IJARSCT
ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 2, April 2024

A Study on Corporate Governance in Banking Sector

Dr. S. Uma Sarulatha[1] and Kavitha. L[2]
Associate Professor & Head Department of Commerce[1]
M.Com 2nd year, Department of Commerce[2]
Annai Violet Arts and Science College, Ambattur, Chennai, Tamil Nadu, India

Abstract: *This study delves into the intricate domain of corporate governance within the banking sector, aiming to illuminate its multifaceted dynamics, implications, and best practices. Corporate governance stands as a cornerstone of effective management and oversight, particularly within financial institutions given their critical role in economic stability and growth. Through a comprehensive analysis, this study explores the mechanisms, structures, and frameworks governing corporate governance in the banking sector, considering regulatory frameworks, board structures, risk management practices, and stakeholder engagement. Furthermore, it examines the impact of corporate governance on organizational performance, risk mitigation, and stakeholder trust. Drawing upon a synthesis of empirical research, case studies, and regulatory guidelines, this study offers insights into the challenges and opportunities facing banking institutions in upholding sound corporate governance principles. By understanding and addressing these challenges, banks can enhance their resilience, accountability, and sustainability, thereby contributing to the stability and integrity of the financial system at large.*

Keywords: Corporate Governance, Sustainability, Organisational Performance.

I. INTRODUCTION

Corporate governance is a set of rules, practices, and processes used to direct and control an organization. Boards of directors are the primary force determining corporate governance. Accounting, transparency, fairness, and responsibility are the four fundamental principles of corporate governance.

Corporate Governance is a continuous process of applying the best management practices, ensuring the law is followed the way intended, and adhering to ethical standards by a firm for effective management, meeting stakeholder responsibilities, and complying with corporate social responsibilities.

The term corporate governance refers to how companies are run and for what purpose. Corporate governance also defines an organization's power structure, accountability structure, and decision-making process.

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

It contains policies and rules to maintain a strong relationship between the owners of the company (shareholders), the Board of Directors, management, and various stakeholders like employees, customers, Government, suppliers, and the general public. It applies to all kinds of organizations-profit or not-for-profit.

PRINCIPLES OF CORPORATE GOVERNANCE:

Every company or business can have their own principles, but they have to adhere to some basic principles of corporate governance that apply to every business or company. These are:

ACCOUNTABILITY:

The management and board of directors are accountable for the working and functioning of a company's assets, its financial conditions, investments and capital, audits, litigations, liabilities, etc. They must be answerable to the shareholders in order to build trust and healthy relations with them.

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TRANSPARENCY:

Another principle of corporate governance is that the board of directors and other managerial personnel must disclose information related to risks, finance, capital, loans, audits, and other issues to the shareholders and anyone having any kind of interest in the company. In this way, there must be transparency in the work.

RESPONSIBILITY:

The board of directors is under an obligation to act in a manner which is suitable for the affairs and benefit of the company. They must be responsible and sensible enough to make wise decisions on all corporate matters.

FAIRNESS:

Fairness, or non-bias, is one of the most important principles of corporate governance. Everyone, whether they be employees, members, shareholders, workers or directors, must be treated equally and fairly.

MANAGEMENT OF RISK:

Another important principle of corporate governance is that it must be used to identify and manage the risks beforehand rather than waiting for them to strike and affect the smooth functioning of a company.

FEATURES OF CORPORATE GOVERNANCE:

QUALFIED BOARD OF DIRECTORS:

According to Section 149 of the Companies Act, 2013, every public company in India must have a minimum of 3 directors, while a private company must have a minimum of 2 directors. However, they can have a maximum of 15 members. Thus, it is necessary for a company to appoint a board of directors that is capable of fulfilling all the regulations and performing all the duties with proper diligence.

DEFINED ROLES AND RESPONSIBILITIES:

To carry out the affairs of a company properly, it is necessary that people in the management of a company, like the board of directors, secretary, chief executives, and others, have their own separate roles and responsibilities that must be defined in the Articles of Association, so that if anyone acts beyond their set powers, they are made liable for their illegal acts. The various subcommittees and meetings in a company ensure this. This is another important feature of corporate governance that helps in creating a hierarchy in companies where the roles and responsibilities of every member are defined.

ACCOUNTABILITY AND TRANSPARENCY:

Corporate governance and its legislation promote accountability and transparency in the affairs of the company and the conduct of its management. The result of corporate governance is that the board of directors is answerable to the members and shareholders of a company. The rules, regulations, and provisions make sure that if any of the managerial personnel does an illegal or unlawful act, he is made liable for the same. The absence of proper governance and systems in a company leads to fraud and scams, which also degrades the position of the company in the market.

OBJECTIVES OF THE STUDY:

- To Build and maintain a strong brand reputation by bringing a high level of satisfaction to your employees, customers, investors, and the community at large.
- To Provide reporting to shareholders through quarterly, semi-annual, and yearly performance and operating results.
- To Set up company to deliver long-term success and economic growth.
- To improve and control over management and information systems.
- To Minimize waste, risk, mismanagement, and corruption.

NEED FOR THE STUDY:

- This study explains about the transparent rules and controls, guides leadership and aligns the interests of shareholders, directors, management and employees.
- This study gives a clear idea about company's direction and business integrity to investors and stakeholders.
- This study helps to build trust with investors, the community and the public.
- It can facilitate the raising of capital and share prices.
- It promotes long-term financial stability, opportunity, and returns.

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SCOPE OF THE STUDY:

- This study explains about the financial growth and development of the Indian bank.
- To have a right balance, knowledge, and competence to set strategies and lead the organization.
- To set the high standards of business ethics based upon honesty and hard work.
- To improve the economic efficiency of the firm.
- To increase the market confidence of the firm.

INVOLVEMENT OF CORPORATE GOVERNANCE:

- Setting the organization's strategy.
- Putting in place the leadership to implement that strategy.
- Overseeing the overall management of the organization.
- Promoting good relations with stakeholders, including shareholders and employees.
- Reporting back to the board and/or shareholders.

ROLE OF CORPORATE GOVERNANCE:

- The main role of corporate governance is to maintain proper functioning of an organization.
- It helps to maintain a positive reputation in the management.
- it helps to build trust and attracts shareholders and investors.
- it will protect companies from risk and financial crisis.
- It minimizes conflict of interest between various stakeholders and the management.

BENEFITS OF CORPORATE GOVERNANE:

- It promotes long-term financial stability, opportunity, and returns.
- It can facilitate the raising of capital.
- It can reduce the potential for financial loss, waste, risks, and corruption.
- It improves board- level decision making.
- It improves strategic plannin

LIMITATION OF THE STUDY:

- One of the most important limitations was the time period. The time period was not sufficient to cover all the details of Corporate governance.
- An important limitation was the area of the study which covers only the banking sector.
- The respondents provide limited information because of the chances of misuse of the information.
- The study focuses on one branch of the banking sector.
- Most of the information has been kept confidential and every study will be bound with certain limitations.
- Lack of availability of secondary data from published websites and reports.
- Difficult to get some details from the higher officials as they are busy with them.

II. REVIEW OF LITERATURE

Gupta, P. (2020): Corporate Governance in Indian Banking Sector, the research examines the practices of corporate governance attributes in banking sector and how they adhere to corporate governance practices. The results of this research indicate the practice of corporate governance is at nascent stage although corporate governance practices by Indian Banking Sector are more than a decade. However, hope is looming large for the proper implementation of corporate governance principles in Indian Banking Sector.

Jayashree S. (2020): Had analyzed in her research some imperatives of corporate governance in business corporations that may act as strategic policies also for the financial sector. These imperatives as adjudged to be imperative of the survival of various companies in the 21st century by many businesses are espoused.

Murthy, N. R. N. (2020): Good corporate governance in a corporate set up leads to maximize the value of the shareholders Legally, ethically and on a sustainable basis, while ensuring equity and transparency to every stakeholder – the company's Customers, employees, investors, vendor-partners, the government of the land and the community as a whole.

Padmanabhan Ramachandra (2020): Had analyses to what extent corporate governance has become integrated in Multinational enterprise's disclosure practices on CSR. Based on an analysis of CSR reporting of Fortune Global 250 Companies, findings show that more than half of them have a separate corporate governance section in their CSR report and/or explicitly links corporate governance and CSR issues.

Rakesh Kumar Mishra, Sheba Kapil (2020): Effect of board characteristics on firm value: evidence from India. Tobin's Q (Independent variable) – Board size, board independence, number of meetings, CEO duality. ROA (Independent variable) – Firm age, firm size, leverage, sales growth. Tools Utilized: Structured Equation Modeling.

III. RESEARCH METHODOLOGY

MEANING OF RESEARCH:

Research is one of its kinds and is a process to acquire knowledge about a certain topic. Research is done so that systematic analysis can be done and problem can be effectively solved.

The procedures by which researchers go about their work of describing, explaining and predicting phenomena are called methodology. Methods comprise the procedures used for generating, collecting and evaluating data. Methods are ways of obtaining information useful for assessing explanations.

RESEARCH DEFINITION:

The definition of research given by Creswell is Research is a process of steps used to collect and analyse information to increase our understanding of a topic or issue and it consists of three steps: Pose a question, collect data to answer the question, and present an answer to the question.

DATA SOURCES:

The data collected for the study is mainly through the distribution of questionnaire; to be precise the data collected for study is both primary and secondary sources.

PRIMARY DATA:

Primary data is the information collected for the first time; there are several methods in which the data is complied. In this project it is obtained by mean of questionnaires.

SECONDARY DATA:

Secondary data needed for conducting research work is collected from company websites, library and search engines.

RESEARCH INSTRUMENT:

In this study the primary data is collected by survey technique. In this we distributed the questionnaires to the respondents. The researcher structured the questionnaire in the form of:

1. Close Ended Questions
2. Multiple Choice Questions

QUESTIONNAIRE:

A questionnaire is a sheet of paper containing questions relating to contain specific aspect regarding which the researcher collects the data. Because of their flexibility the questionnaire method is by far the most common instrument to collect primary data. The questionnaire is given to the respondent to be filled up.

SAMPLING DESIGN:

Sampling design is to clearly define set of objectives, technically called the universe to be studied. Sampling technique used is simple random sampling method.

RESEARCH DESIGN:

The type of research design used in this study is "Analytical research". Analytical research design is the process of Gathering, Analyzing and Interpreting information to make interpretation and reach conclusion. It concerned with specifying and interpreting relationship, by analyzing the facts or information already available.

DATA COLLECTION TOOLS:

Structured questionnaire is used here as the instrument to collect the data.

The sample size of the study is 100

SAMPLING METHOD

Convenience sampling method were used for this study. It is a method adopted by the researchers where they collect market research data from a conveniently available place of respondents.

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COLLECTION OF DATA:
Primary Data
Secondary Data

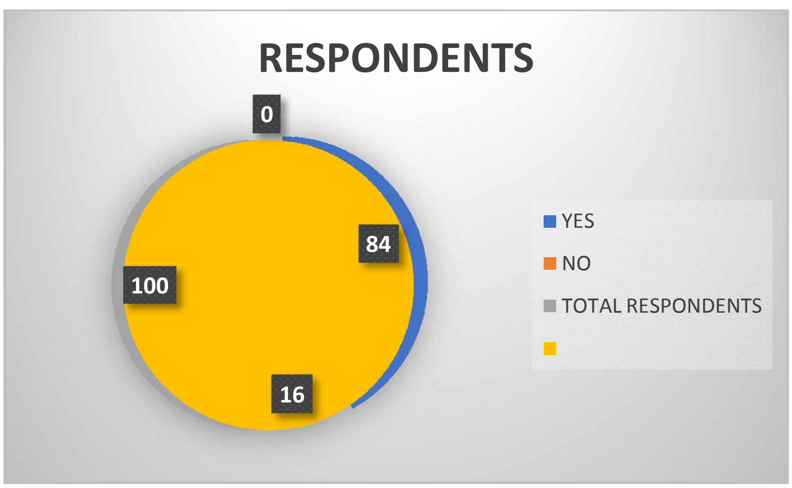
Primary Data:
1. Primary data would be collected during the course of asking questions by performing surveys.
2. Primary data would be either through respondent either through questionnaire or through personal interview.
3. I will collect the data through both of them.

Secondary Data:
1.The data will be already available in the form of print material, website, journals etc.
2. Data will be collected from some Magazines, Newspapers, Websites and course material for that purpose.
3. Data will be collected from the website

RESEARCH TOOLS
Research tools are statistical techniques used for data analysis and the tool used for this project is percentage analysis.

TABLE-1: WHOM DID CORPORATE GOVERNANCE BUILD TRUST WITH?

OPTIONS	RESPONDENTS
INVESTORS	65
SHAREHOLDERS	15
DIRECTORS	20
TOTAL RESPONDENTS	100



INTERPRETATION:
In this chart, it clearly showing that 65% of the Respondents choose “Investors” are the trust builders in corporate governance and 15% of the Respondents choose “Shareholders” are the trust builders in corporate governance and the rest 20% of the Respondents choose “Directors” are the trust builders of the corporate governance.

TABLE-2: IS CORPORATE GOVERNANCE PROMOTING FIRMS FINANCIAL STABILITY?

OPTIONS	RESPONDENTS
YES	85
NO	15
TOTAL RESPONDENTS	100

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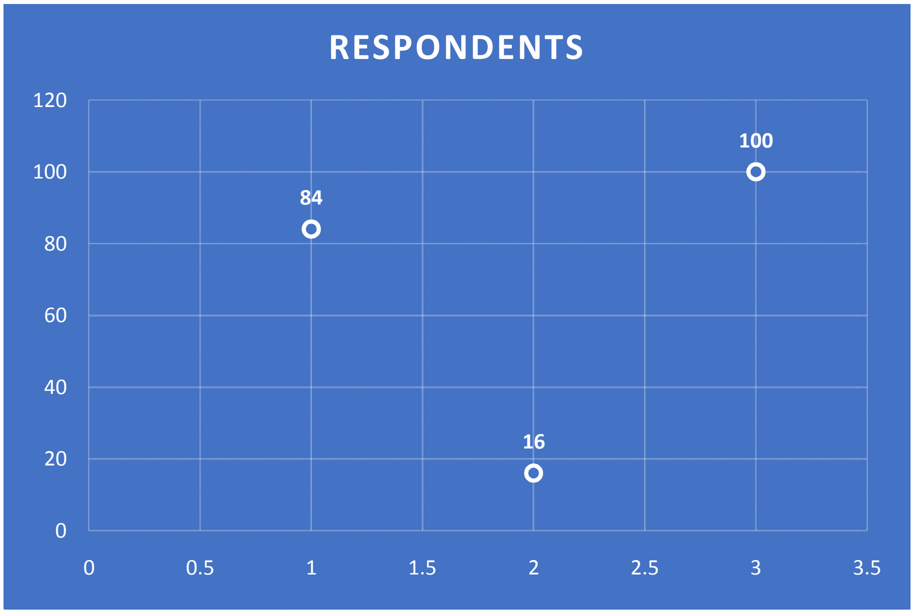
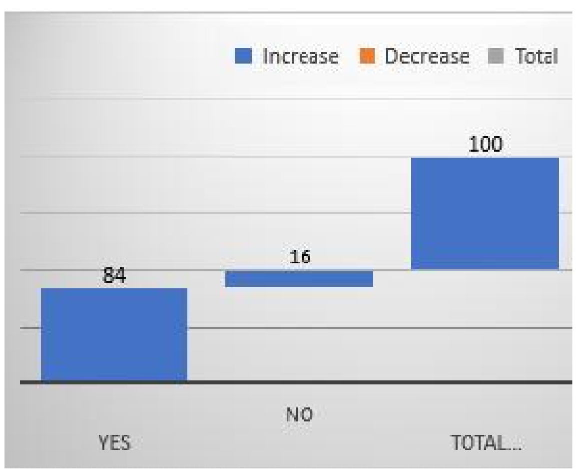


INTERPRETATION:

From the above chart, it clearly showing that 85% of the Respondents choose “YES” option which means corporate governance promotes firm’s financial stability and the rest 15% of the Respondents choose “NO” option about their opinion in corporate governance financial stability.

TABLE-3: WHAT DOES GOOD CORPORATE GOVERNANCE HELP TO REDUCE?

OPTIONS	RESPONDENTS
CORRUPTION	65
CONFLICTS	15
RISK	20
TOTAL RESPONDENTS	100



INTERPRETATION:

In this above chart, it is clear that most of the people have the idea about good corporate governance. 65% of the Respondents have choose “Corruption” option which helpful in reduction of firm’s corruption in corporate governance. 15% of the Respondents choose “Conflicts” option and the rest 20% of the Respondents choose “Risk” option.

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TABLE-4: WHAT DO YOU THINK ABOUT RECENT PROPAGANDA ON CODES OF CORPORATE GOVERNANCE?

TABLE-4.1.5

OPTIONS	RESPONDENTS
HELPFUL	76
NOT HELPFUL	24
TOTAL RESPONDENTS	100

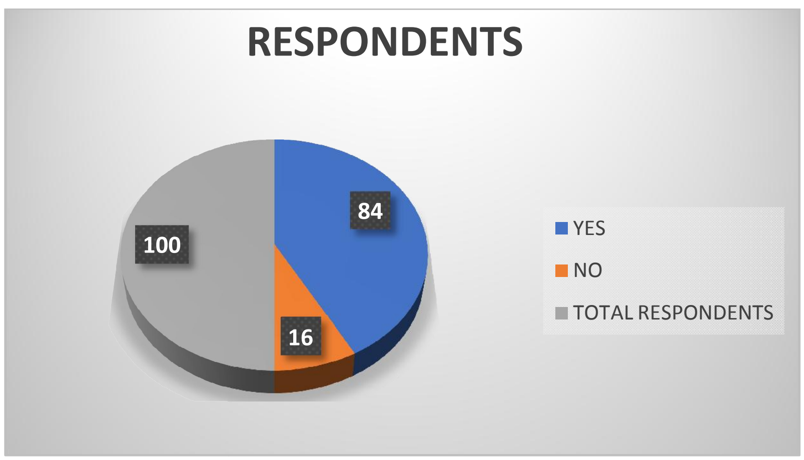
INTERPRETATION:

The above chart clearly explains that the most of the people have idea about the propaganda codes of corporate governance. It is clearly showing that 76% of the Respondents choose "Helpful" option about their opinion on the propaganda of codes on corporate governance. The rest 10% of the Respondents choose "Not Helpful" option about their opinion on codes of corporate governance.

TABLE-5: DO YOU THINK INDIAN BANK HAS A HIGH STANDARD OF CORPORATE GOVERNANCE?

TABLE-4.1.6

OPTIONS	RESPONDENTS
YES	84
NO	16
TOTAL RESPONDENTS	100



INTERPRETATION:

It is clearly shown in the above chart, that the most of the people have idea about high standard of corporate governance. 84% of the Respondents have chosen "YES "option which clearly shows that the Indian bank has high standard of the corporate governance. The rest 16 % of the Respondents choose "NO" option which clearly shows their opinion about the standard of corporate governance.

IV. FINDINGS:

- This finding shows that corporate governance of banks can promote public confidence and uphold the safety and soundness of the banking system.
- From the following research, the board should also ensure that the bank maintains an effective relationship with its supervisors.
- The following research focuses on the board should oversee the implementation and operation of policies to identify potential conflicts of interest.
- The following research shows that the bank board is responsible for overseeing the management of the bank's compliance risk.

- From the following research, there should clarity on the role competencies, appointment process, and accountability of the senior in banking management.
- From the following research, Senior management of the banks should provide the board with the information its needs to carry out its responsibilities.
- The following research focuses bank's work differently in their financing, business model and balance sheets from most non- financial firms.
- The following research focuses how the corporate governance runs with board of directors in banking sector by following the principles and guidelines of the government.
- From the following research, it shows the book value and earning per share of the year and explains the sector wise deployment of the year and global deposit of the year.
- From the following research, the board also ensures that the bank maintains an effective relationship with its supervisors and It clearly explains the organization chart of the bank which listed the board of directors, chairman, managing director, executive director etc.

V. SUGGESTONS

- From the following study, Boards need to balance conformance with performance aspects of the boards work through strategy and policy making.
- From the following study, the board needs to elaborate its position and understanding of the major functions of the major functions of the bank management.
- From the following research, it's important to maintaining a good relationship between the board and bank management andthe board has to focus on necessary skills, independence and commitment to make the right decisions.
- From the following research, it is particularly important for the board to develop policies in relation to delegation.
- From the following study, Board must be aware of their own strength and weaknesses in the banking sector.
- From the following study, this study ensures that corporate decision is in line with organization's strategy and the expectation of the management.
- From the following research, monitoring organizational performance is an important board function, and ensuring legal compliance is an important component of the board's monitoring role.
- From the following research, to ensures that corporate decisions are in line with the organization's strategy and the expectations of the owners.
- From the following study, the willingness to share accurate, and clear information with stakeholders, including shareholders, fosters trust and strengthens an organization's reputation. Informing bad news is equally important as informing good news.

VI. CONCLUSION

- Corporate governance in Indian bank without any doubt build and strengthen the accountability, credibility, trust, transparency and integrity. It is essential for the long-term success of the company. It involves the establishment of clear roles and responsibility, transparency and disclosure, effective risk management and strong relationship with external stakeholders.
- Corporate governance in banking sector plays an important role in a country's economic development; since a weak corporate governance system may not only restrict economic growth, it could cause corruption and fluctuations and even financial crisis.
- The future of corporate governance in Indian bank realizing need for more financial and human capital in order to grow and also understand that it is not possible without transparency in their functioning which drives the corporate governance in India.

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