A Comparative Study of Private Sector Banks Listed in BSE with Reference to Corporate Governance

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ABSTRACT

Research type: Empirical Study.

Research Issue: Corporate Governance is getting a focused attention particularly after market and public confidence become fragile after a series of high profile corporate failures in which the absence of effective governance was a major factor. Good Governance is becoming a source of competitive advantage among economies for attracting international capital. Responsibility, Transparency, Fairness and Accountability are the four vital pillars for strong Corporate Governance. Corporate Governance helps in establishing a system where a director is showered with duties and responsibilities of the affairs of the Company.

This study presents Corporate Governance disclosure practices in two Indian Private Sector Banks listed in BSE Top 100 (HDFC Bank, ICICI Bank)**.**With the aim of this study main objectives are as follow –

1. To develop Corporate Governance Disclosure Index on the basis of requirements issued by SEBI in Revised Clause 49 of Listing Agreement.
2. To determine the Corporate Governance practices in both the selected banks.
3. To make comparative analysis of Corporate Governance practices between the two selected banks.

Research Findings: The study found that the degree of Corporate Governance compliance is fairly good in both the selected banks. Both the banks fulfilled the requirements in all sub-indices of the Clause 49, but HDFC Bank gained highest score between two selected banks.

Research Suggestions: Both the selected Banks have complied with all the applicable requirements of the Code of Corporate Governance as per Clause 49, But to improve market condition, to gain interest of stakeholders and also to remove corruption and avoid scams, Banks should follow Corporate Governance practices in more efficient manner and SEBI should take action for any Non-Compliances by any Banks.

Keywords: Corporate Governance, Clause 49, SEBI, Disclosure Practices, Companies Act 2013, Private Sector Banks.

INTRODUCTION

Globalization and Liberalization of economies has brought corporate organization to the centre stage of social development. Corporate governance is getting attention for satisfying the divergent interests of the stakeholders of the business enterprise, especially after the corporate scandals and loss of shareholders' value at large companies in a recent past, which focused more attention on the issue of shareholder rights, calling for greater transparency and accountability and enhancing corporate reporting and disclosure. Corporate governance is concerning with direction and control of corporate bodies. These activities are for more basic as compared to profitability and performance of companies. The main actors in corporate governance are (a) The CEO (b) The board of directors (c) The shareholders. Also, the other actors who influence governance in corporation/firms are the staff, suppliers, customers, creditors and the community. Poor corporate governance and lack of transparency of corporate financial reporting have frequently been identified as some of the root causes of the Asian financial crisis. Thus the need for a major improvement in transparency both "accounting" and "Public disclosures" becomes imperative. Now a days, disclosure about corporate governance is a fundamental part of the modern corporate regulatory system, which encompasses providing information by a company to the public in a variety of ways.

In India, the question of corporate governance has come up mainly in the wake of economic liberalization and deregulation of industry and business as well as the demand for a new corporate ethics and stricter compliance with the legislation. The new economic policy adopted by the government of India consequent to liberalization and opening up of the economy since 1991, has necessitated the demand for introduction and implementation of a proper corporate governance policy in the day-to-day management of the companies not only in the interest of their stakeholders but also for the development of the economy. Corporate governance reform in India have evolved a wide range of institutional and corporate initiatives that include (a) improving the functioning of capital market (b) ensuring more effective protection of minority investors (c) reforming company board structure(d) reforming governance mechanisms of financial institutional etc. Various committees have been formed by the government of India, SEBI and industry associations and their recommendations for implementation of corporate governance norms in India corporate houses have submitted during the period 1998-2005 but, there have been several major corporate governance initiatives launched in India since the mid-1990s. The first was by the confederation of India Industry (CII), India's largest industry and business association, which came up with the first voluntary code of corporate governance in 1998.The second was by the SEBI, now enshrined as clause 49 of the listing agreement. The third was the Naresh Chandra committee which submitted its report in 2002.The fourth was again by SEBI the Narayana Murthy committee which also submitted its report in 2002.Subsequently SEBI withdraw the revised clause 49 in December 2003. The fifth was major initiative that the Companies Act 2013. In January 2013, SEBI had issued a consultation paper with its draft proposals for changes in governance requirement applicable to listed companies and after issue of secondary legislation under the Companies Act, SEBI's governance reforms in respect of listed companies were announced in 2014.This paper divided into five section namely Introduction, Review of literature, Research Methodology, Interpretations & Analysis and Conclusion. The first section Presents the theoretical framework of the study. The second section discusses review of literature. The third part elaborates on the research methodology adopted in which hypotheses has been developed and reveals objectives of the study. The fourth section will describe analysis and interpretation of the study. Also describe the result and discusses the finding and the final section deals conclusion of the study

REVIEW OF LITERATURE

A review of literature is provided in this section. This section describes the disclosure practices of corporate governance.

Pankaj M Madhani(2022) This research intend to investigate empirically whether MNC subsidiaries have better corporate governance and disclosure policies compared to domestic cross-listed firms from the Indian perspectives. Using firms across different sectors listed in Bombay Stock Exchange (BSE), this research aims to analyse difference in corporate governance and disclosure practices among firms owned by foreign owner (MNC subsidiaries) and local owner (domestic cross-listed firms). This study focuses on this direction and aims to analyse difference in corporate governance and disclosure practices among MNC subsidiaries and cross-listed firms as well as cross-listing in US versus Europe. This research indicates that subsidiaries of MNCs and cross-listed firms have statistical significant difference in corporate governance and disclosure practices. The study also found that due to different institutional and legal requirements, the domestic cross-listed firms disclose more information than MNCs subsidiaries listed only in host country

Suguna Margana, Sheela.p. Paluri(2021) This study aimed at evaluating the governance practices in Housing Finance Companies against disclosure requirements of clause 49. Housing Finance companies that are listed in the NSE are taken into consideration as the sample for the study. Kendall's coefficient of concordance is used for determining the degree of association among several (k) sets of ranking of N objects or individual From this study it is noted that corporate governance and disclosure practices followed by the Major five Housing finance companies listed in the national stock exchange under the equity segment and very interesting to note from among the five major housing companies LICHFL is ranked first among five HFCs with a five years CGDI score of 97.14%. While REPCO home finance ranked five with average score of 71.42%. The analysis also reveals that there lies a significant agreement in the ranking over the five years as the five set of ranking were independent. Another important observation from this study was apart from HDFC housing finance company the other major housing financing companies did not furnish information on the participation of their chief internal auditor and details of the meeting is not furnished.

Wm. Dennis Huber, James A. DiGabriele(2020) this paper examines the purpose, scope, and limitations of corporate governance and disclosure including what, how, and why information about publicly listed companies is disclosed with the intent of providing a better understanding of corporate governance and disclosure and directions for future research. Future research must focus one, on how directors govern the corporation by balancing the risks of both shareowners and non-shareowners, and two, on corporate disclosure of risks to both shareowners and non-shareowners.

Sudershan Kuntluru(2019) In this study, we examine the impact of corporate governance disclosures on firm performance in India. In this study, we examine the impact of corporate governance disclosures on firm performance in India. Unlike most of the existing literature, the corporate governance disclosures score is computed based on the Clause 49 of the listing agreements of SEBI for the period 2006- 2016. It is a handpicked data from the annual reports disclosures made under the corporate governance section. We apply fixed effect regression model to examine the impact of corporate governance disclosures on firm performance. The performance is measured in in terms of operating, financial and market performance. It is found that corporate governance disclosures have positive and significant impact on market performance of the firms. Thus, the companies that comply with regulatory requirements of corporate governance disclosures achieve higher market performance. The study also finds that corporate governance disclosures have positive impact on firm's operating performance and a negative impact on firm's financial performance. The findings are useful to policy makers, managers, analysts and investors and also provide scope for future research.

Anwar Ahmad, Eissa A. Al-Homaidi(2018)This paper examines the disclosure of corporate governance practice in published annual reports of Indian tourism companies listed on BSE during the period of three years from 2013 to 2015. This study based on secondary data. Corporate governance addressed in this study include board of directors (size, composition, and diligence), audit committee (size, composition, and diligence), ownership (government, institutional and foreign). This study employed content analysis of the published annual reports of 53 tourism companies listed on BSE by using SPSS software program. The results indicate that audit committee size and board size have highest disclosed variables, while government ownership is the lowest variable that disclosed about tourism companies. This study suggests that the tourism companies should increase the disclosure of corporate governance. This study also recommends that the result of this study may have some important implications for the enhancing disclosure of corporate governance practice of listed Indian tourism companies.

RESEARCH METHODOLOGY

This section deals with objectives of the study and also develop hypothesis.

Objectives of the study:-

The main objectives of this study are as follow-

1. To develop Corporate Governance Disclosure Index on the basis of requirements issued by SEBI in Revised Clause 49 of Listing Agreement.
2. To determine the Corporate Governance practices in both the selected banks.
3. To make comparative analysis of Corporate Governance practices between the two selected banks.

1. Sample size and collection of data:-

The sample comprises of two Private Sector Banks (HDFC Bank, ICICI Bank) which are listed in BSE Top-100. This research will be based on the secondary data. Present study ha
considered the duration of a Financial Year 2022-2023. All data and information has collected from annual report of each selected banks, Journals etc.

2. Hypothesis:-

Following hypothesis will be framed and tested on the basic revised Clause 49 of listing Agreement

H1: Private Sector Banks (HDFC BANK, ICICI Bank) does not shows compliance with Corporate Governance Standard and Disclosure practices mentioned in Clause 49 of Listing
Agreement

H0: Private Sector Banks (HDFC BANK, ICICI Bank) shows compliance with Corporate Governance Standard and Disclosure practices mentioned in Clause 49 of Listing Agreement.

INTERPRETATION AND ANALYSIS

This section of our research comprises comparative analysis of Corporate Governance disclosure practices between two selected private sector banks for the Financial Year 2022-2023. For this purpose banks performance is measured against certain governance parameter. The research has been under taken to assess the level of compliance to key governance parameter in these companies in tune with requirements given by SEBI under Clause 49 for listing agreement and Provisions of the Companies Act

2013. These key governance parameters and the criterion for evaluation of governance, standard have been selected on a hundred-point scale as shown in Table 1.

Table 1 Criterion for Evaluation of Governance Standard of Private Sector Banks (Two Banks) for Financial Year 2022-2023.

S. No.	Governance Parameters	Points	Total score	HDFC Bank	ICICI bank
1)	**Statement of Bank's Philosophy on Code of Governance**	1	1	1	1
2)	**Composition of the board and BOD meetings held.**		5		
i)	Not less than 50% of the Board of Directors comprising of non-executive directors.	1		1	1
ii)	At least one woman director.	1		1	1
iii)	Where Chairman is Non-Executive Director-At least 1/3 of the board comprise Independent Director where Chairman is Executive- At least ½ of the board comprise Independent Director.	1		1	1
iv)	At least four BOD meetings in a year.	1		1	1
v)	Attendance record of BOD meetings.	1		**1**	1
3)	**Chairman and CEO Duality**		5		
i)	Promoter Executive Chairman- cum-MD/CEO	1		-	-
ii)	Non-Promoter Executive Chairman cum-MD/CEO	1		-	1
iii)	Promoter Non-Executive Chairman	1		-	-
iv)	Non-Promoter Non-Executive Chairman	1		-	- -
v)	Non-Executive Independent Chairman	1		1	
4)	**Disclosure of tenure & age limit of Directors**	1	1	1	1
5)	**Disclosures regarding to Independent Director (ID)**		4		
i)	Definition of ID.	1		1	-
ii)	Familiarization program to ID & details of such training imparted to be	1		1	1

iii) iv)	disclosed in the annual report. Separate meeting of the ID. Selection criteria the terms and condition of appointment shall be disclosed on the website of the company.	 1 1		 1 1	 1 1
6)	**Appointment of lead Independent Director**	1	1	-	-
7) i) ii)	**Disclosure of :** Remuneration policy Remuneration of directors	 1 1	2	 1 1	 1 1
8)	**Directorship and committees membership/Chairmanship of directors across all companies**	2	2	2	2
9) i) ii)	**Code of Conduct** Information on Code of Conduct Affirmation of compliance	 1 1	2	 1 1	 1 1
10)	**Post board meeting follow up system and compliances of the Board procedure.**	2	2	2	2
11) A) i) ii) iii) iv) v) vi) 	**Board Committees :** **AUDIT COMMITTEE :** Transparency in composition of the Committee. Compliance of minimum requirement of no. of Independent Directors in the Committee. Compliance of minimum requirement Of the number of committee meetings. Information about literacy & financial expertise of the committee. Information about participation of head of finance, statutory auditors, chief internal auditors, and other invitees in the committee meetings. Disclosure of audit committee charter & terms of reference.	 1 1 1 1 1 1 1	8	 1 1 1 1 1 1 1	 1 1 1 1 1 1 1

vii)	Publishing of committee report	1		1	1
B) i) ii) iii) iv) v) vi)	**REMUNERATION COMPENSATION COMMITTEE :** Formation of the committee Information about number of committee meetings. Compliance of minimum requirement of no. of Non-Executive Directors in the committee. Compliance of the provisions of independent director as chairman of the committee Information about participation of meetings. Publishing of Committee report.	1 1 1 1 1 1	6	1 1 1 1 1	1 1 1 1 1 1
C) i) ii) iii) iv) v)	**SHAREHOLDER/STAKEHOLDER RELATIONSHIP COMMITTEE :** Transparency in composition of the committee Information about nature of complaint & queries received and disposed-item wise. Information about number of committee meetings Information about action taken and investors/shareholder survey Publishing of committee report	1 1 1 1 1	5	1 1 1 1 -	1 1 1 1 -
D) i) ii)	**Risk Management Committee** Formation of committee Publishing of committee charter report	1 1	2	1 1	1 1
E) i) ii) iii) iv)	**Additional committee** Health and safety & environment committee CSR and sustainable development committee Investment Committee Other Committee	1 1 1 1	4	- 1 - 1	- 1 - 1

12)	**Disclosure and Transparency :**		25		
i)	Significant related party transaction having potential conflict with the interest of the company	2		2	2
ii)	Non-compliance related to capital market matters during the last 3 years.	2		-	-
iii)	Board disclosure-Risk Management	2		2	2
iv)	Information to the board on risk management	2		-	-
v)	Publishing of risk management report	1		1	1
vi)	Management discuss and analysis	2		2	2
	Shareholders-				
	□ Appointment of new director/re-appointment	1		1	1
	of retiring directors			1	1
	□ Quarterly results &	1			
	presentation			1	1
	□ Share-Transfers	1			
	□ Directors' responsibility statement	1		1	1
vii)	Shareholder right	2		2	2
viii)	Audit Qualification	2		2	2
ix)	Training of board members	2		2	2
x)	Evaluation of non-executive directors	2		2	2
xi)	Whistle Blower Policy	2		2	-
13)	**General Body Meetings :**		3		
i)	Location and time of General Meetings held in last 3 years	1		1	1
ii)	Details of Special Resolution passed in the last 3 AGMs/EGMs	1		1	1
iii)	Details of resolution passed last year through Postal Ballot including the name of conducting official and voting procedure	1		-	-
14)	**Means of Communication and General Shareholder Information**	2	2	2	2
15)	**Whistle-blower policy**	2	2	2	-

16)	**CEO/CFO certification**	2	2	2	2
17)	**Compliance of Corporate Governance and Auditors' Certificate :**	5	5	5	5
i)	Clean certificate from auditors				
18)	**Code for prevention of insider trading practices**	5	5	5	5
19)	**Disclosure of stakeholders' interest :**		5		1
i)	Environment, Health & Safety measures (EHS)	1		1	
ii)	Human Resource Development initiative (HRD)	1		1	1
iii)	Corporate Social Responsibility (CSR)	1		1	1
iv	Industrial Relation (IR)	1		-	-
v)	Disclosures of policies on EHS, HRD, CSR, & IR	1		-	1
	TOTAL	**100**	**100**	**89**	**82**

FINDINGS

1. Both selected Banks have a good and fair Corporate Governance practices.
2. HDFC Bank got highest score between two selected Banks.
3. Only HDFC Bank has Non-Executive Independent Chairman.
4. ICICI bank has Non-Promoter executive chairman.
5. Information regarding appointment of lead Independent Director was not disclosed in annual reports by both the banks.

CONCLUSION

Good Governance is becoming a source of competitive advantage among economies for attracting international capital. Responsibility, Transparency, Fairness and Accountability are the four vital pillars for strong Corporate Governance. Corporate Governance helps in establishing a system where a director is showered with duties and responsibilities of the affairs of the Company. This study presents Corporate Governance disclosure practices in two Indian Private Sector Banks listed in BSE Top 100 (HDFC Bank, ICICI Bank) . From the interpretation and Analysis of criterion table it is observed that in this research alternative hypothesis has been proved that BSE listed Private Sectors Banks (Selected Banks) show compliance with Corporate Governance standard and disclose practices mentioned in Clause 49 of Listing Agreement and provisions in Companies Act 2013. This research found that the degree of Corporate Governance compliance is fairly good in both the banks. All selected banks fulfilled the requirements in all sub-indices of the Clause 49. The Bank believes in adopting and adhering to the best standards of corporate governance to all the stakeholders. The Bank's philosophy on corporate governance enshrines the goal of achieving the highest levels of transparency, accountability and equity in all spheres of its operations and in all its dealing with the shareholders, employees, the government and other parties. The Bank understands and respects its fiduciary role and responsibility to shareholders. But HDFC Bank gained highest score between two selected banks. Banks have complied with all the applicable requirements of the Code of Corporate Governance as prescribed under the SEBI Listing Agreement. Both selected banks followed Corporate Governance Disclosure Practices as per Clause 49, But to improve market condition and financial system of the bank and also to remove corruption and avoid scams, banks should follow Corporate Governance in more efficient manner and SEBI should take action for any Non-Compliance's by Banks.

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