Corporate Governance in Banking Sector: The Comprehensive Study

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Abstract:
The most important factor for any economy's growth and development is ensuring effective governance. This is because corporate governance promotes the efficient use of scarce resources. It also makes these resources flow to those sectors or entities where there are efficient production of goods and services and the return is adequate enough to satisfy the demands of stake holders. Banks play a crucial role in the flow of capital. Banks are an imperative constituent of any economy. Hence, the proper governance of banks is very crucial for growth and development of the economy and the country as a whole. The corporate governance of banks is different and unique from that of the other organizations. This is because the activities of the bank are less transparent than other organizations. Thus, it becomes difficult for shareholders and creditors to monitor the activities of the bank. The situation becomes even more difficult when a major part of the share capital is with government. This aim of the present study is to examine the extent of applicability of corporate governance practices in Indian banking sector. The study consist of both the parts viz. study of concerned literature as well as the study of perceptions from banking personnel

Keywords: *Corporate Governance, Banking Sector, Shareholders, OECD, Perception*

Introduction
The Corporate Governance has its existence mainly in the wake up of economic reforms characterized by liberalization and regulation. According to organization for economic co-operation and development (OECD) principles, "Corporate Governance involves a set of relationship between a company's management, its board, its shareholders and other stakeholders. Corporate Governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.
Contemporary corporate governance started in 1992 with the Cadbury report in the UK. Cadbury was the result of several high profile company collapses and was concerned primarily with protecting weak and widely dispersed shareholders against self-interested directors and managers. The initiative in India was driven by The Confederation of Indian Industry. In December 1995, CII set up a task force to design a voluntary code of corporate governance. The final draft of this code was widely circulated in 1997. In April 1998, the code was released. It was called "Desirable Corporate Governance: A Code".

Meaning of Corporate Governance
Corporate governance is the combination of rules, process or laws by which businesses are opted, regulated and controlled. The term encompasses the internal and external factors that affect the interest of a company's stakeholders including shareholders, customers, supplier's government regulations and management. The Board of Directors is responsible for creating the framework for corporate governance that best aligns business conduct with objectives. Ethics and transparency are cardinals of corporate governance.
Corporate governance involves a system by which governing institutions and all other organizations relate to their communities and stakeholders to improve their quality of life (Ato, 2002). Corporate governance is therefore important to ensure transparency, accountability and fairness in corporate reporting. In this regard, corporate governance is not only concerned with corporate efficiency, it relates to company strategy and life cycle development (Mayer, 2007). It is also concerned with the ways parties interested in the wellbeing of firms (stake holders) ensure that managers and other insiders adopt mechanism to safeguard the interest of the shareholders (Ahmadu and Tukur, 2005). Corporate governance is based on the level of corporate responsibility a company exhibits with regard to accountability, transparency and ethical values.

Corporate governance in banking sector
The corporate governance practice is important for banks in India because majority of the banks are in public sector, where they are not only competing with one another but with other players in the banking system. Further, with restrictive support available from the government for further capitalization of banks, many banks may have to go for public issues, leading to transformation of ownership. The banks form an integral part of the economy of the country and any failure in a bank might have a direct bearing on the financial health of the

country. The Basel committee on banking supervisory authorities was established by the Central Bank Governors of the G10 developed countries in 1975. The Basel committee in the year 1999 had brought out certain important principles on corporate governance for banking organizations which, more or less have been adopted in India. The minimum impact of recession on Indian economy was because of strong and effective nature of banking sector in India.

Review of literature

Penny Ciancanelli and Jose Antonio Reyes Gonzalez(2000), in their study found that lack of guidance creates a strong theoretical motive for research on these issues. By defining a conceptual framework appropriate to governance in banks, it is possible to contribute to the further development of the microeconomics of banking. The study aimed to demonstrate the limitations of current approaches to the governance in banks and to offer a more robust conceptual framework. The analysis implies that owner managed banks are potentially the greatest endogenous source of systemic risk. Such banks are in a position to engage in the riskiest of actions knowing full well that they may keep the rewards without bearing the full cost of the risks taken.

V. Leeladhar (2004) explained in the study that Reserve Bank of India has taken various steps furthering corporate governance in the Indian Banking System. These can broadly be classified into the following three categories: a) Transparency b) Off-site surveillance c) Prompt corrective action. The real success of our financial sector reforms will however depend primarily on the organizational effectiveness of the banks, including cooperative banks, for which initiatives will have to come from the banks themselves.

Victoria Wise and Muhammad Mahboob Ali(2009), in their study suggested that Corporate governance indicates the policies and procedures applied by firms to attain certain sets of objectives, corporate missions and visions with regard to stockholders, employees, customers, suppliers and different regulatory agencies and the community at large. The role of governance is to maximize shareholder's wealth. They also concluded that if corporate social responsibility disclosure is made obligatory there is a strong case for it to follow international benchmarks. This would include the triple-bottom-line reporting method, which is increasingly being accepted as a useful method of conveying information on a firm's social performance.

Hamid Mehran, Alan Morrison, Joel Shapiro (2011), examined in depth four topics in the corporate governance of banks: executive compensation, boards, risk management, and market discipline. Policy recommendations are provided. They also explained the difference between the Governance of Banks from that of Nonfinancial Firms. Two key differences distinguish the governance of banks from that of nonfinancial firms. The first is that banks have many more stakeholders than nonfinancial firms. The second is that the business of banks is opaque and complex and can shift rather quickly.

Fatimoh Mohammad (2011) in his study examines the efficacy of corporate governance with a view to determine its impact on firms' performance and providing measures to enhance corporate financial performance and sound business practices. It was observed that both advanced and developing economies are not immune against banking sector failure. Though banking failure could be attributed to low economic development in the developing economies. The research study also shows that weak governance practices and agency problems contributed to the failure of banks. Compliance with governance requirements reduces the rate of failure.

Dr. SrinivasaRaoChilumuri (2013) suggested that corporate governance is exclusively of board of directors in a manner that it becomes a way of organizational life and not merely written rules or regulations or code of ethics. Ethics and transparency are cardinals of corporate governance. The corporate governance practice is important for banks in India because majority of the banks are in public sector, where they are not only competing with one another but with other players in the banking system. Further, with restrictive support available from the government for further capitalization of banks, many banks may have to go for public issues, leading to transformation of ownership.

Rashid Zaman, Muhammad Arslan, Muhammad AyubSiddique (2014), examines the relationship between transparency and disclosure and firm performance. Transparent and value free disclosure of information is the key aspect of corporate governance in any organization. The study aims for important policy implementation to reduce information asymmetry and improve corporate governance and firm performance. The study also concluded that the firm where governance are more valuable, gains more profitable and ultimately pay more cash to the shareholder

Elena Platonova, Mehmet Asutay, Rob Dixon, Sabri Mohammad (2016), Corporate social performance is a multidimensional concept, with behaviors ranging across a wide variety of inputs, internal behaviors or processes, and outputs Therefore, by definition, measuring CSR disclosure has to take this multidimensionality into account. It is also suggested that banking sector is a unique industry in society and its role nowadays goes far beyond bringing financial stability to the economy; it now involves establishing new trends and strategies, providing necessary services for customers and reducing financial exclusion. The banking sector is at the heart of society and thus it is expected to be more socially responsible

Puneet Kaur (2017), in his paper explained that The three important constituents of corporate governance are: 1. Board of Directors 2. Shareholders and 3. The Management. Poor corporate governance may contribute to bank failures, which can pose significant public costs and consequences due to their potential impact on any applicable deposit insurance systems and the possibility of broader macroeconomic implications. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring

Debabratasharma and Sanjeeb Kumar Dey, (2019), in their study explained that banking is the back bone of every economy. Banks have a special role in the development of an economy and their governance systems are of great importance because they have a very critical position in the overall growth of the economy. In order to be successful, banks must embrace and demonstrate ethical conduct and good governance. The goals of corporate governance are improving shareholders value and supporting a continuing commitment to growth. The essence of a company lies in transparency and accountability and in fulfilling the fair expectations of all the stakeholders

Objectives of the Study:

1. To study the status of corporate Governance in banking sector
2. To review the existing literature of Corporate Governance in banking sector

Hypotheses of the Study:

H_o- The percentage of respondents having positive perception towards Corporate Governance in banking sector is 50%

H_1- The percentage of respondents having positive perception towards Corporate Governance in banking sector is more than 50%.

Research Methodology of the Study:

As far as perception for Corporate Governance in banking sector are concerned, following factors are taken into consideration viz, responsibilities, working structure and practices, Risk identification, monitoring and controlling, Internal audit and compliances, Disclosure and transparency etc

The methods used are

1. Observation: Naturalistic method of observation to enable the study of the participants in their environment.
2. Survey Method: In this method the participants answer questions administered through interviews and questionnaire.
3. The secondary data was collected from various articles, research papers from websites and journals and books.

Research Area

Researchers selected banking personnel from Nasik district. Sample sizes of 100 banking personnel have been taken under study. Researcher collects data through Primary and Secondary sources. Researcher distributed 100 questionnaires among the respondents.

Data Analysis

In research study theoretical framework has several variable of interest and one has to come to sample size by considering all the factors of the study. Researcher prepared the questionnaire for respondents and distributed it among them. After receiving the questionnaire researcher analyse the questionnaire.

Table No 1: Information of questionnaire

Sr. No	Questionnaire distributed	Questionnaire received	Questionnaire rejected (due to incomplete, wrongly filled etc)	Net Sample size for study
1	100	81	4	77

Testing of Hypothesis

H_0: The percentage of respondents having positive perception towards Corporate Governance in banking sector is 50%

H_1: The percentage of respondents having positive perception towards Corporate Governance in banking sector is more than 50%

Mathematically

$$H_0 : p=0.5$$
vs
$$H_1 : p\neq 0.5$$

Sr No	Issue	Proportion of respondents who stated the aspects as either very important or important	S.D.	Z_cal	Z_table	p_value	Decision
1	**Responsibilities**	0.88	0.04	10.26	1.64	0.0000	**Reject H_0**
2	**Working structure and practices**	0.81	0.04	6.93	1.64	0.0000	**Reject H_0**
3	**Risk identification, monitoring and controlling**	0.77	0.05	5.63	1.64	0.0000	**Reject H_0**
4	**Internal audit and compliances**	0.68	0.05	3.48	1.64	0.0003	**Reject H_0**
5	**Disclosure and transparency**	0.60	0.06	1.73	1.64	0.0422	**Reject H_0**

****Here level of significance is 0.05**

Thus, our null hypothesis The percentage of respondents having positive perception towards Corporate Governance in banking sector is 50% is rejected. Alternatively we accept our alternative hypothesis The percentage of respondents having positive perception towards Corporate Governance in banking sector is more than 50%

Findings

1. The most vital factor among the respondents' perception is that, **'Responsibilities'.**
2. The more important issue is come out from this analysis in which there is interesting results found is; the respondents are littlebit confused about the point **'Disclosure and transparency'** as they are not fully convinced about the issue even though there is good implementation of Corporate Governance.

Conclusion

Corporate governance has become critical for all organizations. Those without a governance strategy face significant risk with those who perform better. Corporate governance is the system by which companies are directed and controlled. The best practice of corporate governance differs from country to country. The elements of good corporate governance are accountability, fairness, openness and transparency. Most of the studies reviewed in this paper are focused on the effect of corporate governance practices on the banks financial performance. It is suggested that corporate governance practices should be improved for best policies, appropriate internal control system, better credit risk management, better customer service and adequate automation in order to achieve, transparency, excellence and maximization of stakeholders value and wealth.

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