International Journal of Research in Social Sciences
Vol. 9 Issue 5, May 2019,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

A Comparative Study of Corporate Governance of two Legends of Indian Banking Industry SBI and HDFC

[1] Rambir, [2] Dr. Anil Kumar, [3] Dr. Sanjay Kumar Saini

[1] Research Scholar, **(Commerce)**,

[2,3] Research Supervisor, BHAGWANT UNIVERSITY AJMER, RAJASTHAN

EMAIL ID: - aryarambir@gmail.com

Abstract

The Banks plays decisive role in the economic development of any country. When banks allocate funds proficiently, it reduces the cost of capital, increase the pace of capital formation, increase productivity and helps in growth of firms After economic liberalization the major changes has been experienced by the Indian banking industry. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. Government stake in public sector banks has been decided to reduce gradually to 51%. Foreign banks were also permitted to enter into Indian banking market. All these changes alarmed at the need of the adequacy of control and governance in the banking industry because depositors interest is more important than shareholders interest in banking companies. Apart form depositors large number of stakeholder is also associated and their interest has to be protected for the growth of economy. Weak governance of banks echo throughout the economy with negative consequences for economic development, therefore it cannot be denied that for sustainable economic development adequate corporate governance is necessary. With this point of view this paper examines the position of corporate governance practices in three legends of Indian banking industry and concludes that the corporate governance practices in all three banks is quite satisfactory so far as mandatory disclosures are concerned but for non mandatory disclosure there exist ample of scope for improvement and development.

Keywords: Banking Industry, Corporate sector, government banking Sector, Legends

Introduction

Corporate Governance (CG) concept is as old as the civilization. It gain popularity and it emerges as a discipline after the world wide collapse of large corporations. In India people started realizing the importance of CG mainly after 1991 i.e. after economic liberalization, Globalization, and deregulation of industry during 1994-96, many banks such as ICICI bank, UTI Bank , Global trust bank , Centurion Bank , HDFC bank started their banking business. In 1997 publication of the report of Confederation of Indian Industry (CII) on desirable code of CG gave momentum to the systematic development in the area of corporate governance. The failure of Enron , America's one of the largest organization in 2001 and other corporate fraud world wide made corporate governance hot and debatable issue. Countries reacted on such failure in their own ways to prevent such scams to happen. The US enacted Sarbanes Oxaley Act in 2002, UK produces Hingis Report and Smith Report in 2003 , India by inserting clause 49 listing agreement by SEBI and revised clause 49 in listing agreement in 2006. Several international organizations such as world bank, WTO, IMF, OECD, CII etc. are continuously developing policies to strengthen the corporate governance. This paper tries to analyze the code of CG and the compliance of the governance practices of SBI , ICICI and HDFC bank on the basis of the various parameters laid down by the Kumarmangalam Birla committee and the Narayan Murthy Committee reports.

Literature Review

Concept of Corporate Governance Corporate Governance has become a buzz word in the corporate world today. CG is as old as civilization is. In Kautilay's Arthashastra foot prints of corporate governance can be seen, wherein all administrators including king were considered as servants of the people and if we compare four duties of king i.e Raksha , Vriddhi, Palana and Yogakshema and their literal meaning Protection , growth , compliance and well being, respectively with today's corporate scenario it can be equated with Risk Management , Stock holder value enhancement, compliance of law and social security system or corporate social responsibility,(ICSI 2009). According to Tricker (1984), ''management is about running the business'' whereas ''governance is about seeing that it is run properly''. Corporate governance has been defined by the various committees and agencies in different ways and one single definition cannot be said to be conclusive one. Cadbury report (1992) Cadbury committee UK defines corporate governance as " The process by which companies are directed and controlled". Organization for Economic Cooperation and Development Organizations OECD (2001) defines corporate governance as "A system by which business corporation are directed and controlled." As per CII "Corporate Governance deals with laws , procedures , practices and implicit rules that determine a company's ability to take informed managerial decisions vis-à-vis its claimants – in particular, its share holders, creditors , customers the state and employees . There is global consensus about the objective of good corporate governance i.e. maximizing long term share holder value." As per the committee constituted by SEBI known as Kumar Mangalam Birla Committee " Strong corporate governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is muscle that moves a viable and accessible financial reporting structure". The Institute of company secretaries of India ICSI (2009) has defined the term corporate governance as "Corporate Governance is the application of best management practices, compliances of law in the true letter and sprit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders." Definition of corporate governance varies in its nature but in a broader look is more tiled towards defining the good corporate governance practices for enhancing firm performance through social and ethical means for the sustainable development of all stakeholders.

Corporate Governance and Banking Industry

Bank in a broad sense, are institution whose business is handling other people's money. The traditional notion of maximizing shareholder's wealth with its all criticism is gaining popularity, but in case of Banks share holder are not much importance as it is found that in India, the depositor's contribution was well over 15.5 times the shareholders' stake in the banks as early as in March 2001,(Viswanathan,2003). The world bank's report on corporate governance is landmark evolution of the theory and its application of the concept of best corporate behavior. The world bank report stress on principles such as transparency, accountability, fairness and responsibility which are universal in their applications. The Basal Committee known for laying down the best practices and standards in banking regulation and supervision, underscore the need for banks to set strategies for their operation and establish accountability for executing these strategies. It also focus that decisions and actions is the integrally related to accountability as it gives market participants sufficient information with to judge the management of a bank.

Research Methodology

a. To develop Corporate Governance DisclosureIndex on the basic of Mandatory and Non-Mandatory requirement issued by SEBI inRevised Clouse 49 of listing Agreement.
b. To determine the corporate governancepractices in selected banks which are five privatesector banks namely HDFC Bank, ICICI Bank,Kotak Mahindra Bank, Axis Bank & Yes Bankwhich are listed in BSE Top 100
c. To make comparative analysis of corporategovernance practice between the sampled Banks

Sample size and collection of data:-

The sample comprises of five Private Sector Bank(HDFC Bank, ICICI Bank Kotak Mahindra Bank, Axis Bank,Yes Bank) which are listed in BSE Top-100. This researchwill be based on the secondary data. Present study hasconsidered the duration of a Financial Year 2015-2016. Alldata and information has collected from annual report ofeach selected banks, Journals etc

Clause 49 of listing AgreementH1 : Private Sector Banks (Selected Banks) does not showscompliance with Corporate Governance Standard andDisclosure practices mentioned in Clause 49 of ListingAgreementH1 : Private Sector Bank (Selected Bank) shows compliancewith

Corporate Governance Standard and Disclosurepractices mentioned in Clause 49 of Listing Agreement.

INTERPRETATION AND ANALYSIS

This section of our research comprisescomparative analysis of Corporate Governance disclosurepractices between five selected private sector banks forthe Financial Year 2015-16. For this purpose banksperformance is measured against certain governanceparameter. The research has been under taken to assessthe level of compliance to key governance parameter inthese companies in tune with Mandatory and Non-Mandatory requirements given by SEBI under Clause 49for listing agreement and Provisions of the CompaniesAct 2013. In this progress report

"**The Comparative Study on Corporate Governance in Public SBI Bank & Private HDFC Bank"** to consider this research work in recent scenario. The concept of corporate governance has become a buzzword everywhere and a need of the hour. In the ongoing days where the corporate scams have been coming into light, the need has arisen to have more stringent practices, laws, procedures, and rules that determine a company's ability to take managerial decisions keeping in the interests of its claimant, i.e. its stakeholders including its shareholders, creditors, customers, government and the employees. There is a universal unison about the concept of 'good' corporate governance, thereby maximizing the long term shareholder value. Thus, the corporate should take the strategic decisions in a manner which maximizes the shareholder value too besides maximizing the corporate value in the eyes of the corporate world. This means the two aspects of Profit maximization and Wealth maximization, in the today's perspective have become more pertinent which will help the corporate to become limelight in today's competitive and globalised world.

The Banks' Philosophy on Code of Governance

SBI

State bank of India is committed to the best practices in the area of corporate governance , in letter and in spirit. The Banks believes that good corporate governance is much more that complying with legal and regulatory requirements. Good governance facilitates effective management and control of business, enables the Bank to maintain a high level of business ethics and to optimize the value for all its stakeholders.

HDFC

The bank believes in adopting and adhering to the best recognized corporate governance practices and continuously benchmarking itself against each such practice. The bank understands and respects its fiduciary role and responsibility to share holders and strives hard to meet their expectations. The bank believes that best board practices, transparent disclosures and shareholder empowerment are necessary for creating shareholder value.

Results and Findings

Through Annual report this study try to find Corporate Governance practices in SBI& HDFC.This study is divided into eight parts each part is analysing status of Corporate Governance disclosures.

Share holding pattern is the structure of shares held by individual promoters or in other words brokers, public institutions etc. Shareholding pattern of 1 yearthe selected banksare shown in the following table.. This study will help in under standing the dominant shareholder group. Shareholding pattern is divided into two categories

- Promoter's HoldingNon

-Promoters

International Journal of Research in Social Sciences
Vol. 9 Issue 5, May 2019,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

Table-1.1

Shareholding Pattern of the SBI(For the Year 2013-2014)

Sr. No.	**Categories**	**SBI**	**HDFC**
	Total Number of Shares in dematerialized form		
A	**Promoter's Holding**		
1	Promoters		
	Indian	56.60	22.64
	Foreign	-	-
2	Persons Acting in concert	-	-
3	Friends and Associates of Promoters	-	-
	Sub-Total (A)	**58.60**	**22.64**
B	**Non-Promoter's Holding**		
1	Institutional Investors	-	-
	Mutual Funds	-	-
	Mutual funds & UIT	4.84	4.63
	Banks & Financial Institutions	0.32	0.08

International Journal of Research in Social Sciences
Vol. 9 Issue 5, May 2019,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

	Banks, financial Institutions, InsuranceCompanies (State/Central Govt.)	14.90	5.18
	Banks Mutual funds & Financial Institutions	-	-
	LIC of India		16.54
	GIC & other Nationalized GIC	-	-
	Foreign Institutional Investors (FII)	11.18	34.08
	Foreign Financial Institutions (FFI)	-	0.03
	Sub-Total (B)	**31.24**	**60.54**
C	**Others**		
	Private Corporate Bodies	2.58	8.09
	Indian Public	5.00	7.97
	NRIs & OCBs	0.27	0.32
	FII/OCB/NRT	-	-
	OCB/NRI/FB/FN	-	-
	FII/NRI/FB/FC/OCB/FN	-	-
	GDRs	-	-
	ADS (Deutsche Bank Trust Company Americas)	-	-

International Journal of Research in Social Sciences
Vol. 9 Issue 5, May 2019,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

F	Foreign Banks/Companies	0.10	0.1
	Indian Companies	0.06	-
	Trusts	1.12	-
	HUF	-	-
	Clearing Members	0.6	-
	Any Others	0.43	0.34
	Sub-Total (C)	**10.16**	**16.82**
	GRAND-TOTAL (A+B+C)	**100**	**100**

Conclusion

It is observed that SBI is keen implementing best practices with regard to Corporate Governance practices. The positive aspects of SBI Corporate Governance practices include board Corporate Governance Philosophy, requisite and sufficient number of board members with large representation of non-executive directors. Another position aspect of SBI Governance practices in enhancing Corporate Governance practices year by year.Some negative aspects like not disclosing information on dematerialization of shares whistle blower policy, review of chairman of various committee and director seeking appointment or re-appointment information is not given in the annual report. The market leader of banking sector of India is SBI, as India is a liberalized economy like all banks have to enhance its Corporate Governance practices proactively to achieve excellence in Corporate Governance and financial performance Te global fnancial crisis did not afect the Indian banking system mostly because of its public ownership. But quite wrongly, many public and political fgures in India misinterpreted the fundamental.

International Journal of Research in Social Sciences
Vol. 9 Issue 5, May 2019,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

References

1. Cadbury, Adrian, (1992) Report of the committee on the Financial Aspects of the Corporate Governance published by Gee & co. Ltd. London. Available at .www.ecgi.org/codes/documents/cadbury.pdf last accessed on 12 July 2011.
2. Das S. C. (2008) "Corporate Governance in India An Evaluation " Prentice hall of India pvt. Ltd New Delhi.
3. Fernando A.C. (2009) "Corporate Governance: Principles, Policies and Practices; Dorling Kindersley India (Pvt.) Ltd. Patparganj Delhi. Licensees of Pearson Education in South Asia.
4. ICSI (2008) "Corporate Governance Module of Best Practices 7th edition". Taxmann Publication (P) Ltd. New Delhi.
5. McKinsey & Co.(2002), "Global Investor Opinion Survey 2002" available Internet at www.mckinsey.com/governance last accessed on 8/9/2010 ICSI (2009) "Governance, Business Ethics and sustainability "The institute of company secretaries of India (ICSI) Module IV Publication New Delhi.
6. OECD (2001),"Principles of Corporate Governance" available at www.oecd.org and www.oecd.gov last accessed on 8/9/10 at 8 P.M. Paul a.
7. Gompers , Joy L.ishii and Andrew metrick (2003) "Corporate governance and Equity prices" Quarterly journal of economics, Vol. 118(1), February 2003, pp 107- 155.
8. Ramaswamy,k.(2001), " Organizational ownership, competitive intensity, and firm performance: An Empirical Study of the Indian Manufacturing Sector", Strategic Management Journal, Vol. 22, pp. 989-98
9. Reports (2011) "Annual Reports of SBI" Available at sbi.co.in. last accessed on 12 July 2011 at 8.P.M.
10. Reports (2011) "Annual Reports of ICICI" Available at icici.co.in. last accessed on 12 July 2011 at 8.10.P.M.
11. Reports (2011) "Annual Reports of HDFC" Available at hdfcbank.com. last accessed on 12 July 2011 at 8.15.P.M.

12. Shleifer, A. and Vishny, R. (1997), " A survey of corporate governance", Journal of Finance Vol. 52, pp. 737-83.

13. Shih – Fang Lo and Her-Jiun Sheu (2007) " Is Corporate sustainability a value increasing strategy for business" Corporate Governance: An International Review, Vol. 15, No. 2, pp. 345-358.

14. Tricker, R.I. (1984), "Corporate Governance", Gower Publishing Company Aldershot.

15. Viswanathan, R. "Corporate Governance in Banking : Issues and Solutions", Extract from the speech delivered at National Conference on Corporate Governance at LIBA on (27 January 2003)