

International Journal of Advance Research in Computer Science and Management Studies

Research Article / Survey Paper / Case Study

Available online at: www.ijarcsms.com

A Comparative Study of Corporate Governance Practices between State Bank of India (SBI) and United Bank of India (UBI)

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Abstract: With the expansion and growth of businesses the Corporate Governance has got the wide attention for disclosing more transparency and accountability. Corporate Governance (CG) is the system of structural, procedural, and cultural safeguards designed to ensure that an organization is run in long term interests of its stakeholders. The idea behind this research work is to know that how Public sector Banks performs and discloses in their Annual reports the CG practices especially after implementation of the clause- 49 for good corporate governance practices. For such research work two giant public sector banks are selected and secondary data (Annual Reports 2012-13) is gathered for analysis. The collected data as per the nature, was analyzed through Descriptive Statistics, to find out whether selected samples have significant difference in practices of Corporate Governance or not.

Keywords: Corporate Governance, SBI, UBI, Comparative Study.

I. INTRODUCTION

The word Corporate Governance has gained a lot more attraction since last few years. Corporate Governance (CG) is related with overall control of activities in a corporation. It focuses major emphasis on protecting, governing & regulating affairs of the corporate in a good manner which protect the interest of stakeholders. Corporate Governance is used in a broader sense; it is more than just related to protecting stakeholders. It is much more related with structure of Board of Directors, Monitoring and functioning the affairs of the company in good manner, protecting the interest of the shareholders and other parties which are involved with the company's activities directly or indirectly. Thus the purpose of CG is to build and strengthen accountability, credibility, transparency, integrity and trust.

In the words of N.R. Narayana Murthy (2009): "Corporate Governance is a reflection of company's culture, policies, how it deals with its stakeholders and its commitment to value".

As, In India the evolution of Corporate Governance took place in the year 1998. Many committees formed and issued various recommendations to comply with CG norms voluntarily like CII (Confederation of Indian Industry), Kumar Mangalam Birla Committee by SEBI, Naresh Chandra Committee, Narayan Murthy Committee, etc. Finally in the year 2001, SEBI (Securities & Exchange Board of India) mandated the recommendations given by Kumar Mangalam Birla Committee as a new CG Code of Conduct in the listing agreements with stock exchange, also known as Clause -49. So due to this, all companies in India shall have to comply with the provisions of Clause -49 of the listing Agreement.

Thus in tune with this, two giant public sector banks are selected to see that whether there is significant difference in compliance with the CG code of conduct.

II. STATEMENT OF THE PROBLEM

Corporate Governance requires compliance to clause-49 of the listing agreement. This study has tried to measure the compliance to the disclosure norm, by the selected units (two Banks) by applying CG index. Thus the problem identified as, “A COMPARATIVE STUDY OF CORPORATE GOVERNANCE PRACTICES BETWEEN STATE BANK OF INDIA (SBI) & UNITED BANK OF INDIA (UBI)”.

III. LITERATURE REVIEW

1. Joshi, Ashish B., 2010, Ph. D. Thesis “A Study on Corporate Governance and the Financial Performance of Selected Indian Companies” in his thesis he has analyzed various techniques for measuring performance like, Ratio Analysis, Du-Pont Analysis, Comparative Statement Analysis, Time Series Analysis and Inter Firm Analysis. Various types of ratios are also discussed, including Liquidity Ratios, Leverage Ratios, Activity Ratios and Profitability Ratios. At last he has analysed the CG index score of BSE -90 companies of different sectors.
2. Nidhi Tyagi, Mohd. Atif, Yusra Naseem”Corporate Governance Practices in India: A Comparative Study of Selected Banks” for such study they have selected four banks out of which two were public sector banks i.e., State Bank of India and Bank of India and the other two were private sector banks i.e., Housing Development Finance Corporation (HDFC Bank) and Industrial Credit and Investment Corporation of India (ICICI Bank). They concluded that Corporate Governance practices are more satisfactory in private sector banks as compared to public sector banks.
3. Priyanka kaushik Sharma, Corporate Governance - A Comparative Study of Two Major Industries of India, analyzed the two major industries i.e., Auto Industry and Heavy Engineering Industry in India. For the purpose of analysis, various tools have been used in the study like percentage growth, Compound Annual Growth Rate, simple average, percentage, rank and Mann-Whitney U test. The study covers only listed companies of Automobile Sector and Heavy Engineering Sector. The sample size of the study is 19 companies, comprising 12 Auto Companies and 7 Heavy Engineering Companies. An effort was made to collect the data of sample companies over a period of five years (2003-04 to 2007-08).
4. Padmini Srinivasan and Vasanthi Srinivasan,” Status of Corporate Governance Research on India: An Exploratory Study” This paper examined the status of corporate governance research on India in the Indian and International journals between the period 2000- 2010. The paper tried to understand the nature of global research on corporate governance in top tiered international journals reflects the growing interest in India and whether the research published in the top journals in India reflect the differences vis-a-vis the global discourse on corporate governance.
5. Ankita Asthana and M.L. Dutt ”The Extent of Disclosure Code of Corporate Governance in India: A Comparative Study of Public and Private Sector Banks” this paper examined the disclosure practices which are mandatory and non-mandatory for the scheduled commercial banks listed at the stock market, but also examines the exemplary committees formed by banks both in public & private sector showing their inclination and intent towards forming additional corporate governance committees over and above the once which are recommended by SEBI & Reserve Bank of India(RBI) to curb frauds.

IV. OBJECTIVES OF THE STUDY

Following are the objectives of the study.

1. To know the concept of Corporate Governance (CG) in general and in relation to Indian public sector banks in particular.
2. To study the transparency and accountability of sampled units under study.
3. To know the compliance to disclosure norms by banks under study
4. To study the corporate governance practices and measure in terms of corporate governance score.

5. To make comparison in compliance of CG norms between selected units.
6. To make suggestions based on the findings during the study.

V. RESEARCH METHODOLOGY

Data Collection:

This study uses secondary data. The data gathered from annual reports (2012-13) of the selected units under study. The study was also supported by necessary information from website of the respective banks under study.

Universe of the Study and Sample Size:

The universe of the study is all public sector banks in India. Sample size refers to the number of items to be selected from the universe to constitute a sample. Thus researcher has selected two giant public sector banks namely State Bank of India (SBI) and United Bank of India (UBI) to carry out the research work.

Statistical Tools and Technique

The following statistical tools are used to analyze and interpret the data collected.

Data representation

- Table
- CG - Index

The data are analyzed by adopting the under mentioned techniques.

- Descriptive Statistics

Methodology

This study is divided into two parts.

1. Studying the compliance status of key corporate governance parameters in selected units.
2. Comparing and analyzing the corporate governance practices of both the Banks by applying CG Index.

VI. SIGNIFICANCE OF THE STUDY

Compliance with the Corporate Governance norms is itself discloses the transparency and accountability of the organization. It is mandatory as per the clause -49 of the listing agreement to comply with the CG norms. Some code of conduct are mandatory where as some are voluntary to adopt. Public sector banks in India are complying with the same. Just to see that how efficiently they comply with the norms. State Bank of India and United Bank of India are two giant public sector banks in India having its branches almost all over India and a huge turnover.

VII. DATA ANALYSIS AND FINDING

A. Key CG Parameters and their Compliance by both the Banks

Following are some of key CG parameters taken and studied carefully, which are tabulated as below:

Table No. 1 Key CG Parameters of SBI & UBI for 2012-13

Particular	CG Parameters By Clause- 49(Mandatory) and Non-Mandatory	SBI	UBI
1. Statement of Bank's philosophy on CG	Mandatory	Yes	Yes
2. Composition of Board ➤ Total No. of Directors	Minimum of 7 Directors	16	10

<ul style="list-style-type: none"> • No. of Executive Directors(Whole Time) <ul style="list-style-type: none"> ▪ Chairman ▪ Managing Director(s) • No. of Non Executive Director <ul style="list-style-type: none"> ▪ Independent Directors ▪ Non Executive Directors 	<p>One-third of the Board if non-executive director as chairman & one-half if executive director as chairman</p>	<p>5</p> <p>1</p> <p>4</p> <p>11</p> <p>4</p> <p>7</p>	<p>2</p> <p>1</p> <p>1</p> <p>8</p> <p>6</p> <p>2</p>
<p>3. Meetings</p> <ul style="list-style-type: none"> • No. of Board Meetings Held • Attended by BODs • AGM 	<p>At least 4 meetings a year & time gap 4 months between two Board Meetings</p> <p>Disclosing at least last 3 AGMs</p>	<p>13</p> <p>Yes</p>	<p>14</p> <p>Yes</p>
<p>4. Chairman & CEO Duality</p>	<p>Not combining the post of Chairman & CEO</p>	<p>Complied</p> <p>Separate Chairman & CEO</p>	<p>Not Complied</p> <p>i.e. CMD (Chairman is also MD)</p>
<p>5. Disclosure</p> <ul style="list-style-type: none"> • Related Party Transactions • Whistle Blower Policy • Half yearly Declaration of Financial Performance • Auditor's Certificate on CG • CEO/CFO Certification • Director's Responsibility Statement • Risk Management & Internal Controls • Associates, Subsidiaries & Joint Ventures 	<p>Disclosing Such information in CG Report</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>
<p>6. Committees</p> <ul style="list-style-type: none"> • Audit Committee • Shareholder's /Investor's Grievance Committee • Risk Management Committee • Special Committee for monitoring large value Frauds (above Rs. 1 crore) • Customer Service • IT Strategy • Board Committee to monitor Recovery • Management Committee • Nomination Committee 	<p>Formation of Committees</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>No</p> <p>No</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>
<p>7. Non- Mandatory Requirements</p> <ul style="list-style-type: none"> • Remuneration Committee • Shareholder's Rights • Training of Board Members 		<p>Yes</p> <p>No</p> <p>No</p>	<p>Yes</p> <p>Yes</p> <p>Yes- Director's Promotion Committee</p>
<p>8. Additional Committees formed by UBI</p> <ul style="list-style-type: none"> • High Powered Committee • Special Committee to Monitor 		<p>No</p> <p>No</p>	<p>Yes</p> <p>Yes</p>

officers above 55 years			
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Source: Compiled from Annual Reports of SBI & UBI

B. Analyzing the corporate governance practices of both the Banks by applying CG Index.

CG Index has been used to compare and measure both the Banks' Compliance to Clause 49 of the listing agreement.

Both Banks have been assigned marks out of total 100.

Marking scale has been given below.

Table No. 2 Corporate Governance Index for Banks

Sr. No.	Key Governance Parameters	Score Assigned
1	Statement of Banks' Philosophy on CG	2
2	Structure and Strength of Board	2
3	Code of Conduct	2
4	Chairman & CEO Duality i Promoter Executive Chairman - Cum - MD / CEO 1 ii Non promoter Executive Chairman cum MD / CEO 2 iii Promoter Non Executive Chairman 3 iv Non Promoter Non Executive Chairman 4 v Non Executive Independent Chairman 5	Maximum 5
5	Board Committees (Total 25) Audit Committee Remuneration Committee Shareholders' Grievance Committee Risk & Management Committee Nomination Committee Special Committee of Directors High Powered Committee Special Committee to Monitor officers above 55 years	8 6 5 1 2 1 1 1
6	Disclosure of Tenure and Age limit of directors	2
7	Disclosure of : <ul style="list-style-type: none"> • Definition of Independent Director 1 • Definition of Financial Expert 1 • Selection Criteria of Board of Directors incl. independent directors 	1 1 1
8	Post Board meeting follow up system and compliance of the board procedures	1
9	Appointment of Lead Independent Director	2
10	Disclosure & Transparency (Total 27) <ul style="list-style-type: none"> • Significant related party transactions having potential conflicts with the interest of the company • Non Compliance related to capital market matters during last three years • Accounting Treatment • Board Disclosure - Risk Management • Management Discussion and Analysis • Shareholders' Information • Shareholder Rights 	2 2 2 2 2 4 2

	<ul style="list-style-type: none"> Audit Qualification Training of Board Members Evaluation of Non-Executive Directors Whistle Blower Policy Corporate Social Responsibility 	2 3 2 2 2
11	Disclosure of Relationships between Directors	1
12	Disclosure of: Remuneration of Directors	2
13	Means of Communication & Informing Shareholders	1
14	CEO/CFO Certification	3
15	General Body Meetings (AGM) <ul style="list-style-type: none"> Location & Time of the General Meeting held in the last 3 years Detail of Special Resolution passed in the last 3 AGMs Details of Resolution passed last year through postal ballot including the name of conducting 	1 1 1
16	Auditor's Certificate on CG Clean Certificate (10) or Qualified Certificate (5)	Maximum 10
17	Disclosure of Stakeholders' Interest: (total 9) HRD Initiatives Industrial Relations(IR) Environment, Health & Safety Measures (EHS) Others like Quality, Public Recognition, Credit Rating, etc.	2 2 3 2
Total		100

Both the Banks have been evaluated by using information provided in their Annual Reports -2012-13 and have been assigned marks based on the above score. For better understanding of practices followed on CG total 100 marks have been divided into following grade.

Score Range	Rank
86 – 100	Excellent
71 – 85	Very Good
56 – 70	Good
41 – 55	Average
Below 41	Poor

So, as per the table shown above the final score of the Banks under study is shown as below in table.

Table No. 3 CG Score of the Banks

Bank	Score Awarded	Rank
UBI	63	Good-2nd
SBI	72	Very Good-1st

As score awarded to both the banks, it is clear from the above table that as compare to UBI, the State Bank of India (SBI) got 1st rank. Its score (72) out of total 100 comes higher than UBI.

Table No. 4: Descriptive Statistics of the Corporate Governance score

<i>Column1</i>	
Mean	67.5
Standard Error	4.5
Median	67.5
Standard Deviation	6.363961031
Sample Variance	40.5
Range	9
Minimum	63
Maximum	72
Sum	135
Count	2
Largest(1)	72
Smallest(1)	63
Confidence Level (95.0%)	57.17792131

Above table presents the descriptive statistics of the Corporate Governance score for the year 2012-13. The table reveals that Standard Deviation is 6.4. Both the Banks need to comply more with the mandatory disclosures, as well as exemplary disclosures to narrow down the SD. This also lowers the Standard Error of the units under study.

VIII. LIMITATIONS OF THE STUDY

Despite of some efforts, there are several limitations of this study, they can be mentioned as under:

1. The study is conducted by depending upon the secondary sources (annual reports) of information.
2. The study is limited to Public sector Banks only.
3. The Corporate Governance study is calculated by Score which can have a scope for further research.

IX. RECOMMENDATIONS

Compliance with the CG index for improving the score, both the banks need to take into consideration the following suggestions.

1. Banks need to disclose clearly the training given to the board of directors.
2. Lead Independent Director should be appointed and information about the same should be disclosed.
3. Nomination Committee (to SBI) should be set up.
4. There should be separate Chairman & CEO (to UBI).

X. CONCLUSION

Banks under study have mostly complied with the CG code of conduct as per Clause-49 of the listing agreement for the year 2012-13. Except in the case of UBI, its score as compare to SBI is less due to non compliance with the 'chairman- CEO Duality'. In all other case both the Banks have complied with the mandatory norms. Apart from these, UBI has also set up Exemplary (non mandatory- Voluntary) Committees which SBI has not. Thus both banks need to comply more so they can improve the CG Index score. Thus this study has scope of further investigation.

References

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List of Abbreviations

SBI: State Bank of India

UBI: United Bank of India

CII: Confederation of Indian Industry

CG: Corporate governance

CSR: Corporate Social Responsibility

HRD: Human Resources Development

IR: Industrial Relations

SEBI: Securities and Exchange Board of India

CFO: Chief Financial Officer

CEO: Chief Executive Officer