4th International Conference on Multidisciplinary Research
Osmania University Centre for International Program, Osmania University Campus, Hyderabad (India) (ICMR-2019)
2nd February 2019, www.conferenceworld.in ISBN:978-93-87793-67-5

COMPARATIVE ANALYSIS OF CORPORATE GOVERNANCE DISCLOSURE SCORE OF INDIAN AND FOREIGN BANKS

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***Abstract**: Corporate governance is an important aspect of managing the corporate form of the organizations. Of late it has assumed greater significance and researchers, practitioners and policy makers have been exploring ways in which modern corporation should be managed to meet the economic, social and legal needs of different socio-political systems. The article discusses the importance of Corporate Governance disclosure practices of Indian and foreign banks operating in India. It has been observed that even though the disclosures are made mandatory, there is a large variation in the quality of corporate governance disclosure practices adopted by Indian and Foreign Banks operating in India. It can be concluded that the Indian banks and foreign banks operating in India differ significantly as far as corporate governance reporting score is concerned. Although the disclosure requirements for Indian and Foreign banks operating as wholly owned subsidiary is same. It is suggested that the regulators could also consider implementing such things as annual disclosure questionnaires for banks through the internet and presenting the results of such disclosures in an orderly way via a searchable internet database. Such measures can increase the viability and a further facilitates investor access to corporate governance data.*

Index terms: Corporate governance, Banks, Indian banks, Corporate governance of Indian banks.

I. INTRODUCTION

Corporate governance is a very wide term, which covers a wide range of activities that relate to the way business of firm is directed and governed. It deals with the policies and practices that directly impact on the firm's performance, stewardship and its capacity to be accountable to its various stakeholders. Corporate governance is the system of relations between the shareholders, board of directors and management of a firm as defined by the corporate charter, by-laws, formal policy and rule of law.

ISBN:978-93-87793-67-5

As per G20/ OECD Principles of Corporate Governance, 2015 - "Good corporate governance is not an end in itself. It is a means to support economic efficiency, sustainable growth and financial stability. It facilitates companies' access to capital for long-term investment and helps ensure that shareholders and other stakeholders who contribute to the success of the corporation are treated fairly."The main objective of the corporate governance is to protect long-term shareholder value along with the other stakeholders.

II. DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES

Following the OECD (2004) description of the "corporate governance" features, several studies have argued that the underlying objective of good corporate governance is to promote transparency and public accountability (Taylor, 2000; Solomon and Solomon, 2004; Parker, 2007; Hassan, 2008; Wei et al., 2008). The disclosure of "corporate governance" practices not only provides investors, or as Parker (2007) states the "general community", with information about corporations' ownership structure, management structure, management composition and auditing and internal control but also enables the managers of the corporations to release information about how they execute their responsibilities or, as Wei et al. (2008) state, "discharge their accountability" to their stakeholders.

One of the key aspects of corporate governance reporting is what Sinclair (1995) refers to as discharging "public accountability" (Wei et al., 2008). "Public accountability", as Sinclair (1995) defines, is a form of accountability in which managers and organizations become "more accountable to the public, interested community groups and individuals". Coy and Dixon (2004) argue that public accountability requires open disclosure to all citizens and stakeholders, who have an opportunity to make criticisms. Coy et al. (2001) advocate the need for public accountability- based disclosure in order to meet the information needs of a broad range of stakeholders who have a legitimate economic, social and political interest in the reporting organization.

"Transparency" is another aspect that many scholars underscore as a key element of "good" corporate governance (Taylor, 2000; Solomon and Solomon, 2004; Cheung et al., 2010). Barth and Schipper (2008) argue that "transparency" is the extent to which financial reports reveal how corporations' managers discharge their responsibilities in a way that is readily understandable by those using the financial reports. Parker (2007) points out that corporate governance reporting involves more than compliance with legal requirements. It incorporates, he adds, the voluntary disclosure of information related to wider organizational issues such as management processes, investors' rights, ownership structure and any other information that discharges corporate management responsibilities.

One can argue that the underlying ethos behind corporate governance reporting relies on public accountability and transparency. Since the study has crafted a corporate governance reporting index, this ethos has been acknowledged in it. Corporate governance reporting, as Parker (2007) argues, involves more than compliance with regulatory requirements and therefore in the crafted index higher values are assigned to the voluntary disclosure of information related to corporate governance while lower values are assigned to the disclosed governance measures that are legally required.

The crafted corporate governance reporting index in this paper ensures that the communication of comprehensive information that enables organizations' managers to discharge their public accountability and enhance corporations' transparency is included. It is assumed that the crafted index will enable the exploration of the ethos, or as Haat et al. (2008) argue the "substance over form", of governance rather than merely the application of a "box- ticking" approach in order to demonstrate compliance with governance legislations. The study examines the difference incorporate governance disclosure by Indian and foreign banks operating in India. The next section discusses the research methodology for the present research.

III. RESEARCH METHODOLOGY

Research methodology is the blueprint that describes the procedure about how we conduct research procedure. It helps in find out objectives of the research problem. First, the research problem will be established and on the basis of this research problem objectives will be identified. A research model will be developed and on the basis of this model the study objectives will be finding.

Research Design: The research design for this study is descriptive as well as analytical.

Population: The population for the present study comprises the Indian Banking sector & Foreign Banking sector operating in India.

Sample Size: The researcher has selected top 30 Indian banks and the top 18 foreign banks as per rating of Business Today-KPMG survey on India's best banks. Report published in Business Today as on February 14, 2016.

Time Period of the Study: For the purpose of analysis of data, a period of 5 years has been taken into study. The 5 years period will be from the financial year 2012 to 2016.

Scale to Calculate Corporate Governance Disclosure Index: The researcher created a scale to capture corporate governance disclosure score of Indian and foreign banks. The scale consisted of large number of relevant factors relating to banks. Major heads on this scale were 15 including Banks' Philosophy on Code of Governance, Chairman and CEO duality, Board of Directors, Audit Committee, Risk Management Committee, Remuneration Committee, Shareholders/Investors' Grievance Committee, General Body Meetings, General Shareholder Information, Compliance with corporate governance and auditors' certificate, CEO/CFO certification, Health Safety and Environment Committee, Ethics and Compliance Committee, Investment Committee and Share Transfer Committee. These major heads were further divided into minor heads. Any bank can score a maximum of 100 points on this scale.

Data Collection: To collect data relating to corporate governance disclosure of the Indian Banks the researcher used Centre for Monitoring Indian Economy (CMIE) database PROWESS and Bloomberg Database for foreign banks. The researcher also accessed the annual reports, website and other relevant publications to collect data relating to parameters for which the data was not available with the above-mentioned databases. The objective of the study is to investigate variations in the corporate governance practices and their disclosure by Indian and foreign banks operating in India. With this reasoning following Hypothesis was proposed to understand the difference for corporate governance disclosure among Indian and foreign banks operating in India.

Hypothesis: Indian and Foreign Banks operating in India do not significantly differ in terms of their Corporate Governance Disclosure Score.

As the hypothesis testing involves comparing corporate governance disclosure index for Indian and foreign banks operating in India it compares two groups which are independent of each other. The Independent Samples t-Test was the appropriate test as it compares the means of two independent groups in order to determine whether there is statistical evidence that the associated population means are significantly different. The Independent Samples t Test is a parametric test. The variables used in this test are known as Dependent variable, or test variable and Independent variable, or grouping variable.

Null Hypothesis H0: $\mu 1 = \mu 2$ ("The mean of corporate governance disclosure score of Indian and Foreign Banks are equal")

Alternative Hypothesis H1: $\mu 1 \neq \mu 2$ ("The mean % of corporate governance disclosure score of Indian and Foreign Banks are not equal").

The data for mean corporate governance disclosure score subjected to the above test resulted into table 1 and 2 annexed with this paper.

Since $p < .001$ is less than our chosen significance level $\alpha = 0.05$, we can accept the null hypothesis, and conclude that the mean corporate governance disclosure score of Indian and Foreign Banks operating in India is different significantly.

Based on the results, it can be stated that:

There was a significant difference in corporate governance disclosure score for Indian and Foreign Banks operating in India ($p > .001$).

The average corporate governance disclosure score of Indian Banks and foreign banks operating in India differs significantly.

IV. CONCLUSION

In sum, it can be concluded that the Indian banks and foreign banks operating in India differ significantly as far as corporate governance reporting score is concerned. Although the disclosure requirements for Indian and Foreign banks operating as wholly owned subsidiary is same. But majority of foreign banks operate in India as limited branch operation mode. So, they escape from many of the disclosure requirements. It is suggested that the regulators could also consider implementing such things as annual disclosure questionnaires for banks through the internet and presenting the results of such disclosures in an orderly way via a searchable internet database. Such measures can increase the viability and a further facilitates investor access to corporate governance data.

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Annexures

Table 1:Independent Sample Statistics for Hypothesis

Group Statistics					
	Nationality	N	Mean	Std. Deviation	Std. Error Mean
Corporate Governance Disclosure Score Index	Foreign	90	85.4556	5.93629	.62574
	Indian	150	76.9733	8.49788	.69385

Table 2: Independent Sample Statistics for Hypothesis

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference: Lower	Upper
Corporate Governance Disclosure Score Index	Equal variances assumed	11.280	.001	8.326	238	.000	8.48222	1.01882	6.47516	10.48928
	Equal variances not assumed			9.078	232.4	.000	8.48222	.93433	6.64138	10.32306