

# CORPORATE GOVERNANCE - COMPARATIVE STUDY OF CORPORATE GOVERNANCE PRACTICES BETWEEN FINANCIAL AND NON-FINANCIAL INSTITUTES OF INDIA

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**Abstract:** Corporate governance provides structure through which the objectives of the company are set and means of attaining those objectives and monitoring performance are determined. Corporate governance is about commitment to values, ethical business conduct and contribution towards social causes and considering all stakeholders interest in fair conduct of business. It is an integral practice is internal element of business. Banking and non-banking institute financial institution play a key role in the financial service system of an economy. A banking institute being financial intermediary that deals with money and debt. Non-banking institution is supplement bank by providing the information to allocate surplus resource to individual and companies with deficits. Non-banking financial companies has expanded significantly in last several years as startup funds companies, retail and industrial companies. This research paper will present comparison of corporate governance disclosures practices in five banking and five non-banking institute of India listed in BSE top 100.

**Index Terms:** corporate governance, banking, and non-banking institutions

## I. INTRODUCTION

In India, the question of corporate governance has gained tremendous importance due to economic liberalization and deregulation of industry and business as well as the demand for a new corporate ethics and stricter compliance with the legislation. The new policy adopted by the government of India consequent to liberalization and opening up of the economy since 1991, has necessitated the demand for introduction and implementation of a proper corporate governance policy in the day-to-day management of the companies not only in the interest of their stakeholders but also for the development of the economy.

Corporate Governance is getting a intense attention particularly after market and public confidence become brittle after a series of corporate scams in which the absence of effective governance was a major factor. Governance means the process of decision making and the process by which decisions are implemented (or implemented) involving multiple actors. It is application of best management practice and compliance of code of conduct in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of responsibilities for sustainable development of all stakeholders. Good corporate governance is primarily constructed upon the personal, belief, value and ethics which configure the organizational values, belief and actions on its board.

Banking and Non-banking institute financial organization are vital pillars of financial system. Banking sector is important for any economy in the world and Indian banking sector contribution is significant in the growth of Indian economy, but time and again the frauds reported in the banking sector raises a question mark on our corporate governance practices followed by the banks. Lack of transparency and poor disclosures in the annual reports are blocking the stakeholders from ascertaining the well-being of the corporate houses. Non-banking financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that doesn't have a full banking license or isn't supervised by a national or international banking regulatory authority. This paper is an empirical investigation measuring the corporate governance compliance and disclosure practices in financial and non-financial institute banks in India

## II. REVIEW OF LITERATURE

Pran Krishansing Boolaky (2007) has conducted study on "corporate governance in the financial services sector of small island economies: a case study of Mauritius". His research study investigated the practices of corporate governance within the financial services sector of small island economies with special reference to banks and insurance companies in Mauritius with a view to assess the level of compliance. Interpretations and Analysis of the annual reports of companies in the sector is used to assess the extent of compliance to corporate governance code in Mauritius and concluded that compliance percentage is above 70% as regards board's composition, audit committee, disclosure of policies and practices. This study reports that there are few cases of noncompliance with the National Code but good governance is necessary in the financial services sector to inspire stakeholder's confidence.

Gupta, P. (2012), checked whether higher and better corporate governance scores lead to better performance of the companies. Writer reveals that India follows more stringent corporate governance practices based on shareholder model as compared to Japan and South Korea. Author also found that corporate governance practices do have an impact on the share prices of the companies as well as on the financial performance of the companies.

Motwani, S.S. and Pandya, H.B. (2013), studied sectoral analysis of corporate governance practices in India, is an attempt to reveal the secrets of corporate governance in India context. The aim of their study corporate governance practices in India context for selected leading sector over the period of five years for this purpose average scores have been calculated by dividing the sum of scores of the companies for the year. Authors found that highest corporate governance practice was shown by the companies of automobile sector and low corporate governance practices in construction sector.

Research was carried out by Babatunde and Akeju (2016) on corporate governance and its impact on profitability among 60 selected listed companies in Nigeria. The study revealed that the corporate governance mechanisms such as board characteristics, audit committee, board independence, size and growth of the firms increase the selected companies' profitability.

Sheeba Kapil, Rakesh Mishra (2019) in their study explored the link between corporate governance system developed by firms like promoter ownership, institutional relationship (as percentage ownership in the firm), Foreign institutional investors (FII) ownership, board size (log assets), family control which is an important indicator for board independence. Findings indicated impact of corporate governance variables on market based performance measures (Tobin's Q) is greater than the impact on accounting based performance measures (ROA and ROE)

## III. OBJECTIVE OF THE STUDY

The main objectives of research paper are as follow

1. To develop Corporate Governance Disclosure Index on the basis of Mandatory and Non-Mandatory requirement issued by SEBI in Revised Clause 49 of listing Agreement.
2. To determine the corporate governance practices in 2 financial (HDFC and AXIS bank) and 2 non-financial institutes (BAJAJ FINSERV AND SHRIRAM TRANSPORT) listed in BSE Top 100.
3. To make comparative analysis of corporate governance practice with in financial year 2018-2019.

## IV. SAMPLE SIZE AND COLLECTION OF THE DATA

The sample comprises of two financial institutes and two non-financial institutes which is listed in BSE Top-100. This research will be based on the secondary data. Present study has considered the duration of Financial Year 2018-19. All data and information has collected from annual report of bank, Journals etc.

## V. HYPOTHESIS

Following hypothesis will be framed and tested on the basis revised Clause 49 of listing Agreement

$H_{10}$ : Financial institutes does not show compliance with Corporate Governance Standard and Disclosure practices mentioned in Clause 49 of Listing Agreement.

$H_{11}$ : Financial institute shows compliance with Corporate Governance Standard and Disclosure practices mentioned in Clause 49 of Listing Agreement.

$H_{10}$ : Non-financial institutes do not show compliance with Corporate Governance Standard and Disclosure practices mentioned in Clause 49 of Listing Agreement

H1<sub>1</sub>: Non-financial institute shows compliance with Corporate Governance Standard and Disclosure practices mentioned in Clause 49 of Listing Agreement.

### INTERPRETATION AND ANALYSIS

This section of our research comprises comparative analysis of Corporate Governance disclosure practices of financial year 2018-2019 of financial and non-financial institutes. For this purpose, banking and non-banking performance is measured against certain governance parameter. The research has been under taken to assess the level of compliance to key governance parameter in these companies in tune with Mandatory and Non- Mandatory requirements given by SEBI under Clause 49 for listing agreement and Provisions of the Companies Act 2013. These key governance parameters and the criterion for evaluation of governance, standard have been selected on a hundred-point scale as shown in Table 1.

| Sr.no | Governance parameters   | Point | Total score | HDFC | AXIS | Bajaj Finserv | Shriram Transport |
|-------|---|-------|-------------|------|------|---------------|-------------------|
| 1)    | <b>Statement of Bank's Philosophy on Code of Governance</b>   | 1     | <b>1</b>    | 1    | 1    | 1             | 1                 |
| 2)    | <b>Composition of the board and BOD Meetings held.</b>  |       | <b>5</b>    |      |      |               |                   |
|       | i) Not less than 50% of the Board of Directors comprising of non-executive Directors.   | 1     |             | 1    | 1    | 1             | 1                 |
|       | ii) At least one woman director.  | 1     |             | 1    | 1    | 1             | 1                 |
|       | iii) Where Chairman is Non-Executive Director-At least 1/3 of the board comprise Independent Director where Chairman is Executive- at least 1/2 of the board comprise Independent Director. | 1     |             | 1    | 1    | 1             | 1                 |
|       | iv) At least four BOD meetings in a year.   | 1     |             | 1    | 1    | 1             | 1                 |
|       | v) Attendance record of BOD meetings  | 1     |             | 1    | 1    | 1             | 1                 |
| 3)    | <b>Chairman and CEO Duality</b>   |       | <b>5</b>    |      |      |               |                   |
|       | i) Promoter Executive Chairman- cum-MD/CEO  | 1     | -           | -    | -    | -             | 1                 |
|       | ii) Non-Promoter Executive Chairman cum-MD/CEO  | 2     | -           | -    | -    | -             | -                 |
|       | iii) Promoter Non-Executive Chairman  | 3     | -           | -    | -    | 3             | -                 |
|       | iv) Non-Promoter Non-Executive Chairman   | 4     | -           | -    | -    | -             | -                 |
|       | v) Non-Executive Independent Chairman   | 5     | -           | 5    | 5    | -             | -                 |
| 4     | <b>Disclosure of tenure &amp; age limit of directors</b>  | 2     | <b>2</b>    | 2    | 2    | -             | 2                 |
| 5     | <b>Disclosures regarding to Independent Director (ID)</b>   |       | <b>3</b>    |      |      |               |                   |
|       | i) Definition of Independent director   | 1     |             | 1    | -    | -             | 1                 |
|       | ii) Definition of Financial Expert  | 1     |             | 1    | 1    | -             | -                 |
|       | iii) Selection criteria of Board of Directors including Independent Directors.  | 1     |             | 1    | 1    | 1             | 1                 |
| 6     | <b>Directorship and committees membership/Chairmanship of directors across all companies</b>  | 2     | <b>2</b>    | 2    | 2    | 2             | 2                 |
| 7     | <b>Disclosure of :</b>  |       | <b>2</b>    |      |      |               |                   |

|     |   |   |          |   |   |   |   |
|-----|---|---|----------|---|---|---|---|
|     | i) Remuneration policy  | 1 |          | 1 | 1 | 1 | 1 |
|     | ii) Remuneration of directors   | 1 |          | 1 | 1 | 1 | 1 |
| 8   | <b>Disclosure of other provision<br/>As to board or committee</b>   | 2 | <b>2</b> | 2 | 2 | 2 | 2 |
| 9)  | <b>Code of Conduct</b>  |   | <b>2</b> |   |   |   |   |
|     | i) Information on Code of Conduct   | 1 |          | 1 | 1 | 1 | 1 |
|     | ii) Affirmation of compliance   | 1 |          | 1 | 1 | 1 | 1 |
| 10  | <b>Post board meeting follow up<br/>system and compliances of the<br/>Board procedure.</b>  | 2 | <b>2</b> | - | - | - | - |
| 11) | <b>Board Committees:</b>  |   | <b>8</b> |   |   |   |   |
| A)  | <b>AUDIT COMMITTEE:</b>   |   |          |   |   |   |   |
|     | i) Transparency in composition of the Committee.  | 1 |          | 1 | 1 | 1 | 1 |
|     | ii) Compliance of minimum requirement of no. of Independent Directors in the Committee.   | 1 |          | 1 | 1 | 1 | 1 |
|     | iii) Compliance of minimum requirement of the number of committee meetings.   | 1 |          | 1 | 1 | 1 | 1 |
|     | iv) Information about literacy & financial Expertise of the committee.  | 1 |          | 1 | 1 | 1 | 1 |
|     | v) Information about participation of head of finance, statutory auditors, chief internal auditors, and other invitees in the committee meetings. | 1 |          | 1 | 1 | 1 | 1 |
|     | vi) Disclosure of audit committee charter & terms of reference.   | 2 |          | 2 | 2 | 2 | 2 |
|     | vii) Publishing of committee report   | 1 |          | 1 | 1 | 1 | 1 |
| B)  | <b>REMUNERATION /COMPENSATION COMMITTEE :</b>   |   | <b>6</b> |   |   |   |   |
|     | i) Formation of the committee   | 1 |          | 1 | 1 | 1 | 1 |
|     | ii) Information about number of Committee meetings.   | 1 |          | 1 | 1 | 1 | 1 |
|     | iv)   |   |          |   |   |   |   |

|    |   |   |           |   |   |   |   |
|----|---|---|-----------|---|---|---|---|
|    | v) Compliance of minimum requirement of no. of Non-Executive Directors in the committee.            | 1 |           | 1 | 1 | 1 | 1 |
|    | vi) Information about participation of meetings.  | 1 |           | 1 | 1 | 1 | 1 |
|    | vii) Publishing of Committee report   | 2 |           | 2 | 2 | 2 | 2 |
| C) | <b>SHAREHOLDER/STAKEHOLDER RELATIONSHIP COMMITTEE:</b>  |   | <b>5</b>  |   |   |   |   |
|    | i) Transparency in composition of the Committee   | 1 |           | 1 | 1 | 1 | 1 |
|    | ii) Information about nature of complaint & queries received and Disposed-item wise.                | 1 |           | 1 | 1 | 1 | 1 |
|    | iii) Information about number of committee meetings   | 1 |           | 1 | 1 | 1 | 1 |
|    | iv) Information about action taken and investors/shareholder survey.                                | 1 |           | 1 | 1 | 1 | 1 |
|    | v) Publishing of committee report.  | 1 |           | 1 | 1 | 1 | 1 |
| D) | <b>RISK MANAGEMENT COMMITTEE</b>  |   | <b>2</b>  |   |   |   |   |
|    | i) Formation of committee   | 1 |           | 1 | 1 | 1 | 1 |
|    | ii) Publishing of committee charter report  | 1 |           | 1 | 1 | 1 | 1 |
| E) | <b>ADDITIONAL COMMITTEE</b>   |   | <b>4</b>  |   |   |   |   |
|    | i) Health and safety & environment committee  | 1 |           | - | - | - | - |
|    | ii) CSR and sustainable development committee   | 1 |           | 1 | 1 | 1 | 1 |
|    | iii) Investment Committee   | 1 |           | 1 | - | 1 | - |
|    | iv) Other Committee   | 1 |           | 1 | 1 | 1 | 1 |
| 12 | <b>DISCLOSURE AND TRANSPARENCY:</b>   |   | <b>25</b> |   |   |   |   |
|    | i) Significant related party transaction having potential conflict with the interest of the company | 2 |           | 2 | 2 | 2 | 2 |
|    | ii) Non-compliance related to capital market matters during the last 3 years.                       | 2 |           | 2 | 2 | 2 | 2 |

|     |   |                  |           |                  |                  |                  |                  |
|-----|---|------------------|-----------|------------------|------------------|------------------|------------------|
|     | iii) Board Disclosure-Risk Management   | 2                |           | 2                | 2                | 2                | 2                |
|     | iv) Information to the board on risk Management   | 2                |           | 2                | 2                | 2                | 2                |
|     | v) Publishing of risk management report   | 1                |           | 1                | 1                | 1                | 1                |
|     | vi) Management discuss and analysis   | 2                |           | 2                | 2                | 2                | 2                |
|     | vii) Shareholders-<br>Appointment of new director/re-appointment of retiring directors.<br>Quarterly results & presentation<br>Share-Transfers<br>Directors' responsibility Statement | 1<br>1<br>1<br>1 | <b>4</b>  | 1<br>1<br>1<br>1 | 1<br>1<br>1<br>1 | 1<br>1<br>1<br>1 | 1<br>1<br>1<br>1 |
|     | viii) Shareholder right   | 2                |           | 2                | 2                | 2                | 2                |
|     | ix) Audit Qualification   | 2                |           | 2                | 2                | 2                | 2                |
|     | x) Training of board members  | 2                |           | 2                | -                | -                | -                |
|     | xi) Evaluation of non-executive directors   | 2                |           | 2                | 2                | 2                | 2                |
|     | xii) Whistle Blower Policy  | 2                |           | 2                | 2                | 2                | 2                |
| 13  | <b>GENERAL BODY MEETINGS:</b>   |                  | <b>3</b>  |                  |                  |                  |                  |
|     | i) Location and time of General Meetings held in last 3 years   | 1                |           | 1                | 1                | 1                | 1                |
|     | ii) Details of Special Resolution passed in the last 3 AGMs/EGMs  | 1                |           | 1                | 1                | 1                | 1                |
|     | iii) Details of resolution passed last year through Postal Ballot including the name of conducting official and voting procedure  | 1                |           | -                | 1                | -                | 1                |
| 14  | <b>Means of Communication and General Shareholder Information</b>   | 2                | <b>2</b>  | 2                | 2                | 2                | 2                |
| 16  | <b>CEO/CFO certification</b>  | 2                | <b>2</b>  | 2                | 2                | 2                | 2                |
| 17  | <b>Compliance of Corporate Governance and Auditors' Certificate:</b><br>Clean certificate from auditors   | 2                | <b>2</b>  | 2                | 2                | 2                | 2                |
| 18  | <b>Code for prevention of insider trading practices</b>   | 5                | <b>5</b>  | 5                | 5                | 5                | 5                |
| 19) | <b>Disclosure of stakeholders' interest:</b>  |                  | <b>10</b> |                  |                  |                  |                  |
|     | i) Environment, Health & Safety measures (EHS)  | 2                |           | 2                | 2                | -                | 2                |

|              |  |   |            |    |    |    |    |
|--------------|--|---|------------|----|----|----|----|
| ii)          | Human Resource Development initiative (HRD)    | 2 |            | 2  | 2  | -  | -  |
| iii)         | Corporate Social Responsibility (CSR)          | 2 |            | 2  | 2  | 2  | 2  |
| iv)          | Industrial Relation (IR)                       | 2 |            | -  | -  | -  | -  |
| v)           | Disclosures of policies on EHS, HRD, CSR, & IR | 2 |            | 2  | 2  | 2  | 2  |
| <b>Total</b> |  |   | <b>100</b> | 95 | 91 | 82 | 86 |

## VI. OBSERVATION

1. Both financial and non-financial institute have good and fair corporate governance practice.
2. In comparison of financial and non-financial institute HDFC got the highest score.
3. HDFC got the highest score in financial institute and SHRIRAM TRANSPORT got highest score in non-financial institute.
4. HDFC and AXIS bank has Non-Executive Independent Chairman.
5. Bajaj Finserv has Promoter Non-Executive Chairman and Shriram transport has Promoter Executive Chairman-cum- MD/CEO.
6. None of the above companies have Health and safety & environment committee.

## VII. CONCLUSION

This research paper presents corporate disclosure practices in 2 Financial institutes (HDFC and AXIS) and 2 Non- financial institute (BAJAJ FINSERVE and SHRIRAM TRANSPORT) listed in BSE Top 100. From the interpretation and analysis of above table it is observed that in this research alternative hypothesis has been proved that BSE listed financial and non –financial institute (Selected institute) show compliance with Corporate Governance standard and disclose practices mentioned in Clause 49 of Listing Agreement and provisions in Companies Act 2013. This research has found that all selected financial institute and non-financial institute have good compliance of corporate governance. It reached on a conclusion that corporate governance practices are more satisfactory in banks than in non-financial institutes. This study reveals that non-financial institute should follow corporate governance in more efficient manner to improve overall financial system of country.

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