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Corporate Governance Disclosure Score and its perspectives with respect to the Indian Banking Sector

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Corporate governance is required when ownership is separated from control. From a banking industry perspective, corporate governance involves the manner in which business and affairs of individual institutions are governed by their board of directors and senior management. Sound corporate governance can be practiced regardless of structural form used by a banking organization. The objective of the research paper is to identify the key determinants of corporate governance disclosure score of selected Indian banks. Corporate governance discloser score is calculated on the basis of 14 financial and 39 non-financial disclosure items of bank for each year. Banks listed in the BANKEX [BSE] as on 31st March 2016 are selected for the study on the basis of their free float market capitalization. Hence five PSU banks and seven private sector banks are used in the study. Thirteen hypotheses have been formed. Corporate Governance Disclosure Score has been used as dependent variable and eleven variables are taken as independent variables such as income, local ownership, board size, board independence, return on asset, net non-performing asset, capital adequacy ratio, return on equity, audit committee size, earnings per share and number of board meetings of bank. In this research work, duration of five financial years, from 2011-12 to 2015-16 have been taken into consideration. So the data collected is based on the 60 annual reports of banks of this duration. Shapiro-Wilk Normality Test, Mann Whitney Test, Kruskal-Wallis Test and Spearman's Rank Correlation have been used in this proposed study.

Keywords : Corporate Governance, Independent Director, Audit Committee, Board Meeting, Local ownership, Income, Net Non-Performing Assets, Capital Adequacy Ratio.

1. INTRODUCTION

A healthy banking system is an absolute prerequisite for a well-functioning stock market and corporate sector. The banking sector provides the necessary capital and liquidity for corporate transactions and growth. Good governance system within the banking sector is especially important in developing countries where banks provide most of the finance. Moreover financial market liberalization has exposed banks to more fluctuations and to new credit risks. Poorly governed banking systems and massive capital flight can seriously damage national economies. The banking framework is based on three pillars such as minimum capital requirement, supervisory review and market discipline.

2. SURVEY OF EXISTING LITERATURE

Kumar, Arora and Lahille (2011) suggested that a credit risk management index tool should be developed in order to have a single measure to assess the corporate governance practices followed in a given bank and the overall credit risk management framework. Pandya (2011) analyzed the effect of corporate governance structures, particularly board structure and CEO duality on the performance of Indian banks. He also examined the relationship between CEO duality and the proportion of independent directors on firm performance as measured by return on assets (ROA) and return on equity (ROE). *Mehta (2012)* discussed that a major challenge to the Indian banks would be to restructure their poor quality assets which could lead to a high proportion of non-performing assets. The norms would favour the large banks because of their risk management expertise and the diversified portfolios. The banks also were required to develop new sophisticated computerized tools to reduce cost of data analysis and to get rid of most of the historical data. *Agarwal (2013)* established that

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corporate governance rating exerted positive impact on financial performance of firms. The study revealed that good governance had fostered better financial performance. Ratings of company along with employees' related and environmental dimensions also had significantly influenced corporate financial performance.

3. OBJECTIVES OF THE STUDY

The objectives of the study are as follows -

- To identify the key determinants of corporate governance disclosure score of selected Indian banks.

4. RESEARCH METHODOLOGY

The proposed study will combine explanatory and empirical research.

- **Samples of the study:** Though, corporate governance bind to all type of banks but for precise focus the banking companies listed in the BANKEX [BSE] as on 31st March 2016 are selected on the basis of their free float market capitalization. All the listed banks in BANKEX are divided in two groups - public sector banks and private sector banks to study and analyse their corporate governance practices.

Exhibit 1: List of Banks listed in the BANKEX [BSE] as on 31st March 2016

Under Public Sector Bank (PSBs)		Under Private Sector Bank	
Sl.No	Name of the Bank	Sl.No	Name of the Bank
1.	Bank of Baroda	1.	Axis Bank
2.	Bank of India	2.	Federal Bank
3.	Canara Bank	3.	HDFC Bank
4.	Punjab National Bank	4.	ICICI Bank
5.	State Bank of India	5.	IndusInd Bank
		6.	Kotak Mahindra Bank
		7.	Yes Bank

- **Data Analysis**

  A corporate governance disclosure score (CGDS) was computed by using the formula:

> Corporate governance discloser score is calculated on the basis of 14 financial and 39 non-financial disclosure items of bank **for each year**. Each bank is awarded a score of '1' if the bank appears to have disclosed the concerned issue and '0' otherwise

- **Period of the Study**

In this research work, the duration of five financial years from 2011 - 12 to 2015 - 16 have been taken into consideration. So all the data collected is based on the annual reports of this duration only.

- **Research Hypothesis**

Hypothesis: I

Ho: *No variation in performances between Public Sector Undertaking and private banks.*

Hypothesis: II

Ho: *No difference in bank performances across years.*

Hypothesis: III

Ho: *No relationship among corporate governance disclosure score and income.*

Hypothesis: IV

Ho: *No relationship among corporate governance disclosure score and local ownership.*

Hypothesis: V

Ho: *No relationship among corporate governance disclosure score and board size.*

Hypothesis: VI

Ho: *No relationship among corporate governance disclosure scoreand board independence.*

Hypothesis: VII

Ho: *No relationship among corporate governance disclosure score and return on asset.*

Hypothesis: VIII

Ho: *No relationship among corporate governance disclosure score and net Non-Performing Asset.*

Hypothesis: IX

Ho: *No relationship among corporate governance disclosure score and capital adequacy ratio.*

Hypothesis: X

Ho: *No relationship among corporate governance disclosure score and Return on Equity.*

Hypothesis: XI

Ho: *No relationship among corporate governance disclosure score and size of audit committee.*

Hypothesis: XII

Ho: *No relationship among corporate governance disclosure score and Earnings PerShare.*

Hypothesis: XIII

Ho: *No relationship among corporate governance disclosure score and number of board meetings.*

Directors' report, Auditors' report, Financial statement, Schedules, Subsidiary, Consolidated financial information, Notes on accounts, Significant accounting policies, Related party disclosures, Segment reporting, Risk management, Basel disclosures, Dividend and Other performance indicators etc.

Message from the Chairman, Letter from Managing Director and Chief Executive Officer, Vision and Mission Statement, Ownership/ Shareholding Structure/ Pattern, Shareholders' Rights, Statutory Details of the company, Size of the Board, Composition of Board, Chairman and Chief Executive Officer Duality, Information about independent Directors, Role and Functions of the Board, Changes in the Board Structure, Audit Committee Remuneration and Nomination Committee, Investors' Grievance Redressal Committee, Other Committees, Composition of the Committees, Functioning of the Committees, Organizational Code of Ethics, Biography of the Board Members, Number of Directorship hold by each Member, Number of Board Meetings, Attendance in Board Meetings, Director's Stock Ownership, Director Remuneration, Employee Relation/ Industrial Relation, Corporate Social Responsibility, Environmental Responsibility, Financial Inclusion Norms/Policy, Internal Control System, Auditor Appointment and Rotation, Auditor Fee, Notice and Agenda of the Annual General Meeting, Separate Corporate Governance Statement/ Section.

5. EMPIRICAL STUDY

At the outset five years' data of 12 (Twelve) banks have been considered. The dataset incorporates 12 variables such as corporate governance disclosure score, income, domestic ownership, board size, Number of independent directors in the board, Return on Asset, Net Non-Performing Asset, Capital Adequacy Ratio, Return on Equity, number of members in audit committee, Earnings Per share and Number of board meetings in a year.

It is to be noted that before running multiple regressions, it is necessary to check whether the data set is following normal distribution or not.

$H_{O:}$ Data is following normal distribution.

H_1: Data is not following normal distribution

For fulfilling the above, Shapiro - Wilk Normality Test is conducted below.

Exhibit 2 : Shapiro - Wilk Normality Test

Variables	Shapiro-Wilk Normality Test		
	Statistic	*df*	*Significance*
CGDS	0.920	60	0.001
Total Income	0.741	60	<0.001
Total Domestic Ownership	0.901	60	<0.001
Board Size	0.973	60	0.196
No. of Independent Directors in Board	0.923	60	0.001
ROA	0.902	60	<0.001
NET NPA	0.747	60	<0.001
CAR	0.967	60	0.109
ROE	0.761	60	<0.001
No of Members in Audit Committee	0.863	60	<0.001
EPS	0.898	60	<0.001
Number of Board Meetings	0.954	60	0.023

Findings and Interpretation: All variables except board size and capital adequacy ratio are significant. Hence null hypothesis is rejected for the remaining 10 variables at 5% level of significance. Data is not following normal distribution. Hence, ANOVA, t-test, Pearson correlation coefficient and regression cannot be done for this data.

Hypothesis - 1

H_o: *There is no variation in performances between PSU and private banks.* **H_1:** *There is variation in performances between PSU and private banks.*

For the aforesaid Hypothesis, Mann Whitney Test is conducted. **Exhibit 3: Computation of Mann Whitney test**

Type of Bank	Descriptive Statistics	CGDS	Income	Domestic Ownership	Board Size	No of Independent directors in board	ROA	Net NPA	CAR	ROE	No of Members in Audit Committee	EPS	Number of board meetings
PSU	Mean	48.92	87.19	87.19	12.20	7.56	0.50	2.96	12.19	9.70	6.64	63.39	13.84
	Median	50.00	86.68	86.68	12.00	8.00	0.65	2.12	12.28	11.82	7.00	54.48	13.00
	S.D	1.89	3.98	3.98	2.18	1.66	0.59	2.02	1.15	9.86	1.11	73.38	2.23
Private	Mean	50.90	50.34	50.34	10.40	6.20	1.69	0.57	16.06	16.85	3.91	35.31	7.17
	Median	51.50	49.38	49.38	10.00	6.00	1.72	0.40	16.07	17.49	4.00	27.90	7.00
	S.D	1.67	9.63	9.63	1.85	1.26	0.32	0.52	1.57	4.11	0.66	29.48	2.04
	p Value	<0.001	<0.001	<0.001	0.002	0.002	<0.001	<0.001	<0.001	<0.001	<0.001	0.058	<0.001
	SIGNIFICANCE	SIGNIFICANT	SIGNIFICANT	SIGNIFICANT	SIGNIFICANT	SIGNIFICANT	SIGNIFICANT	SIGNIFICANT	SIGNIFICANT	SIGNIFICANT	SIGNIFICANT	NOT SIGNIFICANT	SIGNIFICANT

Findings and Interpretation: Alternative hypothesis is accepted. Performances of PSU and private banks vary at 5% level of significance.

Hypothesis – 2

H_o: *There is no difference in bank performances across years.* H_1: *There is difference in bank performances across years.*

Kruskal - Wallis Test is conducted. **Exhibit 4: Computation of Kruskal- Wallis Test**

Year	Descriptive Statistics	CGDS	Income	Domestic Ownership	Board Size	No of Independent directors in board	ROA	Net NPA	CAR	ROE	No of Members in Audit Committee	EPS	No. of Board meetings
2011-12	Mean	48.92	32427.41	66.85	10.67	6.83	1.38	0.79	15.12	17.30	4.83	69.03	9.92
	Median	49.50	32448.62	65.43	11.00	6.00	1.46	0.54	14.27	18.06	4.50	47.20	9.50
	S.D	2.69	31106.27	18.24	2.06	1.70	0.42	0.65	2.19	3.29	1.53	59.73	4.23
2012-13	Mean	50.38	37628.30	64.04	11.58	7.00	1.35	1.12	14.94	16.64	5.17	71.31	9.67
	Median	50.00	36452.96	58.41	12.00	7.50	1.46	0.81	15.05	15.40	4.00	48.40	10.00
	S.D	1.63	34701.35	19.98	2.39	1.60	0.48	0.92	2.49	3.58	1.90	60.81	3.89
2013-14	Mean	50.21	42762.48	64.81	11.75	7.17	1.28	1.20	14.07	14.81	5.17	61.66	10.17
	Median	50.00	42802.20	61.76	11.50	7.00	1.41	0.86	14.12	13.35	4.00	44.82	9.50
	S.D	2.24	39461.27	21.24	2.73	1.95	0.63	0.95	2.79	4.67	1.70	49.06	4.67
2014-15	Mean	50.33	48237.09	64.87	10.50	6.33	1.26	1.51	13.95	13.80	5.08	28.57	10.17
	Median	50.00	47514.08	60.12	10.00	6.50	1.52	1.10	13.85	14.04	4.00	23.14	10.00
	S.D	1.76	44501.60	20.89	1.98	1.37	0.70	1.31	2.49	4.62	1.62	14.84	3.97
2015-16	Mean	50.54	53133.12	67.90	11.25	6.50	0.68	3.21	14.17	6.79	5.00	4.48	9.83
	Median	50.50	48978.75	57.99	11.00	6.00	0.88	2.17	14.61	11.15	5.00	14.87	9.50
	S.D	1.32	48489.21	22.15	1.60	1.31	1.14	3.07	2.01	13.71	1.54	42.82	3.43
	p Value	0.493	0.082	0.937	0.653	0.731	0.649	0.169	0.663	0.051	0.987	0.018	0.997
	SIGNIFICANCE	NOT SIGNIFICANT	NOT SIGNIFICANT	NOT SIGNIFICANT	NOT SIGNIFICANT	NOT SIGNIFICANT	NOT SIGNIFICANT	NOT SIGNIFICANT	NOT SIGNIFICANT	NOT SIGNIFICANT	NOT SIGNIFICANT	SIGNIFICANT	NOT SIGNIFICANT

Findings and Interpretation: Null hypothesis is accepted. Performances of PSU and private banks don't vary across years at 5% level of significance.

Hypothesis: 3 - 13

H_O: *There is no correlation among the variables (based on five years' data of 12 banks).*

H_1: *There is correlation among the variables (based on five years' data of 12 banks).*

Spearman's Rank Correlation is computed to find the degree of association between the variables.

Exhibit 5: Computation of Spearman's Rank Correlation

Variables	Correlation Coefficient and p Value	CGDS	Income	Domestic Ownership	Board Size	No of Independent directors in board	ROA	Net NPA	CAR	ROE	No of Members in Audit Committee	EPS	Number of Board Meetings
CGDS	Correlation Coefficient	1.000	-0.080	-0.512	-0.356	-0.587	0.605	-0.387	0.438	0.203	-0.465	-0.316	-0.493
	p Value		0.545	<0.001	0.005	<0.001	<0.001	0.002	<0.001	0.120	<0.001	0.014	<0.001
Income	Correlation Coefficient	-0.080	1.000	0.281	0.638	0.369	-0.328	0.534	-0.305	-0.340	0.546	0.071	0.364
	p Value	0.545		0.030	<0.001	0.004	0.010	<0.001	0.018	0.008	<0.001	0.588	0.004
Domestic Ownership	Correlation Coefficient	-0.512	0.281	1.000	0.263	0.240	-0.753	0.687	-0.731	-0.444	0.655	0.123	0.730
	p Value	<0.001	0.030		0.043	0.065	<0.001	<0.001	<0.001	<0.001	<0.001	0.348	<0.001
Board Size	Correlation Coefficient	-0.356	0.638	0.263	1.000	0.761	-0.266	0.401	-0.247	-0.198	0.551	0.362	0.346
	p Value	0.005	<0.001	0.043		<0.001	0.040	0.002	0.057	0.130	<0.001	0.004	0.007
No of Independent directors in board	Correlation Coefficient	-0.587	0.369	0.240	0.761	1.000	-0.406	0.424	-0.293	-0.288	0.542	0.264	0.352
	p Value	<0.001	0.004	0.065	<0.001		0.001	0.001	0.023	0.026	<0.001	0.041	0.006
ROA	Correlation Coefficient	0.605	-0.328	-0.753	-0.266	-0.406	1.000	-0.789	0.762	0.655	-0.660	0.039	-0.742
	p Value	<0.001	0.010	<0.001	0.040	0.001		<0.001	<0.001	<0.001	<0.001	0.770	<0.001
Net NPA	Correlation Coefficient	-0.387	0.534	0.687	0.401	0.424	-0.789	1.000	-0.658	-0.805	0.562	-0.133	0.726
	p Value	0.002	<0.001	<0.001	0.002	0.001	<0.001		<0.001	<0.001	<0.001	0.310	<0.001
CAR	Correlation Coefficient	0.438	-0.305	-0.731	-0.247	-0.293	0.762	-0.658	1.000	0.421	-0.699	-0.185	-0.734
	p Value	<0.001	0.018	<0.001	0.057	0.023	<0.001	<0.001		0.001	<0.001	0.156	<0.001
ROE	Correlation Coefficient	0.203	-0.340	-0.444	-0.198	-0.288	0.655	-0.805	0.421	1.000	-0.297	0.413	-0.470
	p Value	0.120	0.008	<0.001	0.130	0.026	<0.001	<0.001	0.001		0.021	0.001	<0.001
No of Members in Audit Committee	Correlation Coefficient	-0.465	0.546	0.655	0.551	0.542	-0.660	0.562	-0.699	-0.297	1.000	0.377	0.652
	p Value	<0.001	<0.001	<0.001	<0.001	<0.001	<0.001	<0.001	<0.001	0.021		0.003	<0.001
EPS	Correlation Coefficient	-0.316	0.071	0.123	0.362	0.264	0.039	-0.133	-0.185	0.413	0.377	1.000	0.209
	p Value	0.014	0.588	0.348	0.004	0.041	0.770	0.310	0.156	0.001	0.003		0.108
Number of board meetings	Correlation Coefficient	-0.493	0.364	0.730	0.346	0.352	-0.742	0.726	-0.734	-0.470	0.652	0.209	1.000
	p Value	<0.001	0.004	<0.001	0.007	0.006	<0.001	<0.001	<0.001	<0.001	<0.001	0.108	

Findings and Interpretation: Alternative hypothesis is accepted for domestic ownership, board size, board independence, return on asset, net NPA, capital adequacy ratio, audit committee size, earnings per share and number of board meetings in a year. Null hypothesis is accepted for income and return on equity. Degree of association between corporate governance disclosure and domestic ownership in bank, corporate governance disclosure and board size in bank, corporate governance disclosure and number of independent directors in the board, corporate governance disclosure and return on asset, corporate governance disclosure and net NPA, corporate governance disclosure and capital adequacy ratio, corporate governance disclosure and no of members in audit committee, corporate governance disclosure and earnings per share as well as corporate governance disclosure and no of board meetings in a year are significant at 5% level of significance. On the other hand, degree of association between corporate governance disclosure and average income as well as corporate governance disclosure and return on equity are insignificant at 5% level of significance.

6. CONCLUSION

H_1 is accepted for hypothesis 1. Performances of Public Sector Undertaking and private banks vary at 5% level of significance. H_O is accepted for hypothesis 2. Performances of Public Sector Undertaking and private banks don't vary across years at 5% level of significance. H_O is accepted for hypothesis 3. There is no relationship between corporate governance disclosure score and income at 5% level of significance. Correlation Coefficient between corporate governance disclosure score and income is insignificant. H_1 is accepted for hypothesis 4. There is inverse relationship between corporate governance disclosure score and local ownership at 5% level of significance .Correlation Coefficient between corporate governance disclosure index and average domestic ownership in bank is significant (-0.512). H_1 is accepted for hypothesis 5. There is inverse relationship between corporate governance disclosure score and board size at 5% level of significance. Correlation coefficient between corporate governance disclosure score and board size is significant (-0.356). H_1 is accepted for hypothesis 6. There is inverse relationship between corporate governance disclosure score and board independence at 5% level of significance. Correlation coefficient between Corporate governance disclosure score and number of independent directors in the board is significant (-0.587). H_1 is accepted for hypothesis 7. There is positive relationship between corporate governance disclosure score and ROA at 5% level of significance. Correlation coefficient between corporate governance disclosure score and return on asset is significant (0.605). H_1 is accepted for hypothesis 8. There is inverse relationship between corporate governance disclosure score and net NPA at 5% level of significance. Correlation coefficient between corporate governance disclosure score and net NPA is significant (-0.387). H_1 is accepted for hypothesis 9. There is direct relationship between corporate governance disclosure score and capital adequacy ratio at 5% level of significance. Correlation coefficient between corporate governance disclosure score and average capital adequacy ratio is significant (0.438). H_0 is accepted for hypothesis 10. There is no relationship between corporate governance disclosure score and ROE at 5% level of significance. Correlation coefficient between corporate governance disclosure score and return on equity is insignificant.H_1 is accepted for hypothesis 11. There is inverse relationship between corporate governance disclosure score and audit committee size at 5% level of significance. Correlation coefficient between corporate governance disclosure score and no of members in audit committee is significant (-0.465). H_1 is accepted for hypothesis 12. There is inverse relationship between corporate governance disclosure score and EPS at 5% level of significance. Correlation coefficient between corporate governance disclosure score and earnings per share is significant (-0.316).H_1 is accepted for hypothesis 13. There is inverse relationship between corporate governance disclosure score and number of board meetings at 5% level of significance .Correlation coefficient between corporate governance disclosure score and no of board meetings in a year is significant(-0.493). Hence local ownership, board size, board independence, return on asset, net NPA, capital adequacy ratio, audit committee size, Earnings per share as well as number of board meetings in a year are key determinants of corporate governance practices of banks.

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