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## A CONCEPTUAL FRAMEWORK FOR MEASURING STAKEHOLDER PERCEPTION TOWARDS CORPORATE GOVERNANCE IN PRIVATE AND GOVERNMENT OWNED BANKS OPERATING IN INDIA

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### **Abstract**

The extent, to which companies adhere to the fundamental principles of governance, is sure to boost the confidence of the investors and other stakeholders, as well as the business. Also, adequate and strong disclosure policies help companies to attract investments, and builds stakeholder loyalty

This paper aims to give a conceptual framework for a potential research study on understanding the perceptions of stakeholders, vis-a-vis, the shareholders, investors, management, employees and the customers on the governance policies of the private and public sector banks operating in India.

The study will attempt to throw light on the awareness and expectation levels of the different stakeholders considered and also aims at providing suggestions for improvement at the strategic and policy levels.

**Keywords:** Corporate Governance, Banking Industry, Stakeholder perception of corporate governance in banks

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### **INTRODUCTION**

Effective Governance is the most important factor that determines a country's growth and development. Financial and Economic development of a country is boosted by good governance practices – not only at the political and governmental level but also at corporate levels in both private and public organizations operating in a country.

The Committee set up for Corporate Governance by the SEBI in 2003, stated that Corporate Governance in fact specifies to the company, the true rights of the shareholders, who are the real owners of the company and also to the company, the privileges as a trustee, bestowing the rights to act on behalf of the shareholders. It is also about the company's commitment to sustaining the values that it believes and about the value that it promises to deliver to its customers, shareholders and partners; about its ethical business conduct; about understanding the distinction between using personal and company funds in the management of a company, among many others.

The Organisation for Economic Cooperation and Development (OECD), in 1999, gave a broader scope to corporate governance by defining it, "as a set of formally arrived relationships between the company, its board and its stakeholders".

Corporate Governance, as per the Principles prescribed by OECD, also aims to provide the framework for determining the company's objectives and also the means to achieve these objectives. A structure is also established for monitoring the performance of the organisations.

It also prescribes that good corporate governance process should also motivate the board and the management to follow the objectives that favour the interests of the company and its shareholders, and should also provide provision for monitoring the functions more effectively, thereby encouraging companies to optimally use its scarce resources.

The extent to which companies adhere to the pre-determined principles of governance, is sure to boost the confidence of the investors and other stakeholders, as well as the business. Also, adequate and strong disclosure policies help companies to attract investments, and builds stakeholder loyalty

Effective communication system – both internal and external, also helps to reduces investor perception of risks about the quality of information being disseminated, thereby helps the firm to raise sufficient funds.

Meghna Thapar et. al (2017) stated that, (i) Wide spread of shareholders, (ii) Constant changes in the Ownership Structure, (iii) Corporate scams or scandals, (iv) Greater expectations from the society etc., are the reasons why corporate governance norms are needed in companies.

Corporate governance provides for the right structure and policies for the operation of a company and places the broad set of objectives and goals in front of the organization that provide norms and guidelines that are aimed to protect the interests of its stakeholders.

According to Jenson and Fama (1983), the modern corporations operating from the USA and UK believe that the fundamental objective of Corporate Governance is to protect the interests

of the stakeholders and all those who are concerned with running the affairs of the company, namely, the shareholders and the management, is perfectly aligned

According to Shleifer and Vishny (1997), the main objective of corporate governance is to ensure that the financial investors, creditors and shareholders get their ROI. They also stated that apart from the shareholders the firm has many other stakeholders also viz. suppliers, employees, creditors, customers, general public and the government, whose welfare must also be considered.

In our country, the need for a strong corporate governance policies and disclosure norms was understood after the series of scams that shook the nation in the 90s. Policies of liberalization, globalisation and privatisation opened the country to international competition. This is also necessitated the corporates to adopt globally benchmarked governance standards.

The following are the broad level mandates made in the Companies Act of 2013 in order to monitor the activities of companies for protecting the interests of the shareholders.

- The Act prescribed that the Board of Directors should comprise of a specified and mandated number of minimum independent directors. When the Chairman is a non-executive director, it prescribes that at least one-third of the Board should be independent directors, while in situations when the Chairman happens to be an executive director, a minimum of 50% of the board members should be independent directors.
- The Act mandates that an audit committee should be set up and should have a minimum of three directors as members, two-thirds of which should be independent.
- There should be transparency in the disclosures pertaining to the financial and commercial transactions
- It should be certified that they have reviewed all the financial statements and the same are in compliance with the regulations and also accept responsibility for internal control systems.

### **CORPORATE GOVERNANCE IN INDIAN BANKING SECTOR**

Globalisation has made an impact on the all the industries, including banking sector. Currently, banks are facing a highly volatile business environment than any other sector. Banks are engaged in the business of giving loans to the industry and the general public and also accepting deposits from them. Managing public funds is the fulcrum of banking business. Banks need to have the most robust governance systems to also ensure that the money raised from the public is used responsibly.

Protecting the interest of the depositors and investors thus is of utmost importance to the banks in order to sustain their credibility. Corporate governance assumed greater importance in banks also due to this, more significantly in the recent times due to the increased competition from the private sector.

Poor corporate governance practices may result in failure of the banks, if not responded to at the right moment. This could mean a big loss to all stakeholders and also to the economy as a whole. Broader macroeconomic implications like recession, inflation etc, can also be expected on account of banking failures. Poor corporate governance can also result in the bank as a brand losing its image and credibility in front of its stakeholders, which will take ages to recover, at times may not recover, leading to a disaster.

In banks, the corporate governance policies are quite different, in the sense that they are less transparent compared to any other organisations. This makes it difficult for shareholders and investors to track the operations of the bank on a regular basis. The situation is more complicated when government has the major shareholding. Moreover, the range of business risks in banks are more complex and difficult to assess and manage, comparing to the other organisations. Corporate governance approaches, however, differs among different banking institutions. In most countries, including India, banking sector continues to be a completely regulated one, since it has a say on the overall wellbeing of the economy.

Good governance structure also ensures delivering superior customer value to the customers and paves way for earning the trust of the customers over a period of time which is quintessential for the long run sustainability of banks. A bank that is most valued among the shareholders and customers also happens to be, in most of the situations as history reveals, the one that is trusted also by its employees and partners. Hence Corporate Governance ensures a holistic development for banks through policies and guidelines that aim at accomplishing the most important of the business objectives, that of delivering superior stakeholder value.

The regulatory authorities for banks and corporate houses in India are:

- **Reserve Bank of India - RBI &**
- **Securities Exchange Board India - SEBI**

The **Reserve Bank of India**, RBI prescribes the broad principles and norms for corporate governance and also operates under BFS, the Board for Financial Supervision. The BFS supervises the functions of DBS, the Department of Banking Supervision, Department of Non-Banking Supervision (DNBS) and Financial Institutions Division.

**Securities Exchange Board India** (SEBI) regulates the securities market of India. Its authority is however limited to listed companies alone, the ones that are listed in the two stock exchanges in India - the NSE - National Stock Exchange and BSE - Bombay Stock Exchange. The compliance of the corporate governance system is compulsory for all the banks listed in the two stock exchanges of India.

The liberalisation policies beginning from 1991 witnessed a transformation in the Indian banking sector. Many private banks entered the industry and the government held shares in

these banks declined. The entry of private and global MNC banks brought with it hyper-competition in the sector. This forced the banks to enhance their governance structure to cope with the increase in customer expectations. Banks now have greater freedom and also have an increased autonomy and controls. The entry of institutional and retail shareholders also necessitated robust corporate governance standards that banks are needed to follow.

The first announcement on Corporate Governance in India was done in 2001 by Dr. Bimal Jalan, the then Governor of the Reserve Bank of India. As a result, an advisory body on corporate governance was created under the Chairmanship of Dr. R.H. Patil. The committee submitted a detailed report in the first quarter of 2001 highlighting the issues related to corporate governance practices as followed by banks operating in India. Based on the findings, the committee proposed recommendations to put in place stringent governance standards in India, on par with the best in the world.

### **CORPORATE GOVERNANCE: INDIAN CONTEXT**

In the recent times the Corporate Sector of India is witnessing an unprecedented turbulence with Corporate Governance as the core point of concern. The events concerning the changes at the top management in the two leading corporate giants of India – Tata and Sons and Infosys Limited, has garnered a very high level of public interest towards the topic of Corporate Governance, which was unheard of in the past. This has also paved way for academic and industry research on the area of Corporate Governance pertaining to various sectors, to provide a clearer picture of Corporate Governance in organizations to its stakeholders and also to the general public. Howard, Cory (2014) outlined the benefits of corporate governance to the stakeholders, especially the non-shareholder stakeholder in view of Basel III norms.

McKinsey (2003) found that institutional investors were ready to pay a higher share premium to companies where corporate governance practices were perceived to be good, as compared to those companies without good corporate governance practices

While disciplined governance is of utmost importance to all sectors, it has a very high level of significance attached to Banking Sector, since the sector is considered as the backbone of any economy. Though controlled and monitored, the aspects and outcomes of governance are perceived differently by different stakeholders.

### **Proposed Research Methodology**

The article is aimed at presenting the proposed research methodology on the stakeholder perception of Corporate Governance in banks operating in India. It is unique in the respect that it proposes to capture the perceptions of almost all the sub-segments within the stakeholder cluster, namely shareholders, top management, customers, employees and partners. This section aims to throw light on

- Scope
- Objectives &
- Methodology

### **Scope:**

The following are the types of the banks that are proposed to be considered for the study:

- *Private Banks*
- *Government Banks*

Top 5 companies in each category will be taken for the purpose of the study.

The following are the set of stake holders to be included in the research

- Share holders
- Top Management
- Customers
- Employees
- Partners

The cities identified to conduct the research are as follows:

- Bangalore
- Mumbai
- Chennai

### **Objectives:**

The broad research objectives of the project are as follows:

- To study the Corporate Governance policies of Banks operating in India
- To analyse the perception of stakeholders towards Corporate Governance policies & practices in public and private banks in India
- To provide suggestions and recommendations to the Banks to improve their Corporate Governance practices

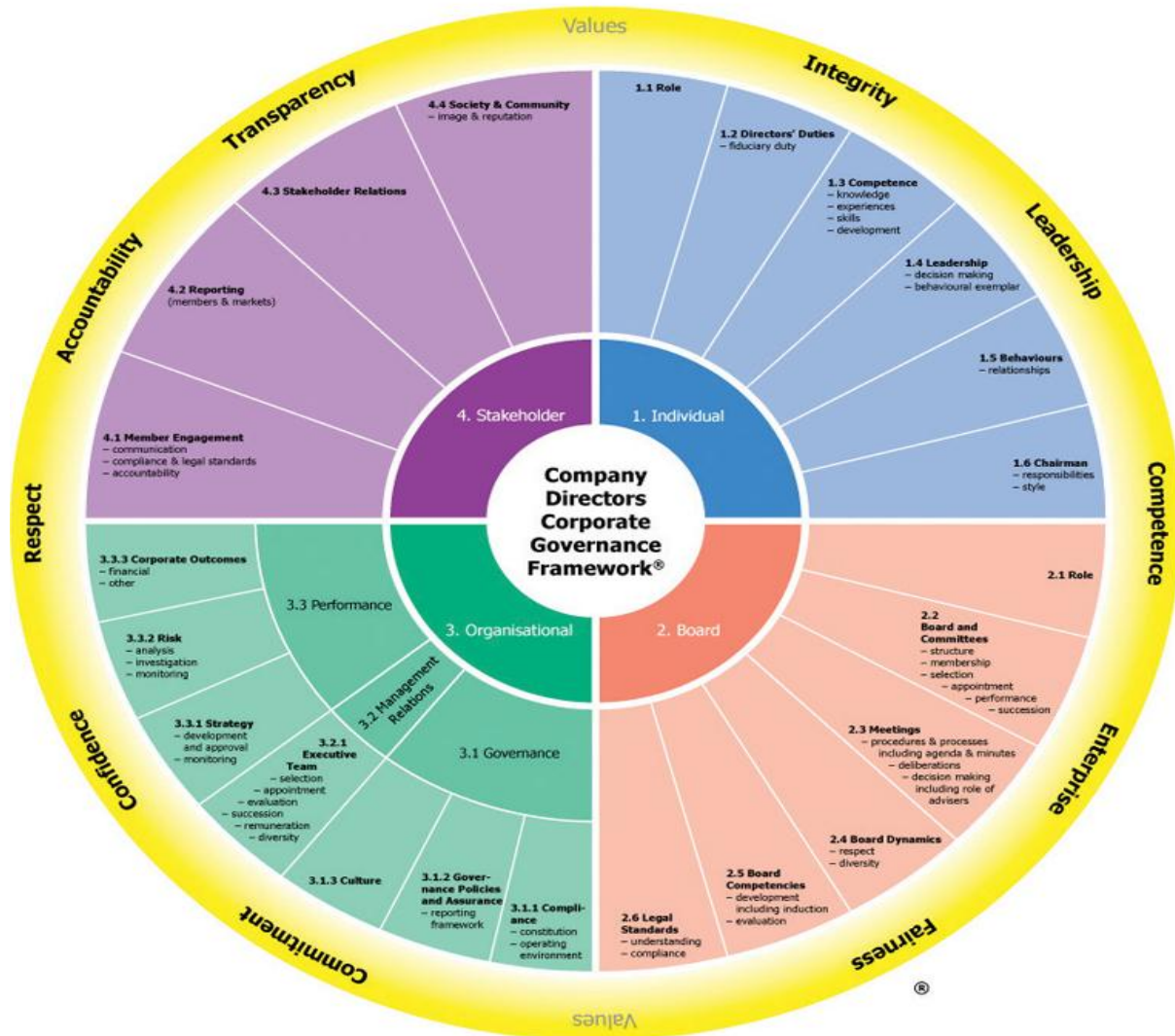
### **Methodology:**

- **Exploratory research design** is proposed for accomplishing Research Objective 1: To study the Corporate Governance policies of Banks operating in India.
- **Descriptive research design** is proposed for accomplishing Research Objective 2: To analyse the perception of stakeholders towards Corporate Governance practices in private and government banks in India

### **FINDINGS FROM EXPLORATORY RESEARCH**

A pilot study was undertaken to identify variables for measuring stakeholder perceptions. The following framework shows the fundamental dimensions to be considered.

**Company Directors Corporate Governance Framework®\***



\*Size of segments has no relation to importance  
 The values encircle the practices of directors, boards their organisations and interactions with stakeholders

**Source: Australian Institute of Company Directors**

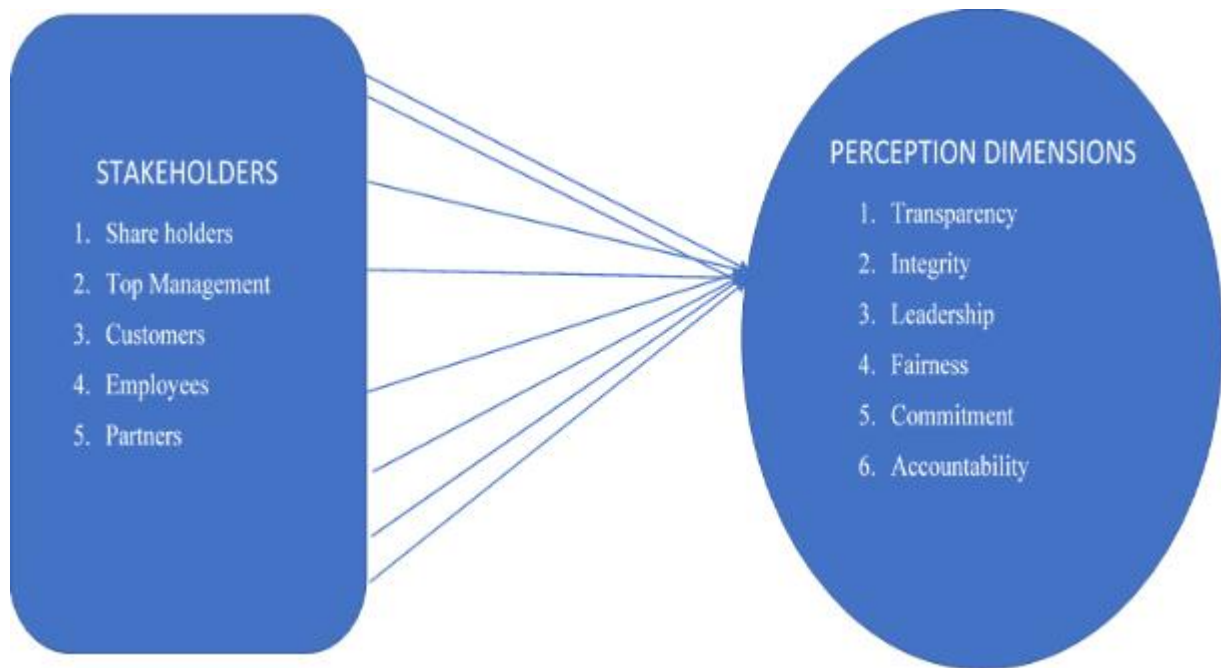
A survey conducted on 100 mixed composition of stakeholders, showed the following dimensions (out of 10 dimensions considered, only those dimensions that are rated as important by more than 40% of the respondents are taken into account for the study purpose) of corporate governance in the order of importance

1. Transparency (78% of the respondents)
2. Integrity (54% of the respondents)
3. Leadership (51% of the respondents)
4. Fairness (48% of the respondents)

5. Commitment (44% of the respondents)
6. Accountability (42% of the respondents)

### CONCEPTUAL FRAMEWORK

Based on findings from the exploratory research the following conceptual framework is proposed for pursuing a conclusive research study.



### CONCLUSION

The study aims to provide broad picture of stakeholder perception of Corporate Governance in Indian Banking Sector. A more conclusive research on the subject will provide recommendations to the banking sector on areas to focus and suggestions to improve their Corporate Governance practices. The research will also provide a multi-dimensional view on Corporate Governance in banks, which can be used as the base research work for future research in the area.

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