Corporate Governance Practices in SBI – A Case Study

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Abstract: *Effective Corporate Governance is important for any company to be successful irrespective of the type of business it does but for bank and financial institutions, Corporate Governance assumes a greater level of importance because firstly efficient banks help to create healthy economy as they are back bone of any financial system. Secondly, banks are normally responsible for the funds which they move within an economy as they care the money of their depositors. Responsibility, transparency, fairness and accountability are the four vital pillars for strong Corporate Governance. Corporate Governance establishes a system whereby directors are entrusted with duties and responsibilities in relation to the directions of the company's affairs, creditors, employees, customers, government and the society at large. Corporate Governance helps in establishing a system where a director is showered with duties and responsibilities of the affairs of the company. This current research tries to study the trend of disclosure of corporate governance practices followed by State Bank of India for the financial years 2010-11, 2011-12, 2012-13. Observations reveal that SBI is showing maximum compliance towards corporate governance norms.*

Introduction

In the liberalized economic environment and integrations of the country into world market the corporate sector in world at present cannot ignores the importance of Corporate Governance. There were several frauds and scams in the corporate history of the world. One after the other collapses of leading companies like Robert Maxwell, Enron, Satyam and other scams pull the attraction of investors towards Corporate Governance. Most of the scams are related with poor Corporate Governance and due negligence of responsibilities by board. In the middle of 2007 world economy faces the worst financial crisis according to leading economists, since the Great Depression of 1930. Failure of key business decline in economic activity, bank solvency, decline in consumer wealth losses on the global stock markets, mergers, acquisition and bailout are some of the effects of this credit crunch globally. Specifically, the banking sector had to confront major issues caused by the over extension to credit.

After all global attention has been given to Corporate Governance. Corporate Governance aims are the vision, values and visibility. World wide it has now be- come necessary for big corporate houses to address the issue of Corporate Governance as investor demands fluctuate. Responsibility, transparency, fairness and account-ability are the four vital pillars for strong Corporate Governance.

Corporate Governance establishes a system whereby directors are entrusted with duties and responsibilities in relation to the directions of the company's affairs, creditors, employees, customers, government and the society at large. Corporate Governance helps in establishing a system where a director is showered with duties and responsibilities of the affairs of the company.

Effective corporate governance is important for any company to be successful irrespective of the type of business it does but for bank and financial institutions, Corporate Governance assumes a greater level of importance. There may be a couple of reasons for this: - firstly bank form a very vital connection in the financial system which helps to mobilize and all at funds between borrowers and depositors. Efficient banks help to create healthy economics as they are back bone of any financial system. Secondly- banks are normally responsible for the funds which they move within an economy as they care the keepers of the money of their depositors.

Review of Literature

This section deals with the review of literature related to corporate Governance disclosure and practices. This part throws light on various articles, working papers and research papers published at International and National level.

1. ‘Corporate Governance : Some Theory and Implication’ (2003) – This article attempts to provide theoretical framework for the corporate governance de- bate and to derive some implications which may be useful as a guide to policy and in many cases a market economy can achieve efficient Corporate Governance by itself.

2. ‘Corporate Governance and banking regulation’ (2004) – this research paper addresses some of the major issues of corporate governance. Writer suggests that bank regulation should seek to balance the interest of shareholders, creditors, depositors and other stakeholder interest in order to achieve the overall objective of financial stability.

3. In the field of accountancy we got an article on “Accounting for good corporate governance (2008)”, this article is an earnest effort to uncover that issue and to protect it from such unfounded critics. Author focuses good corporate governance is a must for to- day's complex and dynamic business environment. So, it should be cultivated and practiced regularly. He also suggested that we may promote a global corporate governance ranking system. Corporations that genuinely recognized and embrace the principle of good governance will derive enormous benefits, improve competitiveness and financial performance.

4. One research paper published on “Historical Re- search on Corporate Governance”: A bibliometric analysis (2011), which indicates the mainstream of Corporate Governance research, was in finance business, economics, management etc. Whereas a less important role. The paper suggests that the 'Agency Theory' is the most applied or adopted theory to Corporate Governance research.

5. One working paper on “Study on the state of Corporate Governance in India- Evolution, Issues and challenges for the future (2012), was developed which compiles a history of the evolution of corporate governance reforms in India and through a survey of existing research, identifies issue that are peculiar to the Indian context and which are not being adequately addressed in the existing corporate governance framework. This paper suggest the need for re-search in the

field of corporate governance research that would support policy formation in order to make the next generation of corporate governance reforms more effective for Indian conditions.

6. A research paper based on Nigerial's Bank's performance titled “Impact of corporate Governance on bank performance in Nigeria (2012)”, whose using the secondary data and find the poor assets quality and loan deposit ratio negatively affect financial performance and vice-versa. Author suggested that control processes that will safeguard the quality of their services and product should be secured in the interest of shareholder and market efficiency.

Research Methodology

Objectives of the study

The main objectives of study are :

- To determine the corporate governance practices in SBI.
- To identify the control environment and processes of the Corporate Governance in SBI.
- To develop corporate governance disclosure index as the basis of financial and non-financial disclosures.

Sample Size

Indian banking sector comprises the varieties of banks that can be divided as public sector banks, private sector banks, foreign banks and co-operative banks etc. Though Corporate Governance bind to all types of banks but for precise focus, researcher has selected SBI, which is the part of public sector banks. Present study has considered the duration of three financial year 2010-11, 2011-12, 2012-13, So, all the data collected are based on the annual reports of this duration only.

Hypotheses

H_0 = SBI is not showing maximum compliance to-wards corporate governance norms.

H_1 = SBI is showing maximum compliance towards corporate governance norms.

Interpretations and Analysis

This section comprises comparative analysis of states of corporate governance of SBI in three years. For this purpose bank's performance is measured against certain governance parameter. This research has been undertaken to assess the level of compliance to key governance parameter in this bank in tune with statutory and non-mandatory requirements given by SEBI under clause 49 for listing agreement.

There are some key governance parameters that can measure to ascertain the implementation of corporate governance in banks. Some of these are – Chairman and CEO duality, tenure and age limit of Directors, Disclosure of definition of Independent Directors, Financial experts and selection criteria for board members including independent directors, Appointment of lead Independent directors, Disclosure of other provisions at to the boards and committees , Disclosure of remuneration policy and remuneration of directors, code of conduct including information and affirmation of compliance, Nomination committee, Health, Safety and environment committee, Investment committee, Share Transfer Committee, General body Meetings, Means of Communication and

General shareholders information, CEO/CFO certification Compliance of Corporate Governance and Auditors' certificate, Disclosure of stakeholders' interest.

S.No.	Governance Parameters	Points score		2010-11	2011-12	2012-13
1	Statement of bank's Philosophy on code of Governance	2	2	2	2	2
2	Structure and Strength of the Board	2	2	2	2	2
3	**Chairman and CEO Duality** i) Promoter Executive Chairman-cum MD/CEO ii) Non-Promoter Executive Chairman-cum MD/CEO iii) Promoter Non-Executive Chairman iv) Non-Promoter Non-Executive Chairman v)) Non-Executive Independent Chairman	1 2 3 4 5	5 **(Max)**	- - 3 - -	- - 3 - -	- - 3 - -
4	Disclosure of tenure & age limit of directors		2	2	2	2
5	Disclosure of i) Definition of Independent director ii) Definition of Financial Expert iii) Selection criteria of Board of Directors including Independent directors	1 1 1	3 - - -	- - -	- - -	- - -
6	Post Board Meeting follow up system and compliances of the Board Procedure		2	2	2	2
7	Appointment of Lead Independent Director		2	-	-	-
8	Disclosure of other provisions as to Boards and committees		1	1	1	1
9	**Disclosure of :** i) Remuneration Policy ii) Remuneration of Directors	1 1	2	1 1	1 1	1 1
10	**Code of Conduct :** i) Information of Code of Conduct ii) Affirmation of compliance	1 1	2	1 1	1 1	1 1
11 **A**	**Board Committees :** **AUDIT COMMITTEE :**		8			

	i) Transparency in composition of the committee. ii) Compliance of minimum requirement of no. of Independent Directors in the committee. iii) Compliance of minimum requirement of the number of committee meetings iv) Information about literacy & financial expertise of the committee v) Information about participation of heat of finance, statutory auditors, chief internal auditors, and other invitees in the committee meetings. vi) Disclosure of audit committee charter & terms of reference Vii) Publishing of committee report	1 1 1 1 1 2 1		1 - 1 1 0 2 -	1 - 1 1 0 2 -	1 - 1 1 0 2 -
B	**REMUNERATION/COMPENSATION COMMITTEE:** i) Formation of the committee ii) Information about number of committee meetings. **iii)** Compliance of minimum requirement of No. of Non-executive Directors in the committee **iv)** Information about participation of meetings v) Publishing of Committee report.	1 1 1 1 1	5	1 1 1 1 1	1 1 1 1 1	1 1 1 1 1
C	**SHAREHOLDERS'/INVESTORS' GRIEVANCES COMMITTEE:** i) Transparency in composition f the committee ii) Information about nature of complaint & queries received and disposed-item wise. iii) Information about number of committee meetings. iv) Information about action taken and investors/shareholder survey.	1 1 1 1 1	5	1 1 1 - -	1 1 1 - -	1 1 1 - -

	v) Publishing of Committee report.					
D	**FORMATION COMMITTEE :** i) Formation of the committee ii) Publishing of Committee charter and report	1 1	2	- -	- -	- -
E	HEALTH SAFETY AND ENVIORNMENT COMMITTEE:		1	-	-	-
F	ETHICS AND COMPLIANCE COMMITTEE :		1	-	-	-
G	INVESTMENT COMMITTEE :		1	-	-	-
H	SHARE TRANSFER COMMITTEE :		1	-	-	-
12	Disclosure and Transparency : i) Significant related party transaction having potential conflict with the interest of the company ii) Non-compliance related to capital market matters during the last 3 years. iii) Board disclosure-Risk Management. iv) Information to the board on risk management v) Publishing of risk management report vi) Management discuss and analysis vii) Shareholders ❖ Appointment of new director/re-appointment of retiring directors ❖ Quarterly results & presentation ❖ Share-Transfers ❖ Directors' responsibilities statement viii) Shareholder right ix) Audit Qualification x) Training of Board members xi) Evaluation of non-executive directors xii) Whistle Blower Policy	2 2 2 2 1 2 1 1 1 1 2 2 2 2 2	25	2 2 2 2 1 2 1 1 1 1 2 2 2 2 2	2 2 2 2 1 2 1 1 1 1 2 2 2 2 2	2 2 2 2 1 2 1 1 1 1 2 2 2 2 2
13	**General Body Meetings :** I) Location and time of General Meetings held in last	1	3	1	1	1

	3 years ii) Details of Special Resolution passed in the last 3 AGMs/EGMs iii) Details of resolution passed last year through Postal Ballot including the name of conducting official and voting procedure	1 1		1 1	1 1	1 1
14	**Means of Communication and General Shareholder Information**		2	2	2	2
15	**CEO/CFO certification**		2	2	2	2
16	**Compliance of Corporate Governance and Auditors' Certificate:** i) Clean certificate from auditors ii) Qualified certificate from auditors	10 5	**10 (Max)**	- 10	- 10	- 10
17.	**Disclosure of stakeholders' interest :** i) Environment, Health & Safety measure (EHS) ii) Human Resource Development initiative (HRD) iii) Corporate Social Responsibilities (CSR) iv) Industrial Relation (IR) v) Disclosures of policies on EHS, HRD, CSR & IR	2 2 2 2 2	10	1 2 2 2 2	1 2 2 2 2	1 2 2 2 2
	TOTAL		**100**	**80**	**80**	**80**

Source: Annual Report of SBI

Observation from Table

a) The bank's performance in governance standard is very good in 3 years.

b) In every year the bank had got same score point (80 marks)

Conclusions

It is observed that in this research alternative hypothesis has been proved that SBI is showing maximum compliance towards corporate governance norms. 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.

Some negative aspects like not disclosing information on dematerialization of shares, whistle blower policy, re-view of chairman of various committees and director seeking appointment or re-appointment information are not given in the annual report. The market leader of banking sector of India is SBI, as India is liberalized economies like all banks have to enhance its Corporate. Governance practices proactively to achieve

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excellence in Corporate Governance and financial performance.

Suggestions

a) Bank should develop its own code of Corporate Governance to ensure that is in line with international best practices.

b) Bank should initiate massive awareness campaign highlighting the meaning and the business care of good corporate governance.

c) Code of ethics and board charters serve a very important document for ensuring good corporate governance and banks in India can think of developing such documents in the long run.

d) Although the functions of the board are in most cases in the line with best practices, certain areas need to be given special attention.

e) Bank should initiate performance evaluation of the board to ensure that the board achieves its purpose and is best able to protect the interest of stakeholders.

f) Bank should consider organizing seminars, work-shops sessions on corporate governance for its board members and also should arrange orientation sessions for new members.

g) SEBI or RBI should conduct regular revision of corporate Governance guidelines if required incorporating internationally acknowledges principles & guidelines.

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