

**Evaluation of Corporate Governance Parameters:  
A Case study of Public and Private Sector Bank in India**

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**Abstract**

Corporate Governance has derived its importance due to frequent scams and scandals in financial industry. Banking sector is better synchronized and governed than all the sectors in India but special efforts needs to be made by the policy makers and banks itself to improve their governance practices. Several legal and regulatory reforms have been initiated to improve the governance of the banking sector but the type of reforms and their effective implementation are not sufficient in comparison to the international development. Corporate Governance principles are based on parameters like accountability, transparency, trust, disclosures, fairness and integrity of the banks. Applicability of Corporate Governance in banking industry is far more important to upkeep the standards and improve transparency for the stakeholders. This research study is an attempt to analyse the level of Corporate Governance in Public and Private sector banks. The research also figures out implications of Corporate Governance on performance of banking institutions.

**Corporate Governance- A Prologue**

The term "Corporate Governance" is a versatile concept. "It includes the structure, systems and process a corporation uses to communicate authority, responsibility and accountability among stakeholders. Good Corporate Governance is one which balances the interests of various Stakeholders namely, a company's employees, government, suppliers, owners and customers to ensure the long-term sustainability and success of a corporate venture."<sup>1</sup>

## **Key Parameters of Corporate Governance**

“Corporate governance relates to the quality, transparency, and reliability of the relationships between the stakeholders and accountability of each stakeholder in delivering sustainable value to the organization.”<sup>2</sup>

Foundation of Corporate Governance lies on key parameters that help to judge the organization’s governance pattern. These parameters are the criteria for evaluating standards of Corporate Governance in the banks as well. Some essential parameters are Company’s philosophy on Corporate Governance, Structure and strength of the Board, Level of Disclosures, Structure of Board Committees and Means of communication.

The above mentioned factors have to be taken care of while complying with the code of Corporate Governance. These parameters are used for assessing quality and effectiveness of Corporate Governance in the banking sector.

## **Methodology**

In this research study information has been collected by selected 300 respondents. A survey has been conducted in which primary data is collected through structured questionnaires from the selected Employees of SBI and ICICI Bank. For the purpose of analysis of current status in Corporate Governance of public and private sector banks, annual report has also been analysed.

## **Hypothesis**

H0: There is no significant difference between Effectiveness of Corporate Governance in Public and Private sector banks.

H1: There is significant difference between Effectiveness of Corporate Governance in Public and Private sector banks.

## **Analysis and Interpretations**

Corporate Governance code for banking industry is very well-defined. Annual reports of all the banks include code of Corporate Governance as an inseparable

part. However working procedures of some banks are not strictly adhering to the code of Corporate Governance. Specific operational committees have been formed under supervision of the Board committee for focussing on critical areas.

These operational committees are generally headed by independent Directors. Working of these committees along with board helps them to focus on priority areas only.

### **Comparison on Corporate Governance Parameters**

<b>Corporate Governance Parameters</b>	<b>Public Sector Bank</b>	<b>Private Sector Bank</b>
Company's philosophy on Corporate Governance	<b>Yes</b>	<b>Yes</b>
Structure and strength of the Board Board Composition Board Size	<b>Appropriate</b>	<b>Appropriate</b>
Disclosure: Financial Disclosures/Non-Financial Disclosures	<b>Financial Disclosures: Appropriate</b> <b>Non-Financial Disclosures: Not Appropriate</b>	<b>Financial Disclosures: Appropriate</b> <b>Non-Financial Disclosures: Not Appropriate</b>
Audit Committee	<b>Present</b>	<b>Present</b>
Remuneration /Compensation Committee	<b>Present</b>	<b>Non Existing</b>
Shareholders/Investors Grievance Committee	<b>Present</b>	<b>Present</b>
Health and Environment Committee	<b>Non Existing</b>	<b>Non Existing</b>
IT Strategy Committee	<b>Present</b>	<b>Present</b>
Nomination Committee	<b>Present</b>	<b>Non Existing</b>
Ethics and Compliance Committee	<b>Non Existing</b>	<b>Non Existing</b>

Whistle Blowing Committee	<b>Present</b>	<b>Non Existing</b>
Risk Monitoring Committee	<b>Present</b>	<b>Present</b>
Means of communication	<ul style="list-style-type: none"> <li>• <b>Bank's Website</b></li> <li>• <b>Press Releases</b></li> <li>• <b>News Papers</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Bank's Website</b></li> <li>• <b>Press Releases</b></li> <li>• <b>News Papers</b></li> </ul>

In this research, t-test has been applied to test various parameters that are regarded as basic necessity for compliance of Corporate Governance guidelines within the banks. The below mentioned parameters can prove the Effectiveness of Corporate Governance in Public and Private Sector Banks.

### Parameters of Corporate Governance

High Level of Disclosures						Results: H0
	Mean	Std. Dev	Frequency	t- value	Critical value	Accepted
Private Sec	4.3077	0.844673	26	-1.436566	2.0181	
Public Sect	4.7778	1.197276	18			
Shareholding Patterns						
	Mean	Std. Dev	Frequency	t- value	Critical value	Rejected
Private Sec	3.8846	0.731509	26	-2.546546	2.0181	
Public Sect	4.6667	1.152025	18			
Appropriate Governance structure						
	Mean	Std. Dev	Frequency	t- value	Critical value	Accepted
Private Sec	4.6154	0.941507	26	0.187057	2.0181	
Public Sect	4.5556	1.10802	18			
Presence of strong and independent BOD						
	Mean	Std. Dev	Frequency	t- value	Critical value	Accepted
Private Sec	4.5	0.904051	26	0.366188	2.0181	
Public Sect	4.3889	1.044697	18			
Adequate Committee Structure						
	Mean	Std. Dev	Frequency	t- value	Critical value	Accepted
Private Sec	4.4231	0.879811	26	-1.223121	2.0181	
Public Sect	4.8333	1.220327	18			
Means of Communication						
	Mean	Std.Dev	Frequency	t- value	Critical value	Accepted
Private Sec	4.1154	1.129048	26	-0.825917	2.0181	
Public Sect	4.3889	1.044697	18			

### Assumptions:

- Level of significance for critical value is 5%

- t- values are absolute values

Corporate Governance is based on various principles. Parameters are defined on which level of adherence of Corporate Governance in the banks is verified. Knowledge of employees of public and private sector banks about the concept of Corporate Governance is still very vague. Some essential parameters are tested with the help of t-test. Comparative analysis between public and private sector banks is done. The results are given below:

- There is no significant difference between high level of disclosures of public and private sector banks. The results prove that disclosures of financial and non-financial information in public and private sector banks are very limited. All the stipulated information is not being provided and disclosed by the banks.
- There is significant difference between shareholding patterns of public and private sector banks. Shareholding pattern is decided by kind of bank.
- There is no significant difference between governance structures of public and private sector banks.
- There is no significant difference between presence of Board in public and private sector banks.
- There is no significant difference between committee structures of public and private sector banks. Committee structure prescribed under the guidelines of Corporate Governance has been generally adopted by all the financial institutions irrespective of their falling in public and private sector.
- There is no significant difference between means of communication of public and private sector banks.

Sub-Committees are constituted in Public and Private sector banks to oversee the critical areas. Annual reports of Public Sector Banks are not reflecting detailed information of their constituent members which is one of the basic requirements for Corporate Governance. Levels of Disclosures of Non financial data is relatively found less than disclosures of financial information in both the banks. Newer sub-

committees namely Corporate Social Responsibility and Information Technology Strategy Committee have been recently constituted in both the banks.

### Bibliography

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3. Annual Reports of SBI and ICICI Bank (2007-2012)