Corporate Governance in Banking Sector of Odisha: An Empirical Study as perceived by Customers

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ABSTRACT

Globalization and liberalization is sweeping across the sectors of economy and banking industry is not an exception. The implementation of corporate governance norms in Indian banks have been phenomenal after the bank reforms were put in place. The success of corporate governance rests on the awareness on the part of the banks of their own responsibilities. While law can control and regularize certain practices, the ultimate responsibility of being ethical and moral remains with the banks. It is this enlightenment that would bring banks closure to their goals. Banks in India are facing increasing competition, within and outside India, both in terms of markets for its products and for sources of fund. It has, therefore become necessary for banks to constantly reengineer, to provide the products and services to suit the ever-changing requirements, to accelerate the speed with which the transactions are completed and to constantly evaluate and provide training to the workforce update the knowledge and impress upon them the necessity to have a professional and competitive approach. The present study has been focused in the two leading commercial banks in Odisha.

KEWWORD: Corporate, Governance, Transparency, Accountability, Efficient, Performance.

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INTRODUCTION

The problems of poor corporate governance are matter of concern in most of the developing and underdeveloped countries. The situation is same in India where corporate governance can be useful in providing the appropriate structure in any system by placing right objectives and goals in front of the organization and helping the organization to attain these goals. It helps to provide a degree of confidence that is necessary for the proper functioning of a market economy.

Corporate Governance has become very important for banks to perform and remain in competition in this era of liberalization and globalization. Banks in a broad sense are institutions whose business is handling other people's money. The significance of corporate governance in banking sector weighs very much due to very nature of banking transactions. Banking is the crucial factor effecting economic development of an economy. It is the life-blood of a country. It is responsible for the flow of credit and for maintaining the financial balances of the economy. In India, since the nationalization process banks emerged as a tool of economic development along with social justice. As per Basel committee Report 1999, Banks have to display the exemplary of corporate governance practices in their financial performance, transparency in the balance sheets and compliance with other norms laid down by section 49 of corporate governance rules. Most importantly, their annual report should disclose accounting ratios, relating to operating profit, return on assets, business per employee, NPAs, maturity profile of loans, advances, investments, borrowings and deposits.

Similarly the audit reports of bank should highlight those disclosures which are in line with corporate governance rules. Hence, auditors should have the complete know how about all the features of the latest guidelines given by Reserve Bank of India (RBI) and ensure that the financial statements are made in a fraud free manner and should mirror the implementation of corporate governance. Apart from auditor's seriousness to bring those requirements appropriately in audit report, there should be adequate internal control systems in the operational activities of banks. It is very much essential for banks to devote adequate attention on internal control system so as to maximize their returns on each unit of capital inducted through an effective funds management strategy and mechanism. (Basel Committee Report, 1999). Banks should concentrate more on to set corporate objectives to run the day-to-day operations of the business and consider the interests of recognized stakeholders i.e., employees, customers, suppliers, supervisors, governments and the community and line up corporate activities and behaviors with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations; and of course protect the interests of depositors, which is supreme.

Banks in India are facing increasing competition, within and outside India, both in terms of markets for its products and for sources of fund. It has, therefore become necessary for banks to constantly reengineer, to provide the products and services to suit the ever-changing requirements, to accelerate the speed with which the transactions are completed and to constantly evaluate and provide training to the workforce update the knowledge and impress upon them the necessity to have a professional and competitive approach. In order to meet the statutory need of having a sound Capital Adequacy requirements, banks are accessing the Capital Market at regular intervals. Hence the Banks need to stimulate the interest of investors at all times. Investors believe that a bank with good governance will provide them a safe place for investment and also give better returns. Good Corporate Governance is, therefore, an important factor in a competitive environment.

The question raised recently by Finance Minister Arun Jaitley over the role of bank management in detecting frauds have found an echo in former bankers, government officials and experts, who have also flagged poor risk management and weak corporate governance norms in banking sector. While the Finance Ministry had just a month ago unveiled a 2.1 lakh crore bank recapitalization plan along with a six-point reform package, the 11,400 crore fraud perpetrated by Jeweller Nirave Modi at Punjab National Bank has raised calls for a more stringent overhaul.(Hindu Business Line, 22nd Feb’2018)

For any commercial bank, corporate governance is an essential tool for bank performance. The management of the bank has made attempts to improve bank performance through system and procedure integration of the governance structures. The present study aims at understanding prevailing levels of Corporate Governance as perceived by customers in public and private sector banks .i.e., SBI and ICICI changes brought down in their governing pattern.

JUSTIFICATION AND RELEVANCE OF THE STUDY

The organization must prioritise the interest of customers such as shareholders, employees, suppliers, etc., as these are the ones who in turn would provide the strengthening effect to the firm from within. But in reality banks fail to prove themselves on this part. This creates a need to study the prevailing way of Corporate Governance in banks and assess how far the improvements made in past have made it credible in eyes of the customers.

SIGNIFICANCE OF THE STUDY

To date there has been much research carried out on the effect of corporate governance in commercial banks. This study will therefore add knowledge to the already existing current stock of knowledge regarding this area of study for future researches especially the study of variables and their relationships. The findings of the study is also vital to policy makers as it clearly points out the effect of corporate governance on organizational performance in banks which affect performance. The possible solutions to these causes may be used by policy makers since they are a point of reference while writing government policies. The commercial banks will therefore benefit since the right recommendations, which suit their particular problems, have been made. The findings of the study enlighten the relevant authorities, namely the staff, public, top/senior management and finally the State and its organs, on the areas that need improvement. When this improvement is effected, bank performance will raise hence clients benefiting in terms of effective and efficient service delivery. The study also makes recommendations for what should be done in order to improve on corporate governance and reduce its negative effects on bank performance.

Demographic Profile of the Sample Respondents (N = 130)

The data pertaining to the demographic profile of the customers of SBI and ICICI in twin city of Odisha. From Table 1 below, it is evident that 54.60 % (71 nos) of the respondents are male while 45.40 % (59 nos) of the respondents are female. This shows that majority of our respondents are male.

Further, majority of the respondents belong to age group of 26 to 30 yrs 68.50 % (89 no.s), then 13.80 % (18 nos.) between age of 31 to 35 yrs and few are in the age group of 40 yrs and above i.e. 6.90% (9 nos.). In education status, majority of the respondents are intermediate50.80% (66 nos), then coming degree holders (25.40%) and very less number of respondents are having professional qualification (7.70%) and Matric (3.10%).

Table 1: Demographic Profile of the Customers (N = 130)

Particulars	Frequency	Percent	Cumulative Percent
Gender			
Female	59	45.4	45.4
Male	71	54.6	100.0
Total	**130**	**100.0**	
Age			
below 25 years	14	10.8	10.8
26 – 30 years	89	68.5	79.2
31 – 35 years	18	13.8	93.1
40 years and above	9	6.9	100.0
Total	**130**	**100.0**	
Education			
Matric	4	3.1	3.1
Intermediate	66	50.8	53.8
Degree	33	25.4	79.2
Post Graduate	17	13.1	92.3
Professional Qualification	10	7.7	100.0
Total	**130**	**100.0**	

Source: developed by the survey data

The following Table 2 and figure 1 shows the frequency distribution of respondents regarding customers association with State Bank of India. Out of total number of respondents, majority of the customers are associated from last 5 years (80.77%), then coming 5 to 10 years (9.23%). Few number of respondents are newly joined (3.08%).

Table 2: Association with Bank (N = 130)

Particulars	Frequency	Percent	Cumulative Percent
Newly Joined	4	3.08	3.08
1 – 5 yrs	105	80.77	83.85
5 – 10 yrs	12	9.23	93.08
More than 10 yrs	9	6.92	100.00
Total	**130**	**100.0**	

Source: developed by the survey data

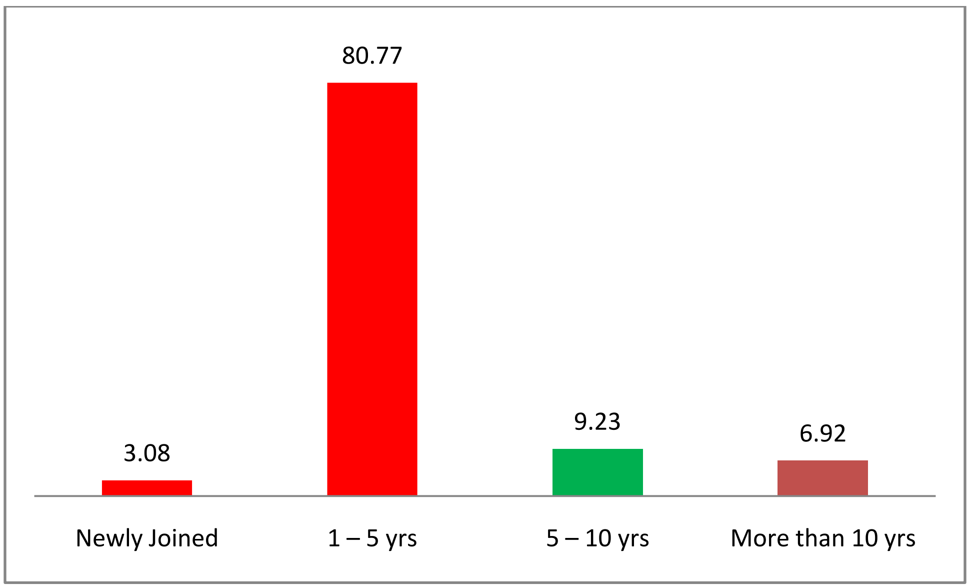

Fig. 1: Association with Bank

The following Table 3 and figure 2 shows the frequency distribution of frequency of visit to State Bank of India. The response reveals that, customers visit maximum weekly (76.92%), then coming monthly (10.0%) and occasionally (10.0%). Few number of customers are coming every day (3.08%).

Table 3: Frequency of Visit (N = 130)

Particulars	**Frequency**	**Percent**	**Cumulative Percent**
Everyday	4	3.08	3.08
Weekly	100	76.92	80.00
Monthly	13	10.00	90.00
Occasionally	13	10.00	100.00
Total	**130**	**100.0**	

Source: developed by the survey data

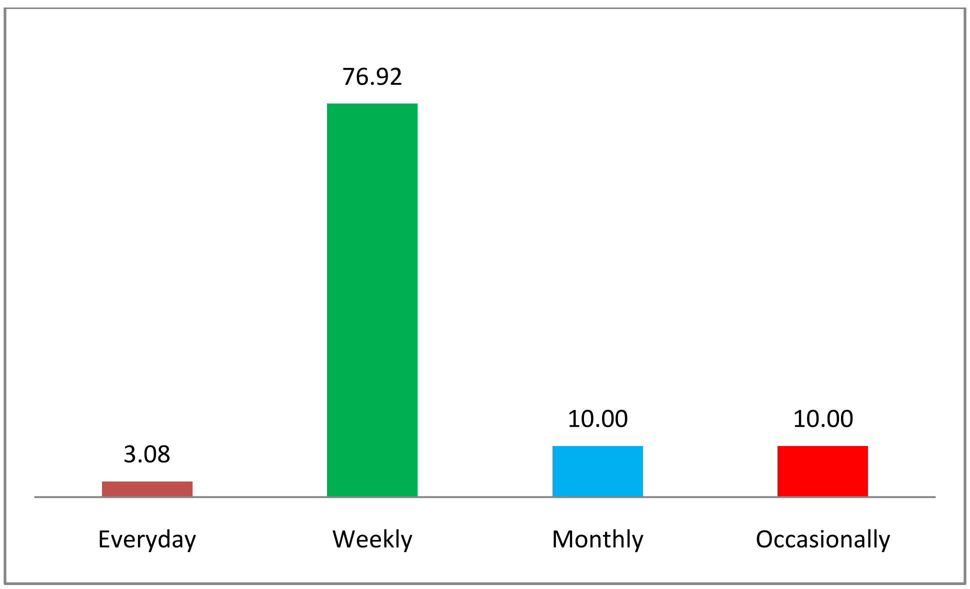

Fig.2: Frequency of Visit (N = 130)

The following Table 4 and figure 3 shows the frequency distribution of Corporate Governance fairness and transparency. The response reveals that, majority of the respondents says yes i.e. 56.20% (73 no.s) and no 43.80% (57 no.s).

Table 4: CG Fairness and Transparency (N = 130)

Particulars	Frequency	Percent	Cumulative Percent
No	57	43.8	43.8
Yes	73	56.2	100.0
Total	**130**	**100.0**	

Source: developed by the survey data

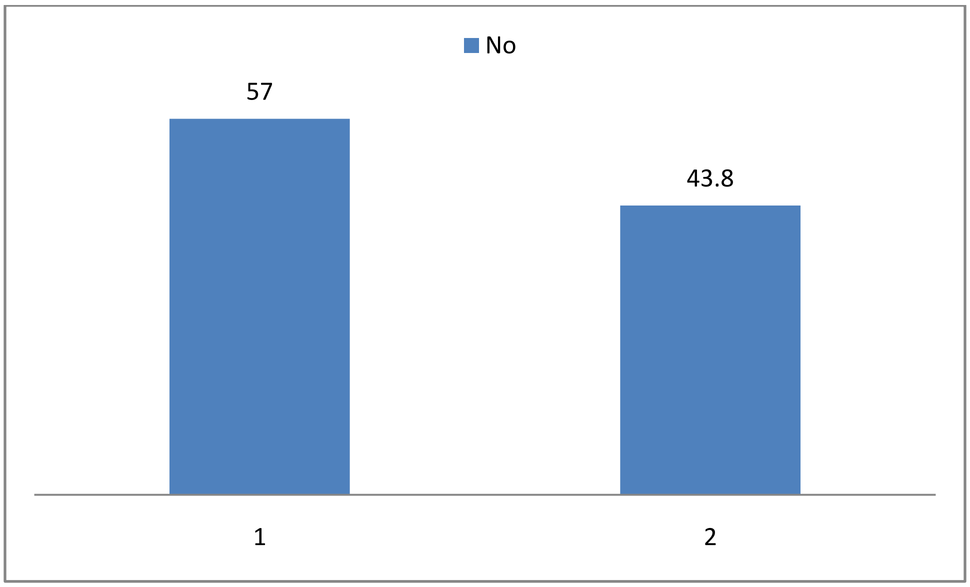

Fig.3: CG Fairness and Transparency (N = 130)

The following Table 5 shows the frequency distribution of services of the State Bank of India.

Table 5: Services of the Bank (N = 130)

Particulars	Frequency	Percent	Cumulative Percent
Strongly disagree	24	18.5	18.5
Disagree	102	78.5	96.9
Neutral	4	3.1	100.0
Total	**130**	**100.0**	

Source: developed by the survey data

The following Table 6 and figure 4 shows the frequency distribution of dissatisfaction of customers towards State Bank of India. The response reveals that majority of the respondents says about problems related to account i.e. 58.50% (76 no.s), then coming in service i.e. 23.10 % (30 no.s). Few numbers of customers say about hidden charges (6.20%).

Table 6: Dissatisfaction of customers (N = 130)

Particulars	**Frequency**	**Percent**	**Cumulative Percent**
Problems related to account	76	58.5	58.5
Servicing	30	23.1	81.5
Hidden charges	8	6.2	87.7
Other	16	12.3	100.0
Total	**130**	**100.0**	

Source: developed by the survey data

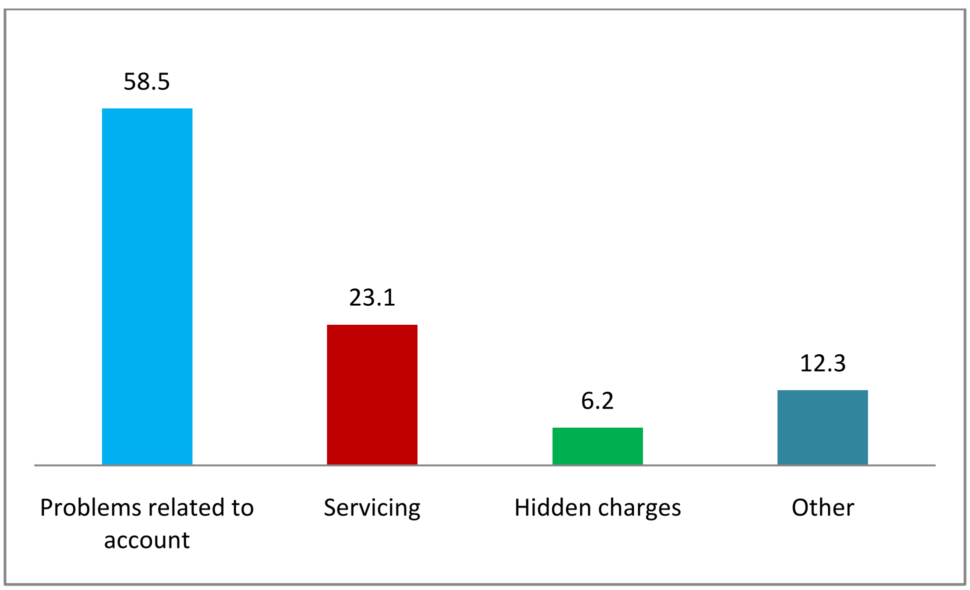

Fig.4: Dissatisfaction of customers (N = 130)

The following Table 7 and figure 5 shows the frequency distribution of changes made in policies. The table reveals that majority of the respondent says about 'most of the times' i.e.

56.20% (73 no.s), then coming 'every time' 37.70% (49 no.s). Few numbers of respondents say about 'rarely' 3.10% and 'hardly' 3.10%.

Table 7: Changes made in Policies (N = 130)

Particulars	Frequency	Percent	Cumulative Percent
Every time	49	37.7	37.7
Most of the times	73	56.2	93.8
Rarely	4	3.1	96.9
Hardly	4	3.1	100.0
Total	**130**	**100.0**	

Source: developed by the survey data

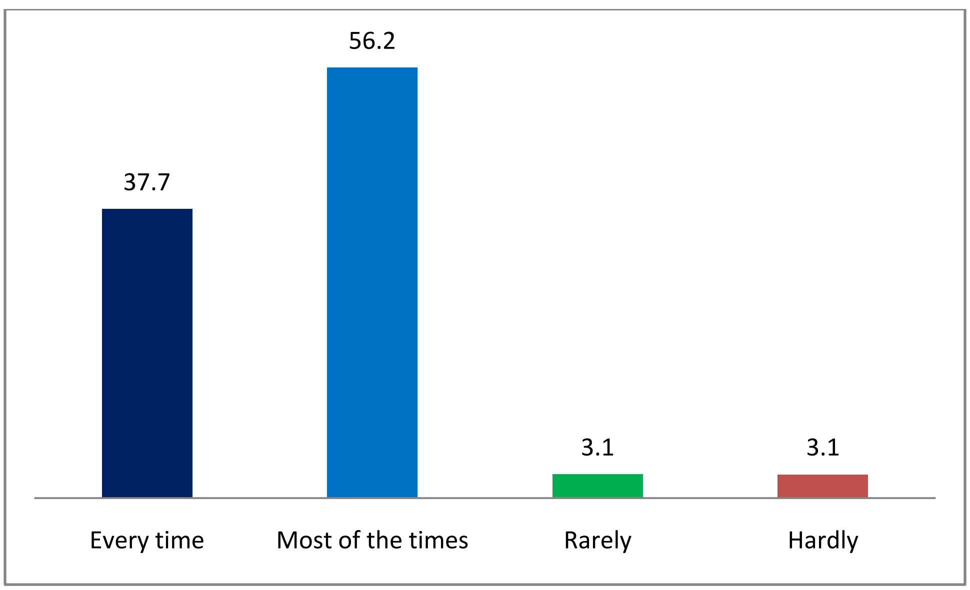

Fig.5: Changes made in Policies (N = 130)

The following Table 7 and figure 6 shows the frequency distribution regarding respond of bank related to complaints. The table reveals majority as yes i.e. 80.0% (104 no.s) and no to 20.0% (26 no.s).

Table 8: Bank responds to Complaints

Particulars	Frequency	Percent	Cumulative Percent
Yes	104	80.0	80.0
No	26	20.0	100.0
Total	**130**	**100.0**	

Source: developed by the survey data

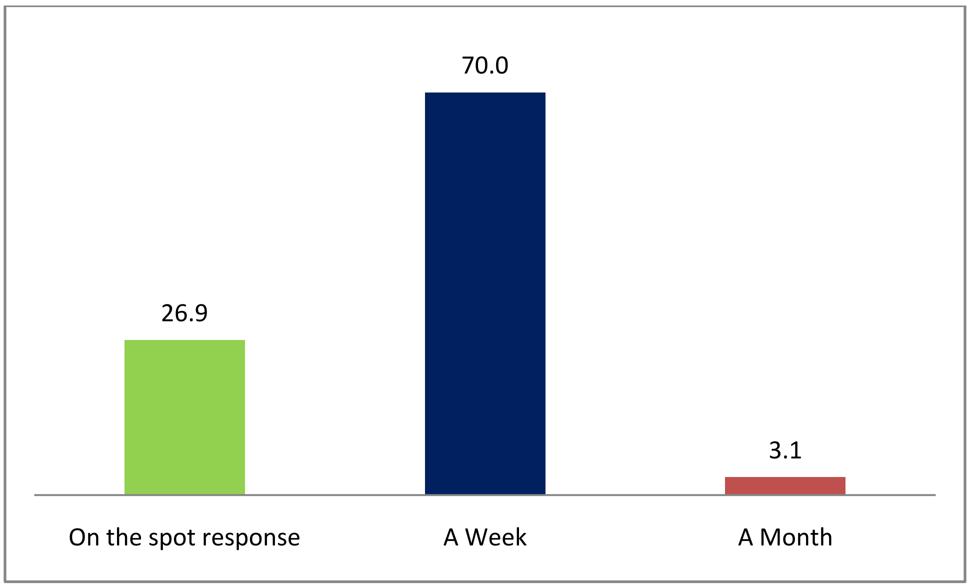

Fig.6: Bank responds to Complaints

The following Table 9 and figure 7 shows the frequency distribution of response towards noticed in hidden charges. The majority of the respondents says about yes i.e. 9.20% (12 no.s) and no to 90.80% (118 no.s).

Table 9: Noticed in hidden charges (N=130)

Particulars	Frequency	Percent	Cumulative Percent
Yes	12	9.2	9.2
No	118	90.8	100.0
Total	**130**	**100.0**	

Source: developed by the survey data

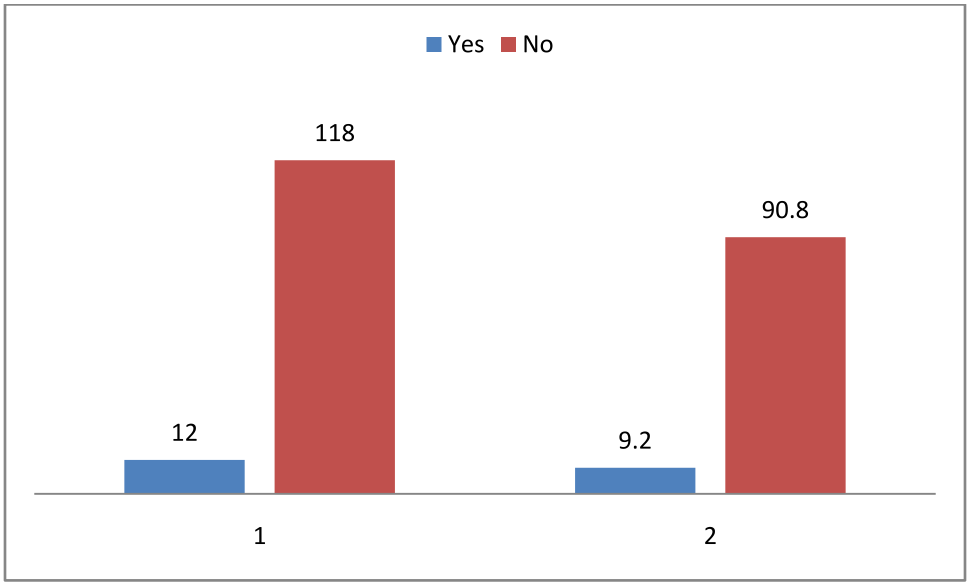

Fig.7: Noticed in hidden charges

The following Table 10 and figure 8 shows the frequency distribution of reverting back to complaints. The table reveals that majority of the respondents are says about ‘a week’ i.e. 70.0% (91 no.s) and then coming ‘on the sport response’ i.e. 26.90% (35 no.s). Few numbers of respondents are in ‘a month’ 3.10% (4 no.s).

Table 10: Reverting back to Complaints

Particulars	Frequency	Percent	Cumulative Percent
On the spot response	35	26.9	26.9
A Week	91	70.0	96.9
A Month	4	3.1	100.0
Total	**130**	**100.0**	

Source: developed by the survey data

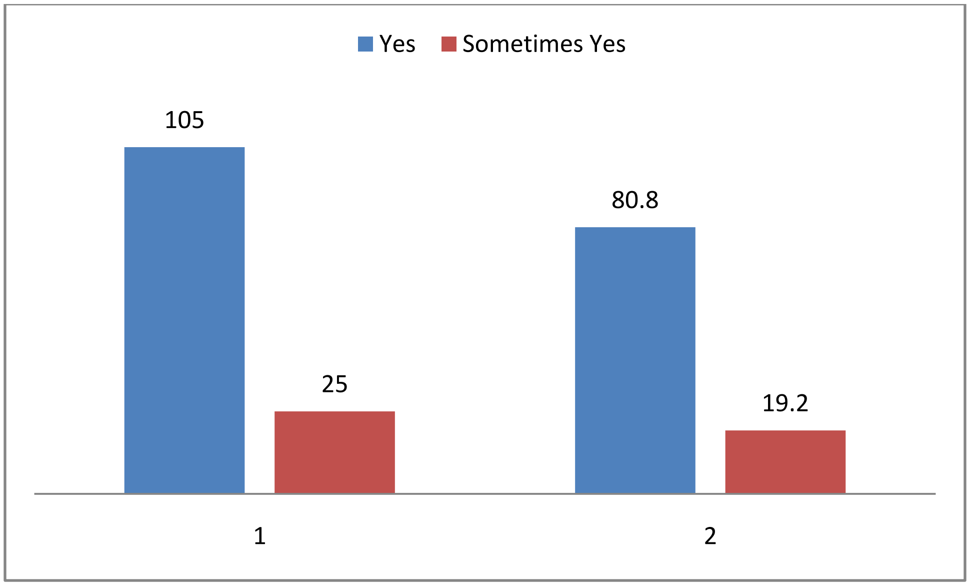

Fig. 8: Reverting back to Complaints

FINDINGS AND CONCLUSION

Customer Analysis (SBI & ICICI)

i) SBI bank

- **Corporate Governance and Transparency:** 78.50% of the respondents are agree and 18.50% of the respondents say strongly agree upon corporate governance and transparency of SBI bank.

- **Services of the Bank:** majority of the respondents are of the opinion that customers are dissatisfied because of problems related to account i.e. 58.50% (76 no.s), then coming in service i.e. 23.10 % (30 no.s). Few number of customer say about hidden charges (6.20%).

- **Bank responds to Complaints:** 9.20% of the respondents say yes and 90.80% of the respondents say no.

ii) ICICI Bank

- **Corporate Governance and Transparency:** majority of the respondents are said good (63.10%) and very good (23.80%) upon corporate governance and transparency of ICICI bank.

- **Services of the Bank:** 47.70 percent of the respondents are of the opinion that customers dissatisfaction due to account problem, then coming other issues (21.50%). Few number of customers say about hidden charges (12.30%).

- **Bank responds to Complaints:** 67.70% of the respondents are of the opinion that reverting back to complaints happen in a week and 29.20% of the respondents say on the spot response.

iii) Comparison

- **Corporate Governance Fairness and Transparency:** The result shows that the fairness and transparency is high in SBI (56.20%) then ICICI bank (55.40%).

Public Sector Banks need greater functional autonomy in a deregulated environment. Such autonomy, however, needs to be accompanied by greater accountability on the part of their boards to the stakeholders. A Corporate Governance Policy shall serve as an effective instrument for achieving this goal. The success of corporate governance rests on the awareness on the part of the banks of their own responsibilities. Banking practices and legal ineptitudes regarding financial issues have put the health of the banking sector in a serious qualm. Each factors identified in this study should be examined carefully in order to improving corporate governance practices among the banks for strengthening the banking sector.

The findings of the study is vital to policy makers as it clearly points out the effect of corporate governance on organizational performance in banks as well as other factors which affect performance. The possible solutions to these causes may be used by policy makers since they are a point of reference while writing government policies. The commercial banks will therefore benefit, since the right recommendations which suit their particular problems have been made. The findings of the study enlighten the relevant authorities, namely the staff, public top/senior management and finally the State and its organs, on the areas that need improvement. And when this improvement is effected, bank performance will raise hence clients benefiting in terms of effective and efficient service delivery. The study also makes recommendations for what should be done in order to improve on corporate governance and reduce its negative effects on bank performance.

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