

The Extent of Disclosure Code of Corporate Governance in India: A Comparative Study of Public and Private Sector Banks

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Abstract

Banking sector is critical for any economy in the world and Indian banking sector contribution is significant in the growth of Indian economy, but time and again the frauds reported in the banking sector raises a question on our corporate governance practices followed by the banks. This paper is an empirical investigation measuring the corporate governance compliance and disclosure practices in scheduled commercial banks in India.

The study contributes novelty by measuring not only the disclosure practices which are mandatory and non-mandatory for the scheduled commercial banks listed at the stock market, but also examines the exemplary committees formed by banks both in public & private sector showing their inclination and intent towards forming additional corporate governance committees over and above the once which are recommended by SEBI & Reserve Bank of India(RBI) to curb frauds.

Keywords: Corporate Governance, Public Bank, Private Bank, Compliance, Disclosure, Frauds.

1. Introduction

Indian banking industry is Rs 77 trillion (US\$ 1.30 trillion) as on July, 2013 and is very well at par with global standards and norms. India has 87 scheduled commercial

banks with deposits worth Rs.71.6 trillion (US\$ 1.21 trillion) as on 31 May, 2013. And this robust and stable banking sector is reenergizing our Indian economy. These stringent norms, prudent practices and conventional framework adopted by the regulator have helped the banks to overcome from the global financial crises despite of all this, the banking sector is witnessing huge corporate frauds and losses in terms of NPA's.

The paper intends to study the extent to which the banks are disclosing and reporting corporate governance practices adopted, by studying their annual reports. Though various researchers have conducted similar studies relating to the disclosure practices followed by the banks, to mention a few Hassan, M.K (2012) in his paper "The extent of disclosure in annual reports of banking companies has shown results of the association between company-specific attributes and total disclosure.

Kaur (2012) has done "A comparative study of corporate governance disclosure by private and public sector banks in India, The research findings are that mostly all the bank taken in the sample are complying with the corporate governance disclosure norms of the clause 49 of listing agreement and has given certain suggestions. Bhasin Madan (2012) in his paper reviews the adoption of the non-mandatory recommendations, if any by these companies. The study concludes that there is a fair adoption of the code of corporate governance among the mid-cap companies in India.

But this study contributes novelty by measuring the overall disclosure practices including mandatory, non-mandatory and exemplary or additional committees formed by them over and above the recommended by the regulators.

2. Objectives

- To examine the extent to which public and private sector banks adopted corporate governance code in their annual reports
- To compare and understand the extent of compliance and non-compliance among sub-parameters in public and private sector banks.

3. Methodology

The Securities and Exchange board of India (SEBI) had constituted a committee on corporate governance and circulated the recommendations to all the stock exchanges by circular SMDRP/Policy/CIR-10/2000, which includes both mandatory and non-mandatory recommendations for Indian commercial banks listed in stock exchange. In all total 27 parameters and 128 sub-parameters which include Mandatory sub-parameters are (84), Non-mandatory (9) and exemplary committees (35) have been analyzed for the study considering the annual reports 2011-12. The paper also attempts to study the exemplary committees formed by the banks. The presence of information pertaining to each statement, a score of "1" is awarded and absence of information, a score "0" is awarded by considering equal weights to the responses because each item is given equal importance.

4. Analysis & Interpretation

Table 1: Disclosure Score of Mandatory, Non Mandatory and Exemplary items by Public Sector and Private Sector Banks.

Public Sector Banks	Mandatory (84)		Non Mandatory(9)		Exemplary (35)		Total (131)		Rank **
	Number	%	Number	%	Number	%	Number	%	
STATE BANK OF INDIA	65	75.58	10	100.0	14	40.00	89	67.94	8
INDIAN OVERSEAS BANK	66	76.74	8	80.00	19	54.29	93	70.99	7
BANK OF INDIA	52	60.47	6	60.00	8	22.86	66	50.34	10
UNION BANK OF INDIA	75	87.21	8	80.00	28	80.00	111	84.73	1
PUNJAB NATIONAL BANK	69	80.23	5	50.00	27	77.14	101	77.09	4
BANK OF BARODA	74	86.04	4	40.00	25	71.43	103	79.23	3
ANDHRA BANK	71	82.55	5	50.00	24	68.57	100	76.34	5
UNITED BANK OF INDIA	77	89.53	4	40.00	28	80.00	109	83.20	2
ORIENTAL BANK OF COMMERCE	74	86.04	3	30.00	21	60.00	98	74.80	6
CORPORATION BANK	65	75.58	7	70.00	16	45.71	88	67.18	9
Total	688	80.00	60	60.00	210	60.00	958	73.13	
Private Sector Banks									
ICICI BANK	70	81.39	6	60.00	18	51.42	94	71.76	6
HDFC BANK	78	90.69	10	100.00	10	28.57	98	74.81	4

AXIS BANK	77	89.53	7	70.00	20	57.1 4	104	79.3 8	2
FEDERAL BANK	83	96.51	10	10.00	10	28.5 7	103	78.6 2	3
ING VYSYA BANK	72	83.72	7	70.00	15	42.8 6	94	71.7 5	7
KOTAK MAHINDRA BANK LTD	82	95.35	10	100.0 0	15	42.8 6	107	81.6 7	1
KARUR VYSYA BANK LTD	81	94.19	10	10.00	6	17.1 4	97	74.0 5	5
KARNATAKA BANK LTD	76	88.37	3	30.00	14	40.0 0	93	70.9 9	8.5
SOUTH INDIAN BANK LTD	75	87.2	4	40.00	14	40.0 0	93	70.9 9	8.5
CITY UNION BANK LTD.	71	82.56	4	40.00	15	42.8 6	90	68.7 0	10
Total	765	88.95	71	71.00	137	39.1 4	973	74.2 7	

** Ranks are given in ascending order on the total disclosure score.

It has been observed from the table 1. that the public sector banks the bank which is scoring maximum to the mandatory recommendations is United Bank of India (UBI) with 89.53%, SBI is score full with non-mandatory (100.0) and in exemplary committees UBI and United bank of India scores equal 80%. The public sector bank which ranks first on the total disclosure score is Union bank of India followed by United bank of India as second in place. Bank of India is on the last position. In the private sector bank the maximum score to the mandatory recommendations is Federal Bank with 96.51%, HDFC and Kotak Mahindra bank scores full on non-mandatory and in exemplary committees Axis bank with 57.1%. The private sector bank which ranks 1st on the total disclosure score is Kotak Mahindra Bank followed by Axis bank of India as second in place. City union bank is on the last position.

It also show that private banks are scoring more on mandatory recommendations as compared to the public sector banks but PSU's have taking more initiatives is forming exemplary committees to make their disclosure practice more transparent and stringent. As far as non-mandatory recommendations are given their still is a scope for improvement.

Table 2: Compliance with Mandatory, Non Mandatory, and Exemplary Provisions of Corporate Governance (clause 49) by Public and Private Banks.

PARAMETERS	PUBLIC SECTOR		PRIVATE SECTOR	
	Full Compliance	Non Compliance	Full Compliance	Non Compliance
I.MANDATORY	%	%	%	%
Board of directors	95.7	4.3	92.8	8.2
Board Meetings	47.5	52.5	57.9	42.1
Audit Committee of Board	94.0	6.0	100.0	0.0
Remuneration Committee	78.0	22.0	98.0	2.0
Nomination Committee	72.0	28.0	96.0	4.0
General Shareholder Information	92.2	8.8	96.7	3.3
Means of Communication	98.2	2.0	100.0	0.0
SCBMF	58.3	41.7	88.0	12.0
Shareholders/ Investors grievance committee	78.1	21.9	86.4	13.6
Risk Management Committee	87.5	12.5	100.0	0.0
Other voluntary disclosures & committees	88.8	11.2	98.6	1.4
II.NON-MANDATORY requirements of Clause 49(10)	60.0	40.0	63.0	37.0
III.EXEMPLARY				
MCB	90.0	10.0	48.0	52.0
Credit Approval Committee of the Board (CACB)	64.0	36.0	50.0	50.0
CSCB	72.0	28.0	86.0	14.0
IT STRATEGY COMMITTEE OF THE BOARD	68.0	32.0	64.0	46.0
HR Committee of Directors	48.0	52.0	18.0	82.0
Directors Promotion Committee (DPC)	34.0	66.0	8.0	92.0
DPC (Vigilance/non-vigilance)	44.0	56.0	0.0	100.0

Further comparisons are drawn based on the sub-parameters amongst the banks where mandatory compliance public banks in SCBMF (58.3%) Board Meetings (47.5%), Audit Committee of Board (94.0%) where as in private sector banks it is SCBMF (88%), Board Meetings (57.9%) and Audit Committee of Board (100%). The study reveals that there is a huge disparity in exemplary committees regarding "Director Promotion Committee (DPC)" where compliance is 34% in public banks and 8% in private banks. Director Promotion Vigilance Committee in private banks shows

0% compliance in comparison to 44% compliance in public sector banks, which shows that banks are taking less imitative in adopting exemplary committees.

5. Conclusion

From the analysis the percentage score of public sector banks and private sector banks are somewhat similar in total disclosure where the average is 73.13% and 74.27% respectively. The extent of non-mandatory compliance in public sector bank is 60% and in private it was 71% respectively, which shows that there is a scope for improvement.

In case of the compliance and non-compliance percentage (Table 2) as per the sub-parameters are concerned like audit committee, board meeting, risk management, means of communication, shareholders information committee showing high level of compliance both in public and private sector banks. And committees like director promotion committee and DPC vigilance committees very less compliance specially is private banks.

6. Recommendations

- Immediate implementation of BASEL III norms by all the banks.
- It seems that the current disclosure practices are mainly in document and not in spirits which leads to major non-compliance of CG practices.
- Non-Mandatory disclosure practices like whistleblower shall be made mandatory.
- Whistleblower policy should be encouraged at employee level. Protection of whistleblower should be ensured by company & Govt.
- Bribery being one of the root causes of any fraudulency shall be dealt sternly through declarations as forceful as in UK Bribery Act.
- Error of omission gives huge opportunity for fraudulency; therefore proper training shall be imparted to the employees on various critical to quality process.
- Sub-processes in any major process shall be measured for any defects on six sigma platform.
- Individual governance leading to effective corporate governance.

7. Limitation

Data for this study is based on the information provided by the annual reports of the respective public and private sector banks in India. International practices can be studied by researching the corporate governance disclosure in annual reports of foreign banks and best practices can be recommended for the Indian banks.

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