Journal of Advances and Scholarly Researches in Allied Education
Vol. 19, Issue No. 3, April-2022, ISSN 2230-7540

Need of Corporate Governance in Banking Sector

Sandeep Jain[1]*, Dr. Ruchi Gupta[2]

[1] Research Scholar, Apex School of Commerce & management, Apex University, Jaipur-303002 Rajasthan (India)

[2] Assistant Professor, Apex School of Commerce & management, Apex University, Jaipur-303002 Rajasthan (India)

Abstract - The corporate world in India could not ignore the changes in the United Kingdom, which had a huge impact on our nation and eventually prompted us to establish our own ground rules on the notion of Corporate Governance. After the 1990s, when economic liberalization and deregulation of industry and business became a popular policy element in India, the notion of Corporate Governance became widespread. Corporate governance is essential not just for establishing credibility and trust, but also for ensuring survival, consolidation, and expansion. To fulfil the following important goals, banks must guarantee effective Corporate Governance:

For Excellence: Banks can no longer survive or flourish without Corporate Governance. It has become a necessary criterion for their continued market presence. No public sector bank could launch their first public offering unless they met the Corporate Governance requirements.

Through technological advancements and changes in the operating environment, the client has become the focal point for more tailored services and increased comfort for better customer relationship management.

Under the auspices of Corporate Governance, banks have established a solid board of directors who follow strong management and chevalier procedures. Decision-making procedures have also grown more scientific as a result of a feeling of accountability and social responsibility.

Corporate governance has allowed banks to increase their profitability and wealth production capability. Banks have expanded their commercial offerings to include insurance, banking services, and a wide range of diverse retail items. In September 1999, the Basel Committee produced a study on Corporate Governance for Banking Organizations. The committee believes that banking supervisors are responsible for ensuring effective Corporate Governance in the banking industry.

Keywords - Liberalization, Deregulation, Credibility, Decision-Making, Accountability, Basel

- X -

INTRODUCTION

The introduction of new private sector banks increased the focus on quality among the incumbent institutions. Financial sector had also risen quite complicated, it is now understood that in order to perform well and stay competitive in the era of liberalization and globalization, it is necessary to place more emphasis on subjective standards like system of internal regulates, board structure and involvement, and disclosing. In India, corporate administration didn't enter the monetary area plan until 1998, when it was understood that poor and inadequate administration was one of the significant issues influencing bank execution. The Advisory Group on Banking Supervision (M.S. Verma) recommended that all banks lay out a specific negligible norm of corporate administration in 2000. It took a gander at the possession worries while making corporate administration standards. A corporate administration warning gathering headed by R.H. Patil was laid out in 2001, hurrying the progressions expected to make the sheets of these organizations more expert and truly autonomous.

According to Clifford Woody - "Research comprises defining and redefining problems, formulating hypothesis or suggested solutions, collecting, organizing and evaluating data making deductions and reaching conclusions and at last carefully testing the conclusions to determine whether they fit the formulating hypothesis".

The researcher must be knowledgeable about methodology in addition to research methodologies and procedures. In addition to knowing how to create specific tests or indices, compute mean, mode, median, standard deviation, or chi-square, and apply specific research techniques, researchers also need to know which of these methods or techniques are applicable and which are not, as well as what they would mean and indicate and why. The researchers also need to be aware of the presumptions behind different approaches and the standards by which they may choose which techniques and processes are appropriate for specific situations and which ones are not. All of this implies that the researcher must develop his approach for his issue since they may vary from one another.

The research focuses on assessing Governance in HDFC Bank, a private sector bank, and in particular, on examining the effectiveness of Corporate Governance HDFC in boosting the economy, curbing misconducts, and bringing clarity to banking transactions, as well as how it can be made mandatory. As a result, the study methodology was rigorously constructed in order to determine the efficacy of Corporate Governance at HDFC Bank in Jaipur.

In 1999, the Basel Committee established a number of basic corporate governance requirements for banking businesses. However, in the domain of corporate governance, "Clause 49" of the listing agreement was a landmark event. It emphasizes and provides the information that all businesses, including banks, are required to provide in their annual report. These contents were created with the goal of ensuring that companies provide important information in a simple and comprehensive manner. Clause 49's provisions are based on a number of variables that businesses must disclose, such as board composition, disclosures, audit committee, and so on. For example, Clause 49 states that the Company should ensure timely and accurate disclosure of information to its equity investors, that information should be prepared and disclosed in accordance with defined norms, and that information dissemination channels provide for equivalent, timely, and cost-effective entry to users.

OBJECTIVE OF STUDY

Each research study has its own specific purpose. This research work has been undertaken keeping in view the following objectives:

- To understand the concept of Corporate Governance.
- To evaluate the documents of the corporate governance for Board structure of banks.
- To evaluate the various committee performances like Audit Committee, Remuneration Committee, Customer Service Committee etc.
- To study the transparency and related disclosure.

NEED FOR CORPORATE GOVERNANCE

At the most fundamental level, corporate management establishes the "game rules" to handle disagreements that arise between the management and the division of ownership in order to safeguard the needs of all stakeholders. Exact evidence demonstrates that businesses with a strong administrative culture provide higher benefits, more notable value-added yields, and higher profit margins.

Notably, excellent corporate management also manifests in sensitive areas as representational inspiration, workplace culture, corporate value framework, and company image.

In fact, even if the legal process relating to this alleged misleading is still ongoing, the main concern is how this corporate administration dissatisfaction was caused, as well as how to fill in those gaps. We experienced instances of poor corporate governance in the financial sector as well, including the breakdown of fundamentals in forex subsidiary exchanges and widespread executive plan misrepresentation. These instances served as a warning to us that we must work diligently to achieve the best practice in each area of corporate governance.

REVIEW OF LITERATURE

In his PhD dissertation, "Performance Appraisal of Commercial Banks in India," Vashisht (1987), analyzed the performance of public sector banks during the period of 1971–1983, looking at six indicators: branch growth, deposit, credit, priority sector loans, DRI lending, and net profit.

Ram Mohan and Ray (2004) compared the performance of three categories of banks—public, private, and foreign banks—using physical quantities of inputs and outputs and comparing the revenue maximization efficiency of banks between 1992 and 2000.
Business India (2006) organized a panel discussion to evaluate the top bank in the Indian banking industry using a few carefully chosen criteria. For the panel discussion, Business India carefully examined 24 banks. Out of a total of 88 banks, the other banks were still in the running for selection by the panel.
according to Bharathi's article from 2007 titled "Indian Bank: Banking on Growth." A strong banking system will be essential for raising the level of economic activity, as he noted that India has the second-fastest expanding economy in the world.
According to Nair (2007) there have been major changes in the Indian banking industry over the last 10 years that have made it stronger, cleaner, more efficient, disciplined, responsive, and much more competitive. India's banking industry is now

competitive with the rest of Asia in terms of growth, profitability, and a low level of non-performing assets (NPAs).

H P Mahesh as well as Meenakshi Rajeev (2010) Policymakers and academics alike have been focused on the problem of non-performing assets (NPA), the primary cause of the current global financial crisis. The issue of non-performing assets (NPAs), which was disregarded until recently, has received significant attention since India's banking industry was liberalized.

Monika Sharma and Kajal Chaudhary (2011) The early 1990s saw the beginning of India's economic reforms, but the results are now clear. The operation of banks in India saw significant changes only after privatization, globalization, and liberalization. Studying and conducting a comparison of the services provided by public sector banks and private sector banks has become very necessary.

Mr. Waheed Akhter (2011) The goal of this research is to evaluate the effectiveness and performance of Islamic banks in Pakistan in comparison to two different kinds of conventional banks, namely public and private sector banks

"Corporate Governance in India- A Legal Analysis 2012", The gift corporate governance framework in India spans each voluntary and required criteria, in step with the examiner, which attempts to analyze the most important tendencies in company governance in India.

Ekta Selarkh (2018)"Indian company governance practices." This article gives an define of India's company governance practices. Indian companies adopt the SEBI Clause forty-nine rule.

In addition to the 83 literature reviews that were mentioned above, a sizable number of studies have periodically evaluated the financial performance of various bank sectors using the appropriate metrics in accordance with the goals that they had set for their study.

RESEARCH METHODOLOGY

The research focuses on assessing Governance in HDFC Bank, a private sector bank, and in particular, on examining the effectiveness of Corporate Governance HDFC in boosting the economy, curbing misconducts, and bringing clarity to banking transactions, as well as how it can be made mandatory. As a result, the study methodology was rigorously constructed in order to determine the efficacy of Corporate Governance at HDFC Bank in Jaipur.

SAMPLE SIZE

The Indian banking industry includes a wide range of financial institutes, such as public sector banks, private sector banks, foreign banks, and cooperative banks, among others. Despite the fact that Corporate Governance applies to all kinds of banks, it has a specific emphasis. HDFC, a private sector bank, is the one I have chosen.

COLLECTING DATA AND RESOURCES

The investigation was carried out using secondary data. Secondary facts and statistics were taken from yearly reports obtained from various sources. The facts and statistics were taken from annual reports for the fiscal years 2021-22. These annual reports are widely accessible on the bank's websites.

HYPOTHESES

- HO1: The HDFC bank's PAT (Profit after Tax) has no substantial impact on its Corporate Governance.
- HO2: The HDFC bank's DPR (Dividend Payout Ratio) has no beneficial impact on its Corporate Governance.
- HO3: HDFC Bank's sales do not have a substantial impact on its/on Corporate Governance.
- HO4: HDFC Bank is following all Corporate Governance guidelines to the letter.

SCOPE FOR THE STUDY

Since this area requires a great deal of work, there is a great deal of room for more investigation. The limited example size used in this research means that the equivalence may be extended by increasing the test size. The use of time-consuming parametric tests other quantifiable tools may improve an evaluation of a similar kind.

1. Non-Banking Financial Institutions practice corporate administration.
2. Corporate management in both public and private sector banks from the viewpoint of financial supporters.
3. Corporate management techniques used by foreign banks operating in India.
4. Corporate management techniques of Indian Regional Rural Banks.
5. Corporate administration and its impact on CSR are discussed in both public and private banks.
6. Corporate administration and its impact on financial execution in India's public and private banks.

CONCLUSION

The need of effective corporate management is recognized by HDFC Bank as a key factor in creating respect for all partners and reaching hierarchical proficiency. In order to manage and observe the bank in accordance with the requirements of good corporate governance, this Corporate Governance Policy is set out.

The Bank is focused on carrying out and maintaining the accepted procedures in corporate administration and reliably considering its exhibition in contrast to every one of these norms. The Bank strives to satisfy the hopes of its investors and perceives and regards its guardian obligation and commitment. Best board strategies, open exposures, and investor strengthening, as per the Bank, are fundamental for producing investor esteem.

The Bank has integrated the corporate administration standard into each part of its activities. The corporate administration idea is a critical instrument for safeguarding investors and boosting their drawn-out values. As an approach to trying the corporate administration hypothesis in word and soul, the cardinal upsides of freedom, responsibility, obligation, transparency, fair and brief exposures, validity, and so on.

SUGGESTION

Following suggestion from the study as follows:

- Corporate Governance standards should be made compulsory for the entire Indian banking industry
- Banks should take initiative and play an active role in development of their own corporate governance standards
- Incentives should be given to banks developing their own corporate governance mechanisms.
- The Board should be strengthened in order to exercise objective and independent judgment
- One uniform code for corporate governance should be developed for the global banking sector
- A Corporate Governance Committee should be made mandatory for all banks
- Corporate Governance should be a team effort.
- Remuneration levels should be adequate and commensurate with experience and qualifications across all banks
- Newer models of corporate governance should be developed in order to avoid stagnation
- In some cases, issues should be tended to namelessly. Banks ought to give a mysterious idea box with full sure aim of noticing the day-to-day ideas to come in. Through this, bank can limit the breaking down and reinforce the WBP.

REFERENCES

1. Achim, M. V.; Borlea, N. S. (2013). Corporate governance and business performances. Modern approaches in the new economy. Germany: Lap Lambert Academic Publishing.

2. Adams, Renée B., (2012). Governance and the financial crisis. International Review of Finance, 12(1), 7-38.

3. Allen, Franklin and Douglas Gale, (2000). Comparing Financial Systems, MIT Press, Cambridge (MA).

4. Baysinger, B. and Hoskisson, R. E. (1990), The composition of boards of directors and strategic control: Effects on corporate strategy, Academy of Management Review, Vol. 15, p72–87

5. Beck, Thorsten, Asli Demirguc-Kunt, and Vojislav Maksimovic, (2004). Bank competition and access to finance: International evidence. Journal of Money, Credit and Banking, 36,627-648.

6. Berger, Allen N., Qingley Dai, Steven Ongena, and David C. Smith, (2003). To what extentwill the banking industry be globalized? A study of bank nationality and reach in 20 European nations. Journal of Banking and Finance, 27, 383-415.

7. Bonin, John P., Iftekhar Hasan, and Paul Wachtel, (2005). Privatization matters: Bank efficiency in transition countries. Journal of Banking Finance, 29(8-9), 2155–2178.

8. Cornett, Marcia Million, Lin Guo, Shahriar Khaksari, and Hassan Tehranian, (2010). The impact of state ownership on performance differences in privately-owned versus state owned banks: An international comparison. Journal of Financial Intermediation, 19(1),74-94.

9. Demsetz, Rebecca, Marc Saidenberg and Philip Strahan, (1997). Agency problems and risk-taking at banks. Federal Reserve Bank of New York Staff Report No. 29.

10. Emmanuel S.A. and B.R. Hodo (2012), “Does corporate governance affect bank profitability? Evidence from Nigeria,” American International Journal of Contemporary Research, vol.2, pp. 135-145

11. Fernando, A.C. (2012) Business Ethics and Corporate Governance, Second Edition, Pearson India.

12. Gorton, Gary and Richard Rosen, (1995). Corporate control, portfolio choice, and the decline of banking. Journal of Finance, 50, 1377-1420.

13. Harris, Milton and Artur Raviv, (2008). A theory of board control and size. Review of Financial Studies, 21(4), 1797-1832.

14. Jensen, Michael C. and William H. Meckling, (1976). Theory of the firm: Managerial behavior, agency costs, and capital structure. Journal of Financial Economics, 3, 287–322.

15. Knopf, John and John Teall. (1996). Risk-taking behavior in US thrift industry. Ownership structure and regulation changes. Journal of Banking and Finance, 20, 1329-1350.

16. Lorsch, J. and McIver, E. (1989). Pawns or Potentates: The Reality of America's Corporate Boards, Boston, MA: HBS Press. Macey, Jonathan and Maureen O"Hara. (2003). The corporate governance of banks. FRBNY Economic Policy Review, 9, 91-107.

17. Merton, Robert, (1977). An analytic derivation of the cost of deposit insurance and loan guarantees: An application of modern option pricing theory. Journal of Banking and Finance, 1, 3-11.

18. Mongiardino, Alessandra and Christian Plath, (2010). Risk governance at banks: Have any lessons been learnt? Journal of Risk Management in Financial Institutions, 3, 116-123.

19. O. Stephen, and Olatunji (2011), "The Role of Non-Executive Directors in the Profitability of Banks: A Study of Universal Banks in Nigeria", International Journal of Business and Management, vol.6, pp. 248-257.

20. Prowse, Stephen, (1997). The corporate governance system in banking: What do we know? Banca del Lavoro Quarterly Review (March), 11-40.

21. SEBI (2015) Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

22. Thomas R. and S. S. Thakur (2014) Analysis of Corporate Governance and Performance of Indian Banks, Shodh Ganga, Volume 4, No. -1, Jan.-Dec. 2014.

23. Wang, Wei-Kang, Wen-Min Lu, and Yi-Ling Lin, (2012). Does corporate governance play an important role in BHC performance? Evidence from the U.S., Economic Modelling 29,751–760.

Corresponding Author

Sandeep Jain*

Research Scholar, Apex School of Commerce & management, Apex University, Jaipur-303002 Rajasthan (India)