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Corporate Governance Practices in Banking Sector: A Comparative Study of Selected Banks in India

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INTRODUCTION

Corporate governance did not exist prior to the 1990s, and few people believe that it is necessary for the corporate sector. The need for corporate governance arises from the interests of the state, shareholders, and society. After the late 1990s, this idea gained traction.

Corporate governance aided firms in establishing control and directing their business practices. Corporate governance in the banking sector is completely different from corporate governance in any other company because banks operate differently due to the nature of business, the complexity and uniqueness of banks' balance sheets, and the requirement for protection of its weakest party in the flow, as well as many other risks by systematic failure. Banks conduct various types of transactions. As a result, we have no idea how many different types of actual assets a bank has. Outsiders find it difficult to estimate the value of assets and the quality of assets on a bank's balance sheet.

Furthermore, it is an important feature of business and other countries.

have already prioritised corporate governance in their business for decades now. In India, corporate governance was introduced after 1990, especially after the government of India realised that it needed major economic reforms and a capable government to deal with market players and minimise risk. Corporate governance is something that firms create in order to achieve their market objectives and protect themselves from failures. The structure of corporate governance is linked with firms' internal authorities such as the board of directors and management, as well as external authorities such as shareholders and other stakeholders of the company. It is very beneficial in the long run to ensure capable internal controls, better management, and visionary productive measures to ensure effective succession plans.

According to the Organization for Economic Cooperation and Development (OECD), it was established to maintain a good healthy relationship between the firm's management and shareholders, as well as various other company stakeholders. It also provides a better picture of the company's future ambitions and plans, as well as aids in perceiving those tasks and observing performance. This also confirms that corporate governance is important not only for firm growth but also for maintaining long-term relationships with decision-making and various role-playing parts of the company.

In various debates on various topics, effective corporate governance is always a major issue. Corporate misgovernance, collapse, and fraud occur in almost every corporate in the world; therefore, such a mechanism must be developed to protect the business from collapsing or avoiding any kind of fraud in the future. Thus, the global experience force strictly adheres to the guidelines and principles of corporate governance as recommended on a regular basis, especially in times when reputable firms frequently fail to follow healthy business practices.

Corporate governance is viewed as a necessary component of the organisation in order to achieve its corporate objectives and avoid disappointments. The concept of corporate governance is linked to the organisation's internal (management & board of directors) and external (shareholders & other stakeholders) entities. It allows for effective internal controls, a true management structure, appropriate overall performance measures, and effective succession plans.

The importance of effective corporate governance is felt throughout the community. It allows for the efficient use of scarce resources and the flow of resources to those sectors or entities where there is effective production of goods and services and compensation is sufficient to meet the demand of participants. Enron, HIH, WorldCom, Parmalat, Global Crossing, Xerox, Tyco, and Satyam are some examples of firms that were well-known for their good governance and had gained a significant market share. Later on, various misgovernance practises, misappropriated accounting policies, misleading statements, unethical business practises, and a lack of transparency and disclosures resulted in significant losses for shareholders and other stakeholders. This type of company was exposed when they began using random, ineffective methods to grow their business. As a result, when they exposed the majority of their business meets to the land and failed in blinks. As a result, the economics included in these corporate matters have fallen several times, resulting in significant share losses for individuals, as well as other stakeholders and shareholders.

As the world begins to understand corporate governance and recognises its importance in business, studies have revealed a high level of awareness of Corporate Social Responsibility (CSR), Sustainable Development (SD), and Nonfinancial Reporting (NFR). A major corporation began to make efforts to keep a sustainable environment in mind while pursuing their respective goals of profit, social service, philanthropy, and so on.

The concept of corporate governance may appear bizarre, but definitions vary among economists, analysts, academics, and other types of corporate governance. As we all know, corporate governance is something designed to keep important people in any organisation communicating effectively. Shleifer and Vishny (1997) provide one of the most frequently cited definitions: "Corporate governance deals with how suppliers of finance to corporations ensure that they will receive a return on their investment." According to Ruin (2001),

Need of Corporate Governance

Banking has a significant impact on an economy's economic development. Banks in India are facing increased competition from both within and outside the country in this era of liberalisation and globalization. Cooperation governance has thus become critical for banks to perform and remain competitive. Cooperation governance in the banking sector refers to how individual banks' business and affairs are directed and managed by their board of directors and senior management. Because the banking system is critical to financial stability, sound cooperative governance is required as a critical component in the banking sector. The entry of new private sector banks, the freedom granted to public sector banks to access the capital market, and a slew of scandals and scams have compelled banks to pay greater attention to cooperative governance. Effective cooperative governance practices are essential for the proper functioning of the banking sector and the economy, as are public trust and confidence in the banking system. The majority of the funds used by banks to conduct business belong to their creditors, specifically their depositors. As a result, a bank's failure affects not only its stakeholders but also has a systemic impact on the stability of other banks. To address this issue, good cooperative governance is essential for banks. The issue of cooperative governance in banks differs from that of manufacturing corporations. They differ in many ways, and the cooperative governance of banks is not only distinct but also critical. According to Adams and Mehran (2003), the board size, board makeup, CEO ownership, compensation structure, and block ownership are significant differences between banking firms and manufacturing firms. These distinctions lend credence to the theory that cooperative governance structures should be industry-specific.

Objectives of the Study

Based on the above literature review, it is clear that the study focused on various aspects, a sample of firms, and time intervals. Banking and financing are two difficult sectors that have received little attention. Another study gap in the current study concluded that a qualified study of PuSB and PvSB with mentions of the Indian banking sector is missed, which has future opportunity, so the current study focuses on selected banks in the Indian industry.

Writing a review of the literature

Corporate governance is something that is required to run a successful business. Corporate governance is a critical component of any business. It is a group of decision-makers who assist the owner or any other type of company running authority, such as the CEO or founder, in running the business. Corporate governance is established to oversee a company's growth and to reassure stakeholders, stockholders, and other investors that the company is in good hands and operating in accordance with government regulations and that their investment is secure. Corporate governance can assist organisations in achieving their goals by bringing the concepts of investors and managers together to ensure that the firm is run for the benefit of the investors.

Many studies on corporate governance have attempted to simplify the definition. Some of the key paper studies have been thoroughly reviewed and explained below:

According to **Kathuria and Dash (1999),** studies have been conducted to explain the relationship between the corporate financial association and board size, and the results concluded that the size of the board plays a significant role in influencing financial performance. According to studies, as the size of the board grows, so does the performance. More brains can benefit the company more. Thus, expanding the board of directors can be extremely beneficial to the company's growth. Furthermore, as the company grows in size, the contribution of additional members decreases. As a result, the results failed to demonstrate any significant and important role of directors' equity ownership in influencing performance.

Kumar (2004) presents their research without favouring one side over another. From the perspective of Corporate Governance, the main reason and importance of the ownership structure on the organization's performance for a work stage of Indian corporate firms. He worked hard to comprehend the effects of communication between corporate, foreign, institutional, and directorial ownership on company performance. After controlling for observed firm attributes and overlooked firm diversity, he discovers that institutional investors and managers affect firm performance non-linearly. Institutional investors are deceptive and greedy; they track the organization only if their stake in the company is greater than 14 percent, and they have a positive influence on the company's performance after 25 per cent ownership. In his research, he also discovers that equity possession by the ruling group has an effect on organisational performance, but only in the case of directorial possession.

Dwivedi and Jain (2005) are well-known figures in the finance industry who investigate the relationship between corporate governance and company performance. The board size, directors' shareholding, institutional and foreign shareholding, and decentralisation in shareholding are all governed by public shareholding. He mentioned that a concurrent equation regression model for Tobin's Q, estimates that company performance is dependent on using these changeable while controlling for industry effects and other non-control variables. The data is linked to 340 large consoles, and Indian companies listed from 1997 to 2001 outspread more than two dozen industry groups. According to the study, foreign shareholding has a positive impact on shareholder value. The association of Indian institutional shareholders with the market performance of a company was a total waste of time. Director shareholding has been found to have a significant negative impact on company principles.

Abdullah (2006) investigated the relationship between directors' pay, company performance, and corporate governance in Malaysian companies, and the study discovered that director's pay was not related to the firm's profit, while board self-rule and the area of non-executive regard negatively affect the director's pay, and an important negative relationship was discovered between the ROA (Return on Assets) and the director's pay.

Mohd and Fatima (2009) investigated the secrecy of National Mineral Development Corporation Ltd (NMDC) disclosure and transparency exercises in India. They investigated the relationship between market valuation and operating performance and the NMDC disclosure and transparency score and settled on the disclosure and transparency score. They believe that there is a significant positive relationship between the company's corporate governance number, market valuation, and operating performance. Adnan, Htay, Rashid, and Meera (2011) used a panel data analysis to conclude the effect of corporate governance on the ability of Malaysian listed banks. Board leadership forms, board structure, board population, director possession, institutional possession, and block possession were all variables in their study. According to the study's findings, smaller board sizes and a higher percentage of block possession resulted in better planning by Malaysian banks. In addition, Chugh, Meador, and Kumar (2011) investigated the relationship between some corporate governance characteristics and the financial performance of Indian companies. They believe that a larger board of directors provides better opportunities and more resources, thereby increasing financial performance. They also claimed that an excessively freeboard reduces performance.

Mang'unyi (2011) investigated the ownership structure, corporate governance, and its impact on the performance of companies in Kenya, with a focus on banks. They recommended that corporations promote corporate governance in order to send a positive message to potential investors and that the banking regulator continue executing and assisting corporations in adhering to good corporate governance for planning and success.

According to **Pandya (2011),** there is an intriguing relationship between government structures and firm performance. The author investigated the impact of corporate governance, particularly board independence and CEO differences, on the performance of selected Indian banks as measured by ROA and ROE.

Stephen and Olatunji (2011) investigated the functions of non-executive directors in highly evaluated documents and discovered that non-executive directors and return on equity are inversely related. The findings show that having more outside directors on the board has a minor impact on financial performance.

Al-Musalli and Ismail (2012) examine the intellectual capital performance of selected banks in Arab Gulf Cooperation Council (GCC) countries. They sensed the impact of various corporate governance aspects on intellectual capital performance and also studied the impact of corporate governance in various aspects of domestic strategic institutional ownership, a number of independent directors, the board size, family ownership, government ownership, and foreign strategic institutional ownership, bank specifically attribute (bank globally, bank commitment to Islamic Shariah principles, and bank possibilities, and banking It concludes by raising numerous concerns about the favourable board size, the qualification, selection, and appointment of management Directors on boards, and the impact of government ownership in banks.
Emmanuel and Hodo (2012) used a sample of Nigerian banks to investigate the impact of corporate governance on bank performance adherence and predicted that the size of the board of directors and the number of shareholders and stakeholders had a positive effect on the return on equity (ROE) and return on assets (ROA) (ROA). According to the study, asset quality, equity providers, and managers all have a professional impact on bank performance.

Mohammed (2012) investigated the impact of corporate governance on bank performance in Nigeria and predicted that corporate governance improves bank performance significantly and that administration independence is strongly associated with successful corporate performance.

Aggarwal (2013) investigated the impact of corporate governance on corporate financial performance in an Indian context using a trial of 20 companies listed on the S&P.CNX Nifty.50 Index.

The researcher used a variety of tests, including correlation, t-test, and others, regression, and F-test, and came to the conclusion that government feedback has a positive and significant impact on corporate financial performance. Gowd, Kiran, and Rao (2013) attempted to investigate SBI's corporate governance practises and the relationship between operating performance and market valuation with SBI's corporate governance ratings. Multiple regression, correlation analysis, and t-test results revealed that SBI's sales, market value, dividend policy, PAT (Profits), and CGS are strongly positive correlated. SBI's sales and corporate governance have a strong positive correlation. The effect of corporate governance on market value, PAT, and DPR is not considered to be statistically significant. As a result, they predicted that SBI would increase its vending revenue, profits after taxes, and market capitalization while maintaining an optimal dividend policy to improve the corporation's quality, which would indirectly improve the corporation's governance.
Hussein and Venkatram (2013) investigated the impact of corporate governance differences, specifically Board size, Board composition, and Board activity, on the firm's value. Tobin's Q (TQ) of Agri-input organisations in India, as determined by observed research. They used panel data from 64 firms from 2007 to 2011 to calculate the Fixed Effect Model (FEM) and Random Effect Model (REM) to evaluate the effectiveness of corporate governance on Tobin's Q. (TQ). According to the findings, only board size had a significant and positive effect on TQ, whereas board composition and board activity had no effect on TQ.

Using a panel data analysis, Thomas and Thakur (2014) investigate the impact of corporate governance on the performance of listed Indian banks. From 2010 to 2012, the Generalized Linear Model technique was implemented in ten previously selected Indian banks. According to the research findings, smaller board sizes, a greater number of independent directors, and a higher percentage of public ownership lead to better performance of Indian banks.

Narwal and Jindal (2015) investigated the impact of corporate governance on the profitability of Indian textile industries from 2009 to 2014. They discover a strong positive relationship between director remuneration and profitability using correlation and an OLS regression model. According to the study, board size, board meetings, and non-executive directors have no significant relationship with profitability.

.**Sashidhar and Mutthu (2015)** investigated the impact of corporate governance on financial performance in an Indian market by selecting the top 25 firms from leading sectors such as IT, Pharma, Manufacturing, and Automobile. "The study analysis revealed that the best corporate governance practises ensure the average to best performance in the majority of the companies."

Krishna and Lokeswara (2015) conduct research to determine the impact of corporate governance features on the performance of selected IT companies in India, as well as their annual performance from 2010 to 2014. They mention a number of independent variables, such as board size, number of female boards, number of independent directors, number of board meetings, chief executive officer duality, and board committees. The analysis discovered that the sizes of the board of directors, independent directors, and board committees have a significant impact on IT companies, and that the structure of boards has evolved the financial performance results.

Based on the above literature review, it is clear that the study focused on various aspects, a sample of firms, and time intervals. Banking and financing are two difficult sectors that have received little attention. Another study gap in the current study concluded that a qualified study of PuSB and PvSB with mentions of the Indian banking sector is missed, which has future opportunity, so the current study focuses on selected banks in the Indian industry.

Research Methodology

Sampling Design

According to a recent study, the analyst randomly selected nearly 30 respondents from various branches of a state bank. Data Source and Collection Procedure

In the niche, the most recent analysis is very elaborative and exploratory. Fundamental and other types of data were gathered. Fundamental data was gathered through direct personal interviews and questionnaires. For the analysis, a well-calculated questionnaire was created. There were specific questions inter-.-related to the firms' investment. A five-point Likert scale was used to elicit responses from the respondents, aka managers. For this research, additional data was gathered from existing literature, published books, articles, and journals from various analysts, and the internet. Annual reports of SBI from 2012 to 2016 have been critically analyzed, and all investments have been validated.

Analyzing Step

The fundamental data collected from all sources has been critically analyzed in order to gain a proper understanding or accountability of the studied problem. Other data collected from yearly reports has been properly analyzed in accordance with the primary data collected via a questionnaire.

Data Analysis and Findings

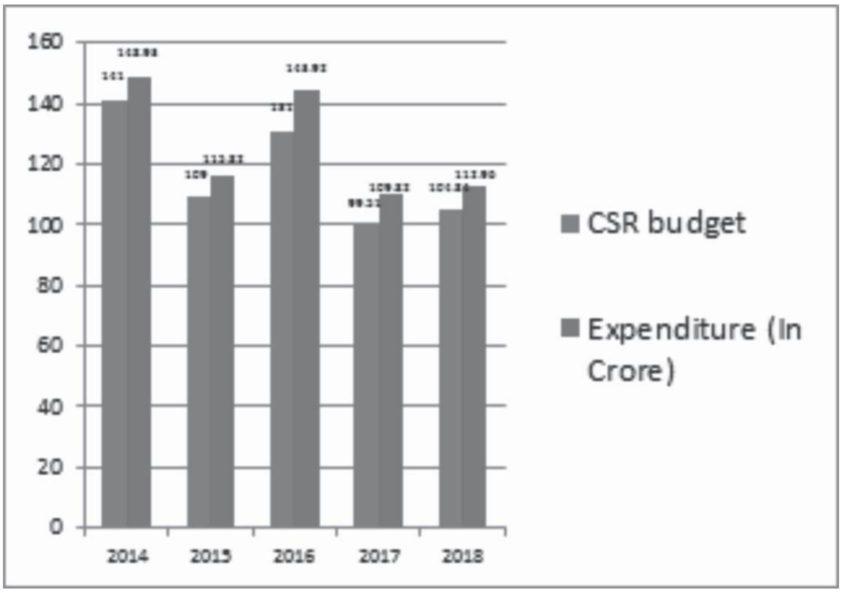
Main CSR Expenditure by SBI

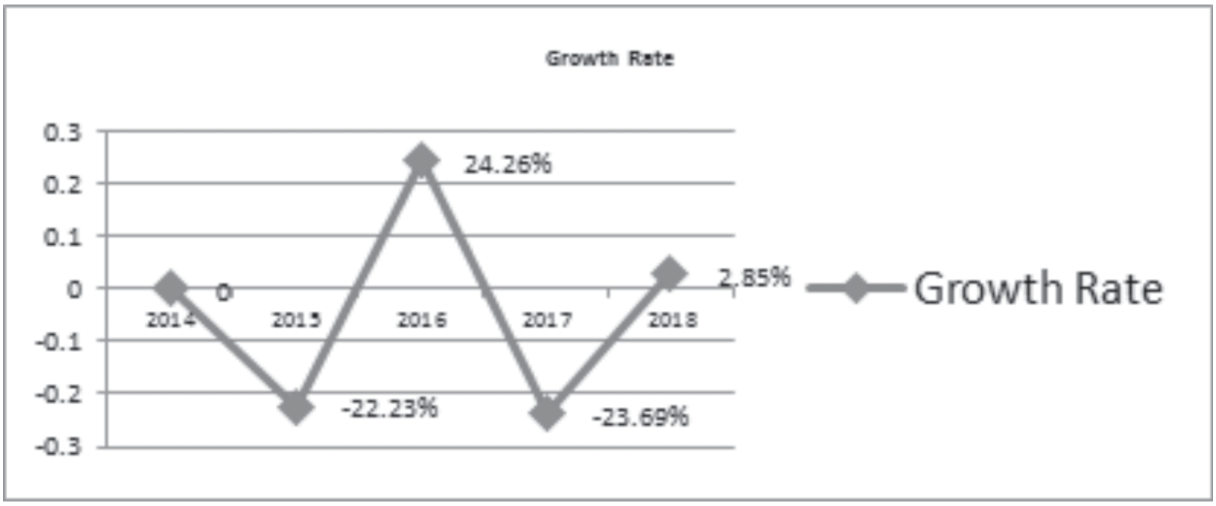
Table 1: Total CSR Expenditure of SBI

Year	CSR budget	Expenditure (In Million)	Growth Rate
2012	148	147.93	-
2013	120	113.82	23.23%
2014	135	143.72	25.26%
2015	99.91	109.89	-22.69%
2016	108.84	112.45	2.55%

According to Table 1, state bank spending on these activities decreased in FY 2013, increased in FY 2014, decreased again in FY2016, and increased again in FY2017 for healthcare, sports, education, skill development, culture and livelihood creation, tree protection, and other work. However, it is clear from Table 1 that this expenditure is greater than the PSR budget for that year. It is a positive sign for all banks and businesses with ties to society. Figure 1 depicts a graphical representation of Table 1.

Fig – 1





The above segment analysis. Figure 2 depicts the rate of expansion of PSR activities by state banks over the last six years, which is interestingly anonymous. In comparison to 2012, the growth rate of CSR activities in 2013 is negative 22.69 percent. This demonstrates that the investment in PSR activities in 2012 was greater than the charge in 2013. However, as shown in Table 1, the input was greater than the PSR budget for that year, which is a positive sign for our economy. Similarly, the growth rates in 2016, 2017, and 2018 are 23 26 percent, -24 69 percent, and 2 95 percent, respectively, when compared to 2013, 2014, and 2015.

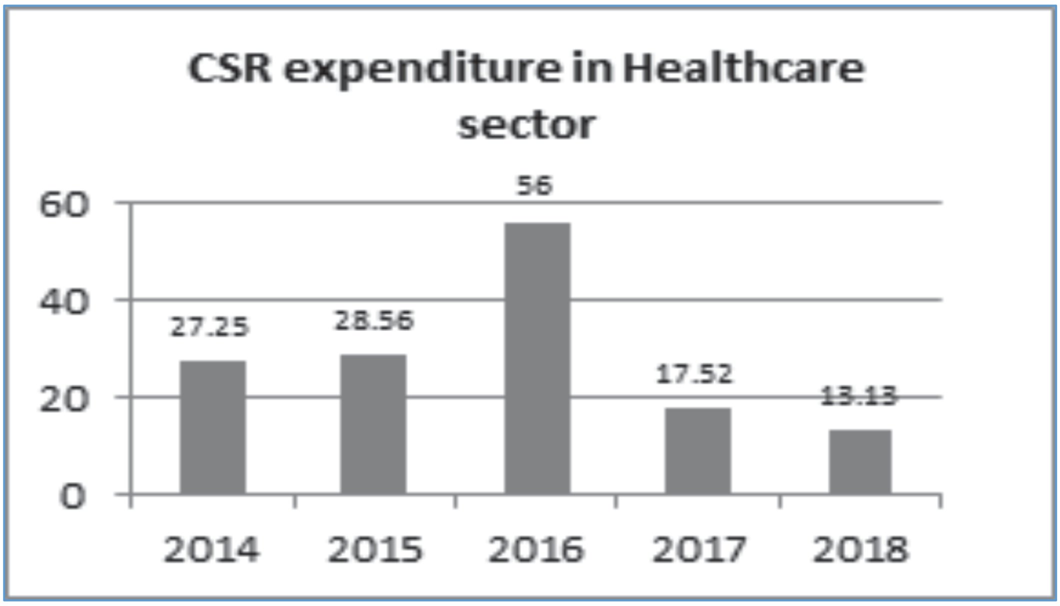
Sector Wise Expenditure by State Banks

Impact on Healthcare Sector

Good health for any human results in a good state of mind, which leads to a better environment and society. One of the most pressing concerns is health. In most places in India, there are no medical services, which leads to various diseases and a high living ratio, and State Bank is developing a great culture in this area. According to the annual reports of state banks, it is fairly clear that the banking sector has provided various types of assistance, including ambulances and medical vans, and has also organized various types of health camps on a regular basis, as well as launched schemes related to various diseases. The given Table 2 clearly shows that these banking firms put in an extraordinary amount in 2014. and, more specifically, in the public healthcare sector. From 2012 to 2014, investment increased at an exponential rate. and it will be marginally lower in the coming years The graphical representation of the investment has been shown in Figure 3.

Table 2: CSR Expenditure in Healthcare Sector

Year	Actual Expenditure (In Million)	Growth Rate
2012	2730	-
2013	28 62	5.05%
2014	56 05	96 25%
2015	17 57	-68 90%
2016	13 18	-25 20%



Major Expenditure by States Banks in Developing Skills

State Banks has been involving an enormous value in skill development and livelihood creation, and when we compare it to any other branches from the yearly analysis of Banks, it is clear that banks have provided variety. Infrastructure/development assistance to rural/grain Self Employment Training Institutes for various types of skill development. construction of the. Youth Based on the data in Table 4, we can conclude that banking firms have invested in skill development and job creation. Every year in 2014, it was 28.48 percent, and it has nearly reached 66.88 percent in 2016.

Table 4: Expenditure by SBI in Skill Development and Livelihood Creation

Year	**Actual Expenditure (In Millions)**	**Growth Rate**
2012	-	-
2013	28.48	-
2014	48.68	88.22%
2015	49.59	6.545%
2016	69.79	44.456%

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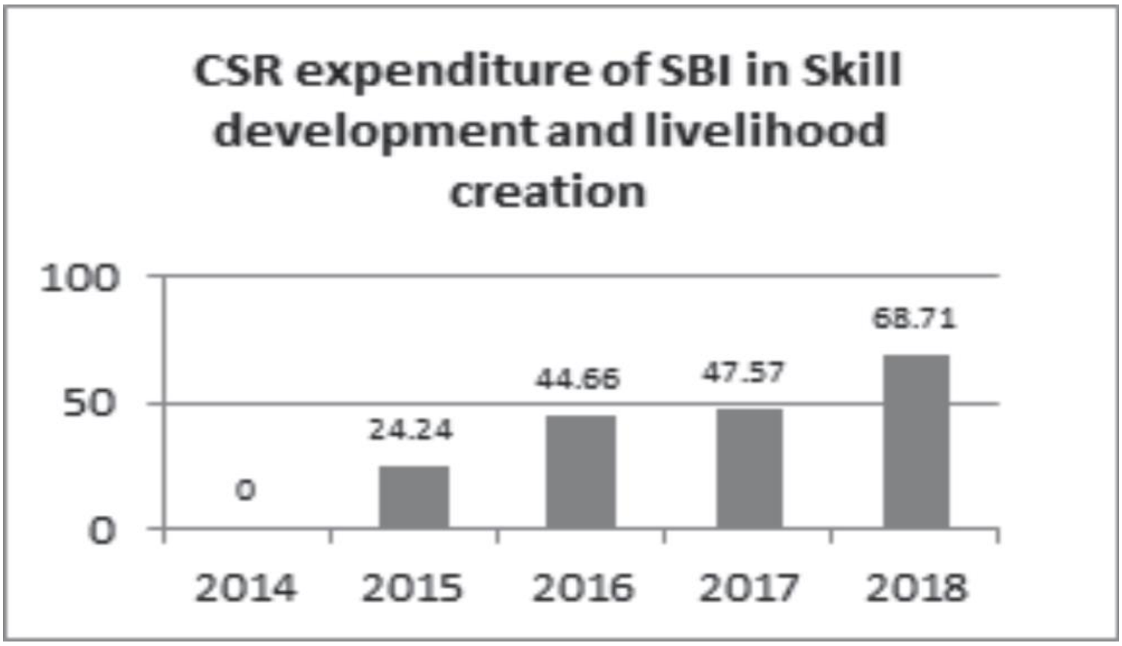
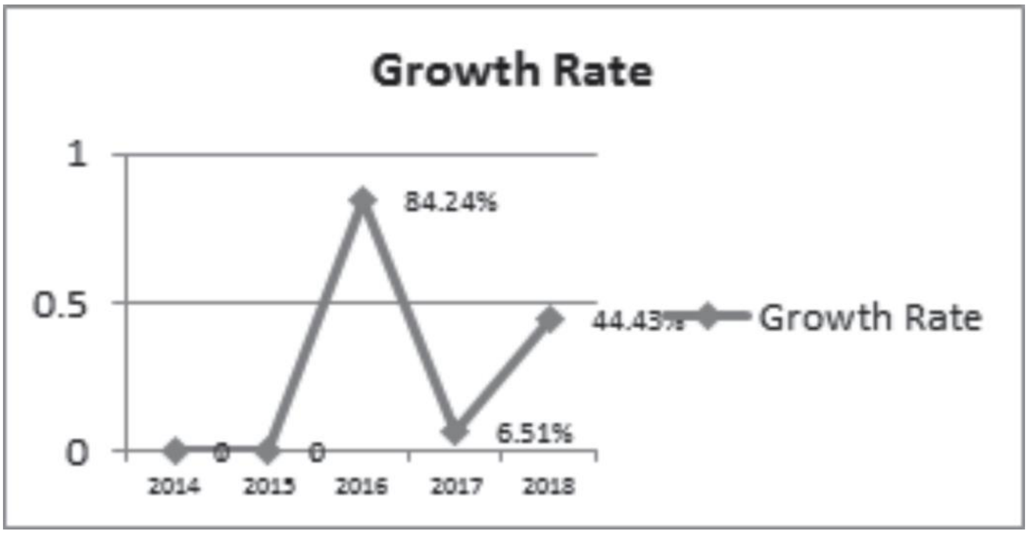
Fig – 7



The trend study also shows that the yearly growth rate of these firms' assistance in skill development and livelihood has increased every year since 2014. In 2014, it was 88.44 percent, and in 2015 and 2016, it was 6.81 percent and 44.23 percent, respectively..



Conclusion

Banks play an important role in any country's financial development. This research provides a basic understanding of the bank's general practices. Based on the findings above, it is possible to conclude that SBI is doing an excellent job of highlighting the relationship between the organisation and society. SBI is doing everything it can to help society in any way it can. The bank's major CSR focus areas include healthcare and sanitation, skill development, livelihood creation, education, sports, environmental protection, and other areas. However, the main focus is on skill development and job creation, in which the bank is investing nearly more than half of the CSR budget. However, it should also help other industries. It can also be concluded that while media coverage of the events is extensive, the actual implementation of the activities is lacking. Through CSR activities, SBI is increasing customer loyalty, reputation, employee motivation, brand value, and employee retention. SBI's unlimited use of CSR investments is gradually expanding, and the bank is focused on group development, but the growth rate of CSR expenditure is slow. According to the findings of the current study, the primary focus of CSR movements is on education, skill development, and healthcare. The current study also suggests that SBI's CSR committee should direct its efforts toward underserved areas of society by better understanding the society's overall CSR needs. This can ensure the country's overall advancement.

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