to “capture” politicians and induce official regulators to act in the best interests of banks rather than in the best interests of society. This is a wide prevalent problem which hinders our growth. Determined efforts by government are needed to clamp down on corruption

The regulatory bodies of India have proposed comprehensive and rigorous Corporate Governance reforms which lay emphasis on the significance of the credibility and integrity of listed companies, the protection of minority shareholders and comprehensive disclosures. However, there are major gaps and lapses in the implementation of governance rules. The lacunae could be attributed to weak enforcement mechanisms.

CONCLUSION

Out of the 10 banks taken for a period of five year study, the disclosure practices of HDFC, ICICI and Bank of Baroda are satisfactory as they have an overall score above 75 percentages. The remaining banks need a definite revaluation of their Governance disclosure practices. It is obvious from the scores that there is considerable extent of variation in the disclosure patterns. Based on the CGDI score percentage for 5 years, HDFC bank is ranked first with a score of 83.44 percentage. The second rank is obtained by ICICI which is also a Private sector Bank. Bank of Baroda is ranked third with a score of 77.18 percentages. The fourth and fifth places are occupied by Kotak Mahindra and Axis banks which are again Private sector Banks.PNB is ranked sixth and Federal Bank is ranked seventh. The last three places are occupied by Public Sector Banks namely, Canara, SBI and Bank of India. The score varies from 83.44 (HDFC) to 67.06 (Bank of India) percentage.. Public Sector Banks need to fundamentally strengthen the Governance practices.Though there is an improvement in disclosure practices of Banks over the period of research, the success is only skin deep. The overall disclosure score is not very impressive. Transparent disclosure practice is an act of continuous learning.

An interesting suggestion from one of the respondents (an academician and author) was that for any process to function effectively, it is important that the people associated with that process should be men and women of character. They should be bold enough to think, speak and act with purity and unity of thought, word and deed. When people cultivate and live that congruence in their daily life, then corporate governance will automatically be taken care of. Else, we will have cases like Satyam which won the Golden Peacock Award for Corporate Governance and still committed fraud.

The MCA, SEBI, ICAI and the stock exchanges share jurisdiction over listed companies. This creates a potential for regulatory ambiguity and weakens the enforcement. A revision of the existing regulatory system would reveal whether changes in the respective roles and responsibilities of the involved institutions and their supervisory functions are in order. Clarification of responsibilities could strengthen enforcement. As a synergetic effort, the regulators concerned with Banks namely RBI, SEBI and ICAI should coordinate and harmonize their activities for better enforcement.

Shareholder protection and education should be enhanced as they play an important role in determining Governance standard. Indian shareholders in general are not quite vigilant and assertive about their rights. Shareholders activism needs a boost as they can demand better Governance. Ministry of Corporate Affairs and SEBI should take steps for better shareholder activism.

Corporate governance plays a crucial role in creating a credible and professionally driven business system. This has the potential to transform the standard of living of the Country. In India, mediocrity and corruption prevails in every aspect of public life. The awareness among people for a corruption free society has drastically increased and it is obvious through the various anti corruption movements. Effective Corporate governance could cultivate a professional culture strong enough to uproot the evils of corruption. Banks are one of the largest sources of corporate finance in India. When their Governance practices are ineffective, it could lead to serious problems. Rather than waiting for the inevitable tightening of regulatory screws, Banks need to adopt a proactive approach towards their Governance standards.

The yardstick for quality governance disclosure in this study is Clause 49 which deals with mandatory requirements. Banks like HDFC, ICICI and Bank of Baroda should be the pioneers in effective disclosure practices that could lead a trail for other banks to follow. This should serve as a guiding force for other industries. The extent to which banking sector and regulatory mechanism are committed towards disclosures and the intensity of shareholders' demand for transparency would lay the solid foundation for effective Governance.

This study aims to serve as a beginning to promote independent assessment of the governance practices in Indian banks. Scope exists for further studies by expanding the size of the sample as also coverage of issues. Greater involvement of the Banks in disclosure practices will lead to better outcome in the form of experiences that could be useful for sharing and learning.

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