Corporate Governance in Financial Sector-With Reference To Andhra Pradesh State Financial Corporation (APSFC)

1. T. Ramakrishna
Associate Professor in Management
PACE institute of Technology & Sciences
Valluru.

2. P. Saikrishna Hanumath Prasad
Assistant Professor in Management
PACE institute of Technology & Sciences
Valluru.

ABSTRACT

Corporate governance has its backbone a set of transparent relationships between an institutions management, its Board, shareholders, and other stake holders. In this study, the nature and importance of corporate governance has been discussed with special emphasis on the controlling practices of Banking and financial institutions in general and Andhra Pradesh State Financial Corporation (APSFC) in particular in the field of corporate governance. And, how it helps in the growth and development in banks and financial institutions as well as, the best practices regarding corporate governance in banks have been described.

Corporate governance is a system by which the companies are directed and controlled. It involves regulatory and market mechanisms and the role and relationships between companies arrangements, its board its shareholders and other stake holders and the goals for which the corporation is governed. Rapid developments in the field of technology and enlarged financial sophistication have challenged the ability of traditional regulation and supervision to faster a safe and sound banking system.

Corporation should be nothing viewed as more than the set of prescribed arrangements among the various applicants to the products and earnings generated by the business. The most influential parties involved in APSFC corporate governance include government agencies and authorities, stock exchanges, management includes the board of directors and its chair, the chief executive officer or the equivalent, other executives and line management, share holders and auditors.

The other influential stake holders are lenders, suppliers, employees, creditors, customers and the community at large. This paper concludes by saying that banks, being a separate category of financial institutions require specialized set of norms for corporate governance.

KEY WORDS: corporate governance, Role, Financial Institutions, APSFC, Controlling structure.

OBJECTIVE: To understand the system of rules, practices and processes by which a company is directed and controlled in financial sector-with reference to Andhra Pradesh state financial corporation (APSFC).

INTRODUCTION:

Corporate governance is a buzz word through which the companies are controlled and directed. It involves regulatory and market mechanisms, and the roles and relationships between a company's management, it's Board, its shareholders and other stake holders, and the goals for which the corporation is governed. In contemporary business operations, the main external stakeholder groups are stakeholders, debt holders, trade creditors, suppliers, customers and communities affected by the corporation activities. Internal stakeholders are the board of directors, executives and other employees. Corporate governance has its backbone a set of transparent relationships between an institutions management, its board shareholders and other stake holders.

Rapid developments in Technology and enlarged financial sophistication have challenged the ability of traditional regulation and supervision to faster a safe and sound banking system. The group of claimants includes not only shareholders, but also creditor's employee mangers and the local communities in which the firm operates suppliers and of course, customers. In case of Banks, these claimants also include the regulators in their role as insurers of deposits and lenders of the last resort and in their capacity agents of other claimants.

The regulatory framework of corporate governance have been implemented by the central Bank can affect the overall wellbeing of banking sector corporate governance involves in the banking industry, in which manner their board 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, align corporate activities with the expectation that the banks will operate in a safe and sound manner and incompliance with applicable laws and regulations and protect the interest of the depositors. The growing competitiveness and the inter dependence between banks and financial institutions in local and foreign markets have increased the importance of corporate governance and its application in the banking sector.

REVIEW OF LITERATURE:

OECD steering committee have conducted a study and found that the weakness can be observed in remuneration, risk management and transparency in the implementation of formulated principles.

The organizations are having a problem the fixation of remuneration to the board members and also the transparency should be increased. (OECD, 2009). Nanditha Sethi conducted a case study on the financial position of APSFC. During early 1990s the economic reforms the problems of APSFC have started which resulted in the loss of the organization. But by the change in the members of board of directors and the policies the corporate governance transformed the organization as profit making organization (Sethi). the world financial crisis of 2008 effect have resulted in proper scrutinizing the role of corporate governance in banking and other financial institutions. The insider-outsider ratio of the directors of the banking corporations is not properly defined and maintained. The number of directors is negatively correlated to the firm's performance (Jakob De Haan, 2012). Hopt observed that the improper corporate governance resulted in the financial crisis. The 2008 crisis is mainly due to subprime crisis created by the banking sector. That is without following the rules and regulations formulated by the board (Hopt, 2013). The European Commission staff concluded that the board of directors is not completely aware of the financial products dealt by the company and the risk they are undergoing. The top management who formulates the policies for the organization are not clearly aware of the risk managed by the entities due to which the efficient management cannot be achieved (STAFF, 2010). The organizations are facing a challenge of value maximization of the entities that serve the public interest. It is very difficult to increase the value of the organization along with serving with public interest. The public interest is to receive maximum benefit at a lower cost. But to increase the value the organization cannot always produce at low cost. Thus it is very difficult to the organizations to maintain the same (Hamid Mehran, 2012).

ROLE OF CORPORATE GOVERNANCE IN FINANCIAL INSTITUTIONS

The importance of a strong financial sector in impacting the country's economy growth through both level of banking development and stock market liquidity is quite evident even in the developing countries. Moreover, the positive impact of the stock markets activity and the banking development. For this reason the governments in the developing countries are insisting in increasing credits of banks towards the private firms.

CORPORATE GOVERNANCE IN APSFC

The APSFC plays a key role in the state of Andhra Pradesh in promoting the entrepreneurship and individual sector in a significant rate. APSFC is providing different types of financial assistance to various needing communities in the society._There are number of parties interested in the well being of the APSFC that cater the needs by protects the interest of all sectors of the society at large. The effective and efficient corporate governance system is essential in the success of APSFC and to satisfy all the stakeholders of the APSFC.

The most influential parties involved in corporate governance include government agencies and authorities, stock exchanges, management including the board of directors and its chair, the chief executive officer or equivalent, other executives and line management, shareholders and auditors.

INTERNAL CORPORATE GOVERNANCE CONTROLS

Internal controls of corporate governance should monitor the activities and then take corrective action to accomplish the organizational goals.

MONITORING BY THE BOARD OF DIRECTORS;

The Board of Directors with its legal authority to hire, fire and compensate the top management, safeguards invested Capital. Regular board meetings allow potential problems to be identified, discussed and avoided. The ability of the board to monitor the firms executives is a function of its access to information., The executive directors possess superior knowledge of the decision making process and therefore evaluate top management on the basis of the quality of its decisions that lead to financial performance outcomes, it could be argued therefore, that executive directors look beyond the financial criteria.

INTERNAL CONTROL PROCEDURES AND INTERNAL AUDITORS:

Internal control procedures are policies implemented by the company Board of directors and other personnel to provide reasonable assurance of the entity achieving its objective related to reliable financial reporting, operating efficiency ad Compliance with laws and regulations. Internal Auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting.

BALANCE OF POWER:

The simplest balance of power is very common; require that the president be different person from the treasurer. The application of separation of power is further developed in companies where separate divisions check the balance of each other's actions.

REMUNERATION:

Performed based remuneration is designed to relate some portion of the salary to individual's performance. It may be in the form of shares, share options and other benefits.

Such incentives schemes however are reactive in the sense they provide no mechanism for preventing mistakes or opportunistic behavior and can produce narrow minded behavior. Monitoring by large shareholders and or monitoring by banks and other large creditors; given their large investment in the firm, these stakeholders have the incentives, combined with the right degree of control and power, to monitor the management.

CONTROL AND OWNERSHIP STRUCTURES:

Control and ownership structures refer to the types and composition of share holders in a corporation. The Andhra Pradesh State Financial corporation continued to ensure Practicing best corporate governance policies in all of its functions. The corporation's corporate governance framework is driven by an effective and independent board sub committees like executives committee and Audit committee.

The corporate governance philosophy of the corporation encompasses several voluntarily adopted practices, aiming at higher levels of Ethical Standards, the direction and control of companies. Corporate governance concerns the relationships among the management, Board of directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. The corporation has put its good corporate governance practices in place.

CONCLUSION:

The Andhra Pradesh State Financial Corporation has continued to ensure practicing best corporate governance policies in all its functions. The Corporation Corporate governance framework is driven by an effective and independent board aided by the Board of Sub committees, like executive committee and Audit committee and holdings there are a lot of embedded conflicts. Sound corporate governance contributes to sustainable economic development by enhancing the performance of companies and enhancing their access to outside capital. The Board decision making should increase the Confidence among its stakeholders, customers, creditors, and regulatory authorities. The paper concludes that Banks are being a separate category of financial institutions require specialized set of norms for corporate governance.

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