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(ICGS-2018)

16th & 17th February, 2018

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(ICGC-2018)

16th & 17th February, 2018

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The Gujarat University was conceived in the nineteen twenties in the minds of public-spirited and learned men like Gandhiji, Sardar Patel, Acharya Anandshankar B. Dhruva, Dada Saheb Mavlankar, KasturbhaiLalbhai and many others. However, the University could come into existence only after the achievement of independence in 1949, the University was incorporated under the Gujarat University Act of the State Government 'as a teaching and affiliating University.'

ABOUT B.K. SCHOOL OF BUSINESS MANAGEMENT

Since its establishment in July 1976, B. K. School of Business Management has emerged as one of the eminent B-schools in the state of Gujarat as well as in the country. The School runs full time MBA programme as well as Evening Programme for practicing professionals. This provides an ideal platform for working executives to hone their managerial skills. Most importantly, this has allowed the school to continuously interact with the business world and has resulted in a rich confluence of first hand industrial experience with the academic world. Moreover, the school also runs a full-time MBA in Maritime Management with specializations in Port Management, Infrastructure & Shipping, and Logistics and Supply Chain Management. The School also runs a Management Academy during the evening time offering P. G. Diploma in 13 different areas.

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Gujarat Technological University has been set up under Gujarat Technological University Act of 2007. During the short span of 8 years of its existence, GTU has bagged many national and international awards like The Best Jury Award for Interface between Academia and Industry in Higher Education, the Information Communication Technology(ICT) Enabled University of the year award in E-India 2009, Manthan Award 2009, Digital Learning WES 2011 Award, AIMS International Innovative University Award 2013, World Education Award 2013 for its projection Active Learning 2013, Best University in Internationalization of its Faculty and Students under Government University category - CCI Technology Education Excellence Awards 2013, CMAI's NTA ICT World Communication Award 2013 for being a Pioneer in ICT Education, Best Higher Education University of the Year award by ASSOCHAM India.2014, etc.

ABOUT CGS

GTU has started working as a Monitor for Good Governance, which will make it possible to objectively determine how well the governance systems are working. It is initiating studies in the field of Governance System in Businesses, Industries, Universities, Hospitals, NGOs and Governments, which may help organizations improve their working, through new policies or through modification of existing policies, protocols and management structures. The Vision and goal of CGS is to be a leading Centre for Excellence in Research, Teaching, Training and Advocacy in the field of Governance through capacity building, knowledge creation, and dissemination. The PG Research Centre for Governance Systems (CGS) at GTU organizes its flagship event "CEOs in the Classroom" throughout the academic year.

ABOUT THE CONFERENCE:

The financial services sector has proved to be a crucial contributor in the growth of Indian GDP in last two decades. Along with advances in the financial services sector came certain issues and one of the prime concern was of governing the sector. Financial sector is composed of a complex financial architecture and it is therefore important that governance play a pivotal role here. Various working groups on banks, insurance, payments, public debt management, securities, etc. have proposed many reforms and the government took active steps on these suggested measures. The regulatory governance not only fortifies the financial law but also eases the functioning of the financial sector protecting it further from the market fiascos and financial frauds. Recent step of demonetization is one of the intense strokes displayed by the regulators to enforce governance on our financial system, which will thereby curb the black money. It proved to be the need of the hour as the parallel economy is a big menace causing losses in tax revenues.

This conference is aimed at educators, researchers and practitioners in the area of Governance. The conference will have a balance of lectures and presentations from the academic as well as the practitioners' perspective and will have renowned speakers. It is aimed at creating a platform for a healthy exchange, debate and development of ideas and emerging issues in the area of Governance. It also provides an opportunity to present research work at international level and a chance to publish research paper in UGC Referred Journal.

Broadly, the main theme is:

GOVERNANCE IN INDIAN FINANCIAL SERVICES SECTOR: REFORMS & REMEDIES

And, the subthemes are:

Theme-1: Contemporary Dimensions of Corporate Governance

Theme-2: Technological Dimensions and Corporate Governance

Theme-3: Scope of Corporate Governance in the Indian Financial Institutions

Theme-4: Regulatory Landscape for Corporate Governance

Theme-5: Indian Financial Markets and Corporate Governance

Theme-6: Human Resource Dimensions and Corporate Governance

Theme-7: Changing Panorama of Corporate Structure

Theme-8: Other Contemporary Issues of Corporate Governance in Indian Financial Services Sector

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Jointly organized by B.K. School of Business Management, Gujarat University and
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Ahmedabad, India.

The comparative analysis of NPAs on public sector banks and private sector Banks of India

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Abstract: *The Indian Banking sector is witnessing significant problems of increasing Non Performing Assets (NPAs). It directly impacts on banks' profitability as well as performance of the banks. NPAs are a major concern for the banking industry in India. Banks are always keen to have low NPAs because increased level of NPAs creates more probability of large credit defaults in banks, and eventually it will impact on net worth of the banks, liquidity, solvency as well as profitability performance of the banks. This problem of High NPAs will not be affecting to the banks only but an economy in whole. The banking system of India has undergone through an important revolution by following financial sector reforms. Nowadays many new rules have been introducing to salvage Indian Banking from Risen NPAs. This paper tries to compare NPAs of Private sector Banks and Public Sector Banks. The research is based on the secondary data received for the period of 2011-12 to 2015-16 from annual reports of Banks and RBI publications. The data has been analyzed by relevant statistical tools and techniques to observe a comparative NPAs performance of Public sector banks and Private sector banks in India.*

Key Words: *Non Performing Assets, Liquidity, Public Sector Banks and Private Sector Banks*

1. INTRODUCTION:

Government of India had taken financial reforms to address the credit monitoring policy at the time of Narasimham Committee. In the 1993, Government of India Strengthen the loans recovery and due by the financial institutions and banks. Though the act was promulgated but purpose did not serve as NPA level is increasing Diem per diem. Bank's attitude and approach for the recovery of loans form medium and small enterprises as well as lack of information and knowledge regarding laws and banking regulative norms, circulars and directives given by RBI. The norms of RBI are to be followed by each scheduled bank in India. A well built financial and banking structure is very essential to the development of the country's economy, and if they fail to do that, we may face the adverse effect at every sector.

NPAs should be properly maintained by all the banks to uplift the growth of the bank and economy. It is an unavoidable burden on the banks. Banks need to monitor its standard assets regularly to prevent NPA. In this recent era, banks performances are depend upon the proper maintenance and control of NPAs. The RBI has issued parameter for the banks about NPAs that is any principal or Interest remind overdue more than 90days (cash deposits, bill purchase, bank overdraft, term loans or discount) are considered as NPAs.

2. MEANING OF NON PERFORMING ASSETS:

In today's era the non performing assets are the buzzword in the banking industry and non banking financial institutions. NPAs represent bad Loan that borrower fails to satisfy his repayment obligations. A loan that does not earn any amount of interest termed as NPAs. The commercial loan has overdue period of 90 days and consumer loan has overdue period of 180 day, if within this period amount is not due, than it will be considered as NPA. When the account becomes out of order pertaining to cash credit and bank overdraft, the installment becomes overdue for two crop seasons in short duration crops, and the one crop season for the long duration corps, the bills overdue for the period of 90 days at the time of bills discounted and purchased, the overdue receivables in derivatives transactions representing mark o market amount for contract and if money unpaid for 90 days from specified date of payment it became NPAs. In the Indian banking Industry, the banks and NBFCs have bunch of pending cases of NPAs.

3. TYPES OF NPAs:

3.1 **Gross NPAs:** it is an advance that is written off and for that banks have made provisions.

3.2 **Net NPAs:** it is received by deducting interest due but yet not received/in suspense to receive from the Gross NPAs.

4. CLASSIFICATION OF ASSETS:

NPAs can be further classified in bellow three categories;

4.1. **Substandard Assets:** It is an asset that remained NPAs for the period of 12 months or less. It has credit weakness that create risk of liquidation of debt and possibility of loses with effect from March 31, 2005.

4.2. **Doubtful Assets:** It is an Asset that remained as substandard assets for 12 months.

4.3. **Loss Assets:** It is the one where RBI's external auditors and bank's internal auditors have identified loss but that amount is not fully written off.

5. PROVISIONING NORMS FOR NPAs:

As per the guidelines of RBI every banks need to make enough provision against possible NPAs. The provision amount will be different for every different type of assets. As per RBI circular no. RBI/2014-15/74DBOD.No.BP.BC.9/21.04.048/2014-15 on July 1st 2014. "A 15% of general provision on outstanding should be made without further allowances." Under a substandard asset category the unsecured exposures which are identified as substandard will magnetize extra provision of 10%.

6. REASONS OF INCREASNG NPAs:

There may be many reasons for increasing NPAs in banking industry nowadays which are as follows;

- Poor follow up and supervision by banks;
- Market failure;
- Lack of Entrepreneurship skill;
- Improper selection of borrower's activities;
- Inefficiency in borrower's management;
- Weak credit appraisal system;
- Recession in all over economy;
- Impact of Natural calamities etc.

7. FACTORS OF INCREASING NPAs:

There are many factors which affect for rising NPAs in banking industry. It can be bifurcated in two ways internal factors and external factors which are as follows;

A. Internal Factors:

i. **Improper Technology:** Because of improper technology, MIS banks are facing many problems as proper financial accounting system leads to poor credit collections that result in High NPA.

ii. **Imperfect Lending Process:** Many banks are not following a perfect lending process while lending the loan.

iii. **Weak credit Analysis:** it is an essential factor for the loan process. So if poor credit analysis has been done than it will result in an increase of NPA.

iv. **Irregularity of visiting Customers:** if banks will not inspect customer economic point than more chances of high NPA exists. It creates high collection of loan interest and principal amount.

v. **Managerial Deficiencies:** in the process of sanctioning a loan to any borrower, an efficient management is required but if management is inefficient than error cause high NPAs at bank level.

A. External Factors:

i. **Willful Defaulter:** the borrowers that are able to pay back but intentionally they don't pay of withdraw money are considered as willful defaulter. Banks should take strict measures to curb down such incidences.

ii. **Non regular recovery:** every bank set the recovery tribunal to recover the loans and advances in time given to the customers. But generally they don't care much about this essential task and seriousness of impact on profitability.

iii. **Sickness in Industry:** because of Ineffective management, inappropriate project handling, and lack of advance and adequate resources industrial sickness generate and effect on the High NPAs.

iv. **Natural Calamities:** many a time an adverse impact of Natural calamities results in rise of NPAs and customers become unable to pay money.

8. REVIEW OF LITERATURE:

NPA is a burgeoning topic for the banking industry. Many authors tried to study NPA analysis to find problems and it solutions, impact and remedies of High and Low NPA level in banking industry. Researcher has also referred few literate reviews to find out research gap.

Das, S. (2010): In this paper the author has tried to analyze the parameters which are actually the reasons of NPAs, and those are, market failure, willful defaults**,** poor follow-up and supervision**,** non-cooperation from banks**,** poor Legal framework**,** lack of entrepreneurial skills**,** and diversion of funds

Rajeev, M., Mahesh, H.P., (2010): This exploratory paper examines the Indian trends of NPAs from various dimensions and explains how recognition of the problem continuous monitoring, can reduce it to a greater extent. The paper also discusses the functions of the joint liability groups or self help groups in enhancing the loan recovery rate.

Kaur, H., Saddy, N.K. (2011): An attempt was made in the paper to know about NPA, the factors responsible for the contribution towards NPAs, the magnitude and reasons for high NPAs and their impact on Indian banking operations.

Pradhan, T.K. (2012): The present study, with the help of secondary data of six years, tried to analyze how reform measures helped in minimizing the NPA in public sector banks, the data has been analyzed by using percentage method.

Gupta, B. (2012): In this paper, study has been made on SBI and Associates, and public sector banks, an effort has been made to understand the concept of NPAs, its magnitude and major causes for increasing NPA and also evaluate the operational performance in managing NPA.

Patidar, S.,Kataria, A. (2012): The study analyzed the percentage share of NPA as components of priority sector lending, the comparative study was conducted between SBI and Associates, Old Private Banks and New Private Banks and Nationalized Banks of the benchmark category, to find out the significant difference of the NPA and also find out the significant impact of Priority Sector Lending on the Total NPA of Banks using statistical tools like regression analysis and ratio analysis.

Kumar, M.,Singh, G. (2012): The paper focuses on the most significant factors, which contribute towards the non-performing assets problem from the view point of the top bankers of public sector banks and, some foreign banks in India and the measures required for managing the NPAs

Rajput, N., Gupta, M., Chauhan, A.K. (2012): This paper provides an empirical approach to the analysis of profitability indicators on NPA, it also discusses the factors which contribute towards NPA, and also analyses the solution for the same. All empirical findings were done by using statistical tools like correlation, regression and data representation techniques and DEA.

Bhatia, B.S., Waraich, S., Gautam, V. (2013): This study was made on District Central Cooperative Bank of Punjab, the study tried to analyse the impact of some new product lines on non performing advances in cooperative banks and trends in NPA against loan schemes. Lastly a comparative analysis was made between bank wise and component wise to find out the lacunas and suggest measures for improvement in managing NPA.

Stuti, Bansal, S. (2013): In this paper, an effort has been made to evaluate the operational performance of the Public Sector Banks and Private sector bank in India with the help of secondary data between 2003-04 and 2007-09, on NPAs Trends and issues. This paper analyzes how efficiently Public and Private sector banks have been managing NPA.

Ahmad, Z., Jegadeeshwaran, M. (2013): The current paper is written on the NPA, and causes for NPA. Secondary data was collected for a period of five years and analysed by mean, CAGR, ANOVA and ranking banks. The banks were ranked as per their performance in managing the NPA‟s. The efficiency in managing the NPA by the nationalised banks was tested.

Dutta. A (2014): This paper studied the growth of NPA in the public and private sector banks in India , and analysed sector wise non-performing assets of the commercial banks. For the purpose of the study data has been collected from secondary sources such as report on Trend and Progress of Banking in India, RBI, Report on Currency and Finance, RBI Economic Surveys of India.

Satpal (2014): An attempt has been made in this paper to find out the actual definition of NPA and the factors contributing to the formation NPAs, reasons for high NPAs and their impact on Indian banking operations.

Tripathi, L. K., Parashar, A., Mishra, S. (2014): The present study, with the help of multiple regression model attempts to investigate the impact of priority sector advances, unsecured advances and advances made to sensitive sectors by banks like SBI group and other nationalized banks on Gross NPAs of banks.

9. RESEARCH GAP:

After considering above review of literature, researcher got to know that there was no study conducted for the period of 2011-12 to 2015-16 in respect of the objectives stated in this study. Researcher found an opportunity to have a research for this period of time related with the NPAs performance of public sector banks and private sector banks in India.

10.PROBLEM STATEMENT:

This study tries to analyze the comparative performance analysis of NPAs in the public sector banks and private sector banks in India. The basic purpose of this study is to fill the research gap and relevant questions strike in the mind during observation of many studies on NPAs performances of banks.

11.OBJECTIVES OF THE STUDY:

11.1 The main objective of the study is to compare and analyze the Non Performing Assets performances on Public sector banks and Private sector banks in India during the period of the study.
11.2 To understand the basic concept of NPAs.
11.3 To find out universal causes for assets to become a Non performing Assets.

12.SCOPE OF THE STUDY:

The scope of the study is to analyze NPAs in various banks in India. Whole India is the geographic scope of this study. Study period can also be extended from this period of study for the further research.

13.RESEARCH METHODOLOGY:

The study tries to implements the research methodology by selecting proper research design. A research design is measurement of procedure and methods for having data required to solve the problem. Researcher has selected descriptive research design for this study.

13.1 Population of study: All public sector banks and private sector banks of India are the population of this study.
13.2 Sample Size: Sample size is Total five years (2011-12 to 2015-16) financial data from selected 10 public sector banks and 10 private sector banks of India.
13.3 Types of data collection: This research is totally based on secondary data by using various tools like annual reports of the banks, RBI bulletins, magazines, research papers etc.
13.4 Hypothesis:
H0: There is no significant difference in mean variation between the NPAs of the banks
H1: There is significant difference in mean variation between the NPAs of the banks

14.ANALYSIS AND INTERPRETATION:

(Table 14.1)

Sr. No	Ratio	Year	State Bank Of India	Bank Of Baroda	Punjab National Bank	Corporation Bank	Dena Bank	Uco Bank	Indian Overseas Bank	Indian Bank	Syndicate Bank	Vijaya Bank
1	Gross NPA To Gross Advances	2011-12	4.90	1.89	3.15	1.26	1.67	3.73	2.79	1.94	2.75	2.93
2		2012-13	4.75	2.40	4.27	1.72	2.19	5.42	4.02	3.33	1.99	2.17
3		2013-14	4.95	2.94	5.25	3.42	3.33	4.32	4.98	3.67	2.62	2.41
4		2014-15	4.25	3.72	6.55	4.81	5.45	6.76	8.33	4.40	3.13	2.79
5		2015-16	6.50	9.99	12.90	9.98	9.98	16.09	17.40	6.66	6.70	6.64

(Table 14.2)

Anova: Two-Factor Without Replication						
Gross NPA to Gross Advances- Public Sector Banks						
ANOVA						
Source of Variation	**SS**	**df**	**MS**	**F**	**P-value**	**F crit**
Rows	378.168883	4	94.54222	32.8268223	**1.47886E-11**	2.633532094
Columns	104.689459	9	11.63216	4.03890363	**0.001213265**	2.152607472
Error	103.6810665	36	2.88003			
Total	586.5394084	49				

❖ **Interpretation:**

|F|=32.8268223> F∞=2.633532094 therefore H0 fails to accept. It means there is a significant difference among the 5 years data.
|F|=4.03890363> F∞=2.152607472 therefore H0 fails to accept. It means there is a significant difference among the 10 banks data.

(Table 14.3)

Sr. No	Ratio	Year	State Bank Of India	Bank Of Baroda	Punjab National Bank	Corpo ration Bank	Dena Bank	Uco Bank	Indian Overseas Bank	Indian Bank	Syndicate Bank	Vijaya Bank
1	Net NPA To Net Advances Ratio	2011-12	1.82	0.54	1.52	0.87	1.01	1.96	1.35	1.33	0.96	1.72
2		2012-13	2.1	1.28	2.35	1.19	1.39	3.17	2.5	2.26	0.76	1.3
3		2013-14	2.57	1.52	2.85	2.32	2.35	2.38	3.2	2.26	1.56	1.55
4		2014-15	2.12	1.89	4.06	3.08	3.82	4.3	5.68	2.5	1.9	1.92
5		2015-16	3.81	5.06	8.61	6.53	6.35	9.09	11.89	4.2	4.48	4.81

(Table 14.4)

Anova: Two-Factor Without Replication						
Net NPA to Net Advances Ratio- Public Sector Banks						
ANOVA						
Source of Variation	**SS**	**df**	**MS**	**F**	**P-value**	**F crit**
Rows	169.327148	4	42.331787	36.39658393	**3.45426E-12**	2.633532094
Columns	44.940288	9	4.993365333	4.293261714	**0.00076028**	2.152607472
Error	41.870532	36	1.163070333			
Total	256.137968	49				

❖ **Interpretation:**

|F|=36.39658393> F∞=2.633532094 therefore H0 fails to accept. It means there is a significant difference among the 5 years data. It is because of the last year data of four banks increased their Net NPA To Net Advances. It is the situation which shows inefficiency of these four banks.
|F|=4.293261714>2.152607472 therefore H0 fails to accept. It means there is a significant difference among the 10 banks data.

(Table 14.5)

Sr. No	Ratio	Year	Axis Bank	Icici Bank	Hdfc Bank	Federal Bank	Yes Bank	Indusind Bank	Kotak Mahindra Bank	Lakshmi Vilas Bank	South Indian Bank	Dhanlaxmi Bank
1	Gross NPA To Gross Advances	2011-12	1.18	4.83	1.02	3.35	0.22	0.98	1.56	2.98	0.97	1.18
2		2012-13	1.19	3.22	0.97	3.44	0.20	1.03	1.55	3.87	1.36	4.82
3		2013-14	1.29	3.03	0.98	2.46	0.31	1.12	1.98	4.19	1.19	5.98
4		2014-15	1.36	3.78	0.93	2.04	0.41	0.81	1.85	2.75	1.71	7.00
5		2015-16	1.71	5.82	0.94	2.84	0.76	0.87	2.36	1.97	3.77	6.36

(Table 14.6)

Anova: Two-Factor Without Replication						
Gross NPA to Gross Advances						
ANOVA						
Source of Variation	**SS**	**df**	**MS**	**F**	**P-value**	**F crit**
Rows	4.265268036	4	1.066317009	1.152825627	0.347715337	2.633532094
Columns	103.0708341	9	11.45231489	12.38142314	1.2146E-08	2.152607472
Error	33.29854181	36	0.924959495			
Total	140.6346439	49				

❖ **Interpretation:**

|F|=1.152825627< F∞=2.633532094 therefore H0 fails to reject. It means there is no significant difference among the 5 years data of Gross NPA To Gross Advances. It is the situation which shows an efficiency of all banks.
|F|=12.38142314> F∞=2.152607472 therefore H0 fails to accept. It means there is a significant difference among the 10 banks data.

(Table 14.7)

Sr. No	Ratio	Year	Axis Bank	Icici Bank	Hdfc Bank	Federal Bank	Yes Bank	Indusind Bank	Kotak Mahindra Bank	Lakshmi Vilas Bank	South Indian Bank	Dhanlaxmi Bank
1	Net NPA To Net Advances Ratio	2011-12	0.27	0.73	0.18	0.53	0.05	0.27	0.61	1.74	0.28	0.66
2		2012-13	0.36	0.77	0.2	0.98	0.01	0.31	0.64	2.43	0.78	3.36
3		2013-14	0.44	0.97	0.27	0.74	0.05	0.33	1.08	3.44	0.78	3.80
4		2014-15	0.46	1.61	0.25	0.73	0.12	0.31	0.92	1.85	0.96	3.29
5		2015-16	0.74	2.98	0.28	1.64	0.29	0.36	1.06	1.18	2.89	2.78

(Table 14.8)

Anova: Two-Factor Without Replication						
Net NPA to Net Advances Ratio- Private Sector Banks						
ANOVA						
Source of Variation	**SS**	**df**	**MS**	**F**	**P-value**	**F crit**
Rows	4.280848	4	1.070212	2.835968623	**0.038373279**	2.633532094
Columns	33.936848	9	3.770760889	9.992188057	**1.72539E-07**	2.152607472
Error	13.585352	36	0.377370889			
Total	51.803048	49				

❖ **Interpretation:**
|F|=2.835968623> F∞=2.633532094 therefore H0 fails to accept. It means there is a significant difference among the 5 years data of Net NPA To Net Advances.
|F|=9.992188057> F∞=2.152607472 therefore H0 fails to accept. It means there is a significant difference among the 10 banks data.

(Table 14.9) Result Analysis

Sr. No.	Sector	Ratio	Factor	(H0)Result
1	**Public Sector Banks**	Gross NPA to Gross Advances Ratio	Years to Years	Rejected
			Banks to Banks	Rejected
		Net NPA to Net Advances Ratio	Years to Years	Rejected
			Banks to Banks	Rejected
2	**Private Sector Banks**	Gross NPA to Gross Advances Ratio	Years to Years	**Accepted**
			Banks to Banks	Rejected
		Net NPA to Net Advances Ratio	Years to Years	Rejected
			Banks to Banks	Rejected

15.FINDINGS:

15.1 The Gross NPAs to Gross Advances ratios as well as The Net NPAs to Net Advances ratios are rejected, It is because of the last year data of four banks increased their Gross NPA To Gross Advances. It is the situation which shows inefficiency of these four banks.

15.2 The Gross NPAs to Gross Advances ratios is accepted it means that there is a significant difference between the Gross NPA performance of the private sector banks where as The Net NPAs to Net Advances ratios is rejected so There is significant difference between NPAs performance s of private sector banks in India.

16. CONCLUSION:

NPAs are an asset that subject to a big concern to banking and non banking organizations. This study analyzed the types of NPAs and its causes and impact on banking sector as well as on economy as a whole. This study explains the statisti1cs of NPAs performance of Public sector banks and private sector banks of India based on available data from annual reports of Banks, RBI website and other magazines for the period of 2011-12 to 2015-16. ANOVA calculation is done to satisfy the objectives of the study to discover the significance difference in the occurrence in NPAs in banks during the study period.

The study concludes that in majority there is no significant difference in NPA performance except gross NPAs performance in private sector banks during study period.

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Ahmedabad, India.

Role of financial governing bodies such as SEBI, AMFI, IRDA, RBI, FMC and PFRDA in governing financial services sector in India

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Abstract: *The financial system of the country is an important tool for economic development of the country as it helps in creation of wealth by linking savings with investments. Indian financial system includes financial institutions, financial markets, financial assets/instruments and financial services. Indian financial system is regulated with the help of independent regulators and Indian Government. Main Regulators are RBI, SEBI, IRDA, AMFI, FMC and PFRDA. These regulators are forms of regulation or supervision, which subjects financial institutions to certain requirements, restrictions and guidelines, aiming to maintain the integrity of the financial system. In this research paper I have included the functions and role performed by these governing bodies to maintain financial governance in the country. I have also tried to highlight the crucial decisions taken by these bodies to take one step ahead for transparency. It is essential that appropriate governance arrangements for regulators support improvements in regulatory practice over the time, and enhance the legitimacy of regulation. The high degree of regulatory integrity in achieving decision making which is objective, impartial, consistent and avoids the risk of conflict, bias or improper influence. This research paper gives descriptive role and decisions those have to take by governing bodies in the long run benefit of nation*

Key Words: Financial Governance, Regulators, RBI, SEBI, IRDA, AMFI, FMC, PFRDA, legitimacy

Theme-3: Scope of Corporate Governance in the Indian Financial Institutions

1.INTRODUCTION:

The central bank is the apex institutions in the banking and financial system. It is established mainly with a view to control and regulates the monetary and credit system in the country. It is a banker to banks and in this context, a lender of last resort to banks and other financial institutions. In all the countries, it is the banker to government. The financial sector legislative reforms commission was constituted by the Government of India, Ministry of Finance, in March, 2011. The setting up of the commission was the result of a felt need that the legal and institutional structures of the financial sector in India need to be reviewed and recast in tune with the contemporary requirements of the sector. The institutional framework governing the financial sector has been built up over a century. There are over 60 Acts and multiple rules and regulations that govern the financial sector. Many of the financial sector laws back several decades, when the financial landscape was very different from that seen today. Almost every sector has its own regulatory body. They may be known by different names such as Regulatory Authorities, Regulatory agencies or Regulators. They are public authorities or government agencies tasked with creating the norms of particular area of human activity and supervising all the bodies that are employed in that financial activity. The Important regulatory bodies are as follows:

Figure 1: Important Regulatory Bodies in India:

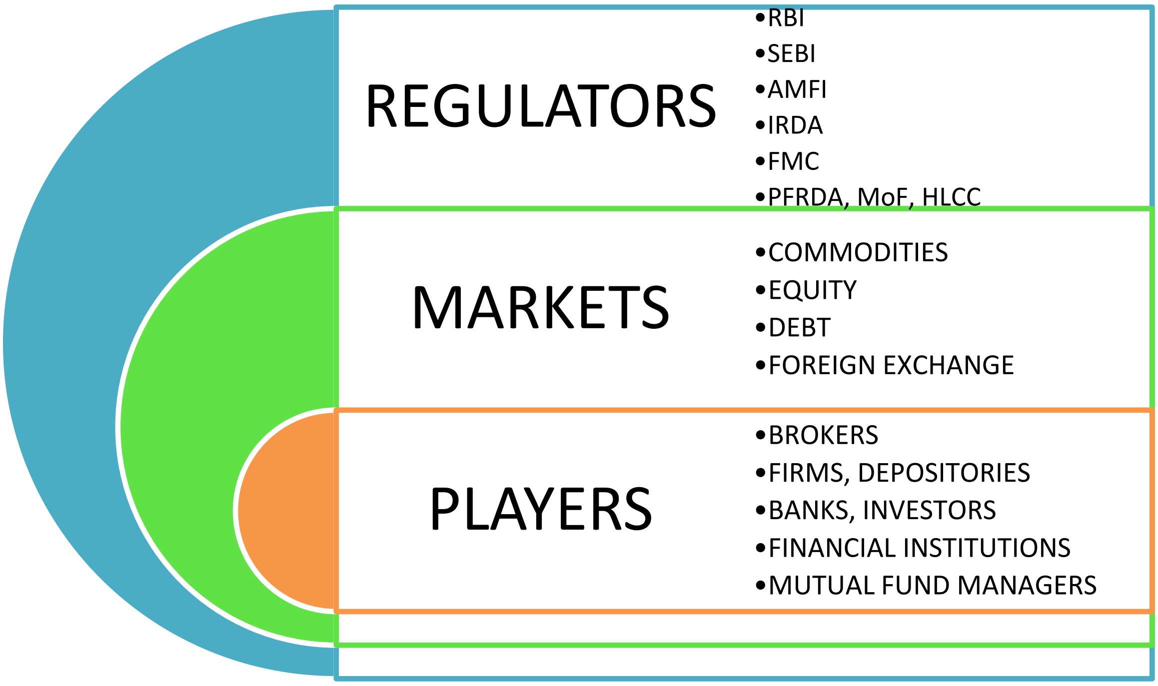
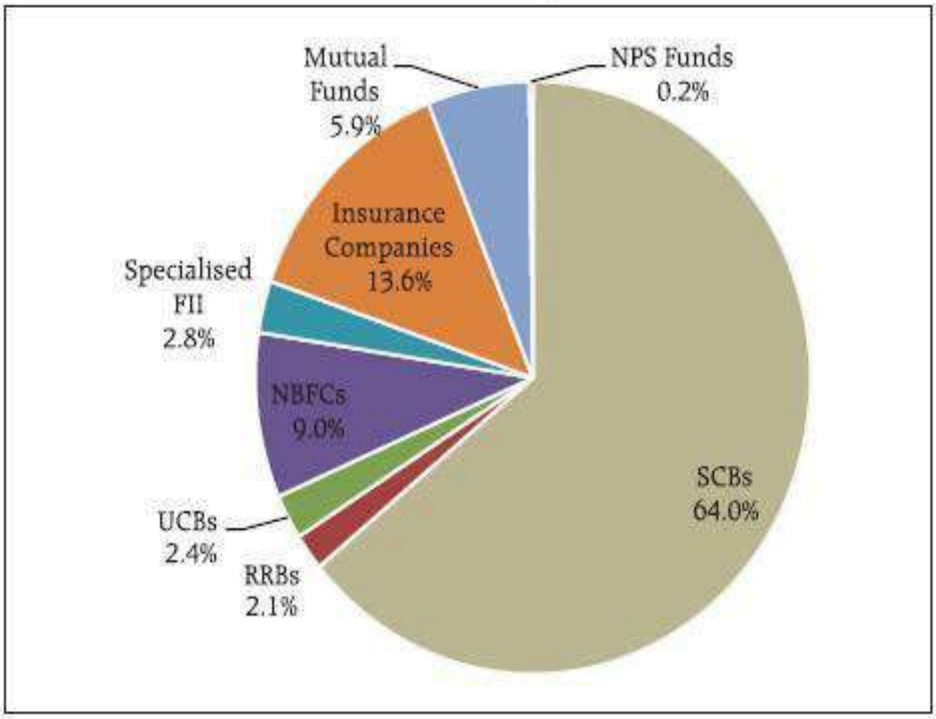


Figure 2: Share of different sectors in total assets of the Indian Financial System:

Chart 3.6: Share of different sectors in total assets of the Indian financial system



Source: RBI, SEBI, IRDA and PFRDA.

2.OBJECTIVE:

The objectives of this paper are,

- ✓ To evaluate the regulatory structure for financial services and of regulation in India.
- ✓ To elaborate on frauds and its prevention efforts by selected regulators

3. RESEARCH METHODOLOGY:

RESEARCH DESIGN	DESCRIPTIVE
SOURCES OF DATA	SECONDARY DATA
DATA COLLECTION AND ANALYSIS TOOLS	PAST REVIEWS, ONLINE REPORT ARTICLES, E-PAPER ARTICLES

4. LITERATURE SURVEY:

4.1 Rakesh Mohan and Partha Ray (January 2017)

Topic: IMF working paper Asia and Pacific Department Indian Financial Sector: Structure, Trends and Turns https://www.imf.org/~/media/Files/Publications/WP/wp1707.ashx

In this paper they covered the story of Indian Financial sector over the period of 1950-2015. The paper argues that as a consequence of successive reforms over the past 25 years, there has been significant progress in making interest and exchange rates largely market determined. They tried to concentrate on GDP , the capital adequacy ratios in various public & private sector banks, NPA levels in the banks, Pension funds and Insurance sector of India. They have resulted that Competition has been introduced in the banking sector but public sector banks continue have a dominant share in the market. Savings in pension fund has been increased and insurance sector has also been increased. Indian financial sector would include further reduction of public ownership in banking and insurance companies.

4.2 Jaimini Bhagwati, M. Shuheb Khan and Ramkrishna Reddy Bogathi (June 2016)
Topic: Financial Sector Legislative Reforms Commission (FSLRC) & Financial Sector Regulation in India

In this paper they have examined the changes in regulation in 4 G7 countries post the financial sector breakdown of 2008 and suggestions made by the Financial Stability Board with respect to capital adequacy, shadow banking and accounting. They have also examined about FSLRC proposals to further development of India's financial sector and protection of consumers. This paper contains 4 sections. Section 1 contains reviews of four developed countries USA, UK, Germany and Japan. Section II provides details of a representative sample of liquidity and solvency problems which have afflicted the Indian financial sector in the last three decades. Section III includes the analysis of the dissenting notes and to what extent these comments qualify the recommendations made in the report. Section IV analyses the issues that have not received detailed attention in the FSLRC reports.

4.3 Dr. Babita Jaiswal (2016)
Topic: Indian Financial System: Regulatory Bodies and Their Functions
http://www.academia.edu/27464880/INDIAN_FINANCIAL_SYSTEM_REGULATORY_BODIES_AND_THEIR_FUNCTIONS

In this paper she has highlighted on the components of Indian Financial System. The paper contains the functions of various governing bodies SEBI, RBI, IRDAI and FSLRC. The paper concluded that a lot of steps have already been initiated by different regulatory bodies make Indian financial system more resilient and robust but final results are yet to be seen. Sustainable system will be attained only when the market is mature enough to understand and incorporate global practices with local flavour.

4.4 Teakdong Kim, Bonwoo Koo and Minsoo Park (December 2013)
Topic: Role of Financial Regulation Innovation in the Financial Crisis
https://www.sciencedirect.com/science/article/pii/S1572308912000472

In this research paper, they have made empirical study on financial and macroeconomic datasets of 132 countries. Their study shows that judicious implementation of regulatory measures is critical to the financial stability. It is because some regulations can aggravate or alleviate a crisis. They have made study on global crisis and financial strengths can be made through financial regulations. They have highlighted current scenario of global needs in financial sector.

5. ANALYSIS OF STUDY:

5.1 Role of SEBI, AMFI, IRDA, RBI, FMC AND PFRDA

5.1.1 SEBI:
Securities and Exchange Board of India was first established in the year 1988 and initially it was a non-statutory body without having any statutory power. However in 1992, SEBI was given additional statutory power by the Government of India through an amendment to the Securities and Exchange Board of India act, 1992. SEBI drafts regulations in its legislative capacity, it conducts investigation and enforcement actions in its executive function and it passes rulings and orders in its judicial capacity. It works with various departments as follows:

Table -2 : Departments of SEBI to Operate Various Functions

Commodity Derivatives Market Regulation department	Corporation Finance department
Department of Economic & Policy Analysis	Enforcement Department-1
Enforcement Department-2	Enquiries and Adjudication department
General services department	Human Resources Department
Information Technology Department	Integrated Surveillance Department
Investigation department	Investment management Department
Legal Affairs Department	Market Intermediaries Regulation and supervision department
Market Regulation Departments	Office of International Affairs
Office of Investor assistance & education	Regional Offices

Source: http://www.sebi.gov.in/alldepartment.html

5.1.2. AMFI:

AMFI is a nodal association of mutual funds across India. The Association of Mutual Funds in India is dedicated to developing the Indian mutual fund industry on professional, healthy and ethical lines. It was incorporated on 22nd august, 1995 as a non-profit organization. As of now, all the 42 asset management companies that are registered with SEBI are its members.

Table-3: Objectives of AMFI:

1.	To define and maintain high professional and ethical standards in all areas of operation of mutual fund industry.
2.	To recommend and promote best business policy and code of conduct in the activities of mutual fund and asset management services.
3.	To represent to SEBI, Government, RBI and other bodies on all matters concerning mutual fund industry.
4.	To undertake nationwide investor awareness program to promote mutual fund services.
5.	To disseminate information on mutual funds industry and research about mutual fund with the association of other institutions.
6.	To take regulate conduct of distributors.
7.	To protect the interest of investors or unit holders.

Table-4: Members of AMFI:

Axis asset management co. Ltd.	Baroda Pioneer Asset Management Co. Ltd.	Birla Sun Life Asset Management Co. ltd.
BNP Paribas Asset Management India Pvt. Ltd.	BOI AXA Investment managers pvt. Ltd.	Canara Robeco Asset Management co. ltd.
DHFL pramerica asset managers pvt. Ltd.	DSP BlackRock investment managers pvt. Ltd.	Edelweiss asset management ltd.
Escorts Asset Management Ltd.	Franklin Templeton asset management pvt. Ltd.	HDFC asset management co. ltd.
HSBC asset management pvt. Ltd.	ICICI prudential asset mgmt. co. ltd.	IDBI asset mgmt. ltd.
IDFC asset mngt. Co. ltd.	IIFCL asset mgmt. co. ltd.	IIFL asset mgmt. ltd.
IL & FS Infra asset mgmt. ltd.	Indiabulls Asset mgmt.. co. ltd.	Invesco Asset Mngt. Co. ltd.
J.M. Financial asset mngt. ltd.	Kotak Mahindra Asset Mngt. Co. ltd.	L & T Investment mngt. Ltd.
LIC mutual fund asset mngt. Co. ltd.	Mahindra Asset Mngt. Pvt. Co. Ltd.	Mirae Asset Global Investments (India) pvt. Ltd.

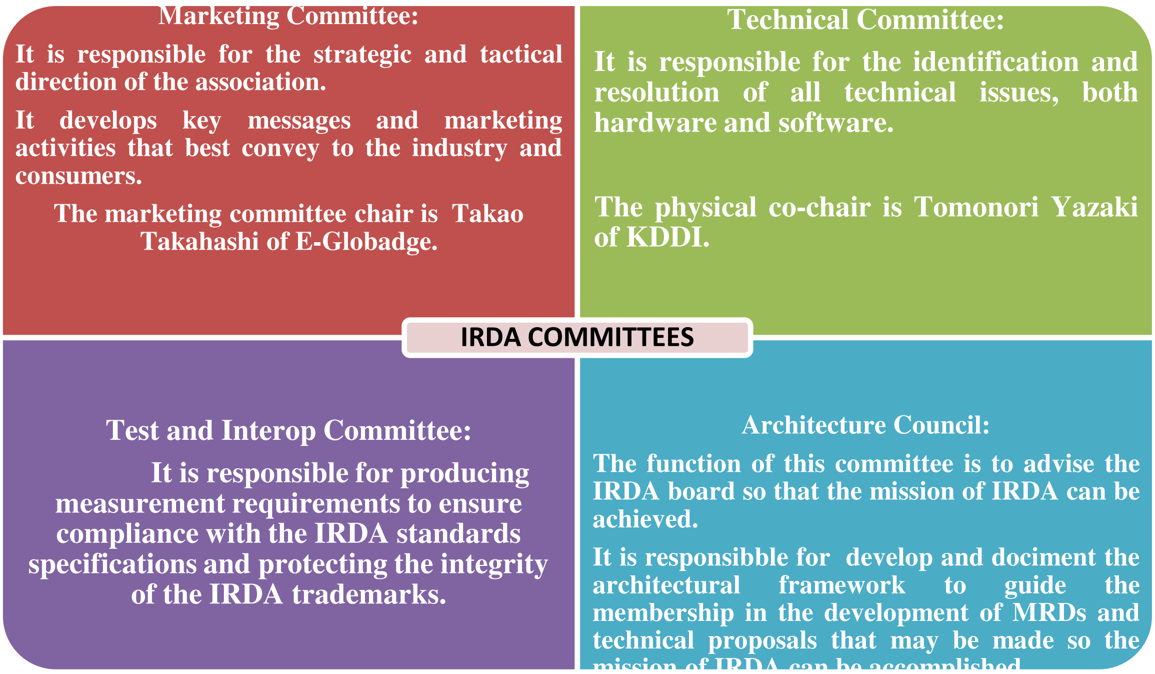
Motilal Oswal Asset Mngt. Co. ltd.	Peerless Funds Mngt. Co. Ltd.	PPFAS Asset Mngt. Pvt. Ltd.
Principal Pnb Asset Mngt. Co. pvt. Ltd.	Quantum asset Mngt. Co. Pvt. Ltd.	Reliance Nippon Life asset management ltd.
Sahara asset mngt. Co. Pvt. Ltd.	SBI Funds Mngt. Pvt. Ltd.	Shriram Asset Mngt. Co. Ltd.
SREI Mutual fund asset mngt. Pvt. Ltd.	Sundaram Asset mngt. Co. ltd.	TATA Asset Mngt. Ltd.
Taurus Asset mngt. Co. ltd.	Union Asset Mngt. Co. pvt. Ltd.	UTI Asset Mngt. Co. ltd.

Source for table 3& 4: https://www.amfiindia.com/

5.1.3 IRDA:

Today there are 31 general insurance companies including the ECGC and agriculture insurance corporation of India and 24 life insurance companies operating in the country. The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development at the same time strengthening the risk taking ability of the country. Intermediaries of IRDAI includes brokers, surveyors, TPA health services, Insurance repositories, Insurance marketing firm, Insurance Self Network Platform (ISNP) and POS. IRDA has reformed three working groups: Marketing committee, Technical committee and test & Interop committee. The architecture council provides an advisory function to the IRDA board of directors.

Figure-3: IRDA Committees:



Sources: http://www.irda.org/
https://www.irdai.gov.in/Defaulthome.aspx?page=H1

5.1.4 RBI:

The first central bank to be established was the Bank of England which was set up in 1694 for advancing money to the government. In India, the Reserve bank of India which is Indian Central Bank was established in 1935 under the RBI Act,1934, initially for regulating the issue of bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country. The bank was nationalized on 1st January, 1949. There is a Central Board of Directors to manage the affairs of the Reserve Bank. The Board consists of,

a) Governor and not more than four Deputy Governors to be appointed by the Central Government
b) Four directors to be appointed by the Central government, one each from the four local boards
c) Ten Directors to be nominated by the Central government
d) One government official to be nominated by the Central Government

Figure 4: Functions of RBI:

Source: www.rbi.gov.in

5.1.5 FMC:

The Forward Markets Commission (FMC) is the chief regulator of commodity futures markets in India. As of July 2014, it has regulated rs. 17 trillion worth of commodity trades in India. It is headquartered in Mumbai and this financial regulatory agency is overseen by the Ministry of Finance. The commission allows commodity trading in 22 exchanges in india, of which 6 are national. On 28/09/2015 the FMC was merged with the Securities and Exchange Board of India (SEBI). It is a statutory body set up under Forward Contracts Regulation Act, 1952. The act provides that the Commission shall consist of not less than 2 but not exceeding 4 members appointed by the Central Government, out of them one being nominated by the central government to be the Chairman of the Commission. Main functions of Commission includes,

Table-5: Functions of FMC:

To advise the central government in respect of the recognition or the withdrawal of recognition from any association.
To keep Forward markets under observation and to take such action in relation to them in exercise of powers.
To collect and to publish information regarding the trading conditions in respect of goods and to submit periodical reports on the working of forward markets relating to such goods.
To make recommendations regarding improvement of organization and working of forward markets.
To undertake the inspection of the accounts and other documents of any recognised institution.

Source: http://www.fmc.gov.in/index3.aspx?langid=2&subsublinkid=13&sslid=27

5.1.6 PFRDA:

The Pension Fund Regulatory & Development Authority Act was passed on 19th September, 2013 and same was notified on 1st February, 2014. PFRDA is regulating NPS, subscribed by employees of Govt. of India, State Governments and by employees of private institutions/organizations & unorganised sectors. PFRDA is the pension regulator of India which was established Government of India on August 23, 2003 and was authorized by Ministry of Finance. PFRDA is also responsible for the appointment of different other intermediaries like, Pension fund managers, CRA, NPS Trustee bank and more. It promotes old age income security by establishing, developing and regulating pension funds and protects the interests of subscribers to schemes of pension funds and related matters. It is regulating the National Pension system (NPS) along with the Atal Pension Yojana which is a defined benefits pension scheme for the unorganized sector.

Table-6: PFRDA Intermediaries:	
NPS Trust	CRA (Central Record-Keeping Agency)
Pension funds	Trustee bank
Custodian	Government Nodal Offices
Point of Presence (POP)	Aggregators
Retirement Advisors	

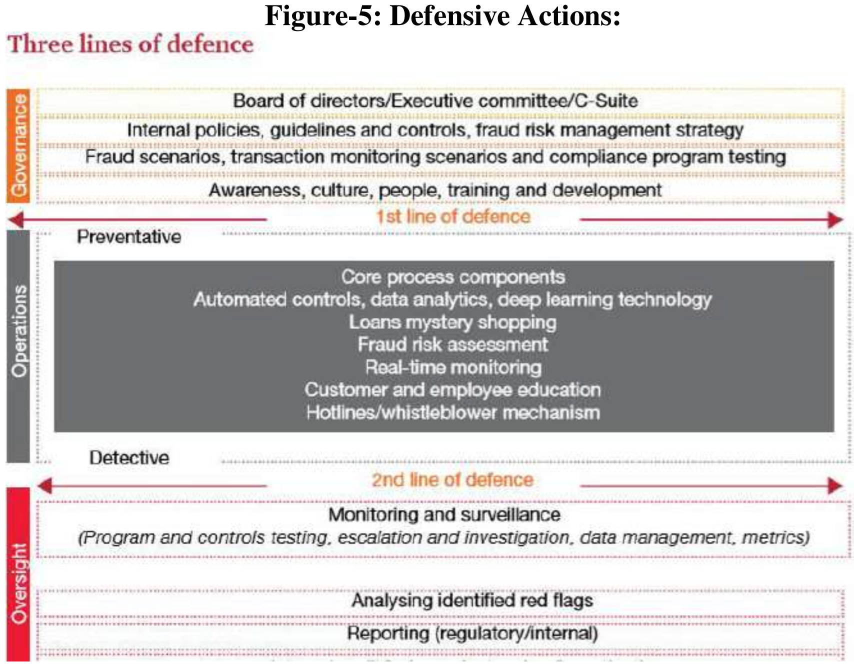
Sources: http://www.pfrda.org.in/
http://indiacode.nic.in/acts-in-pdf/232013.pdf

Main functions of PFRDA includes,

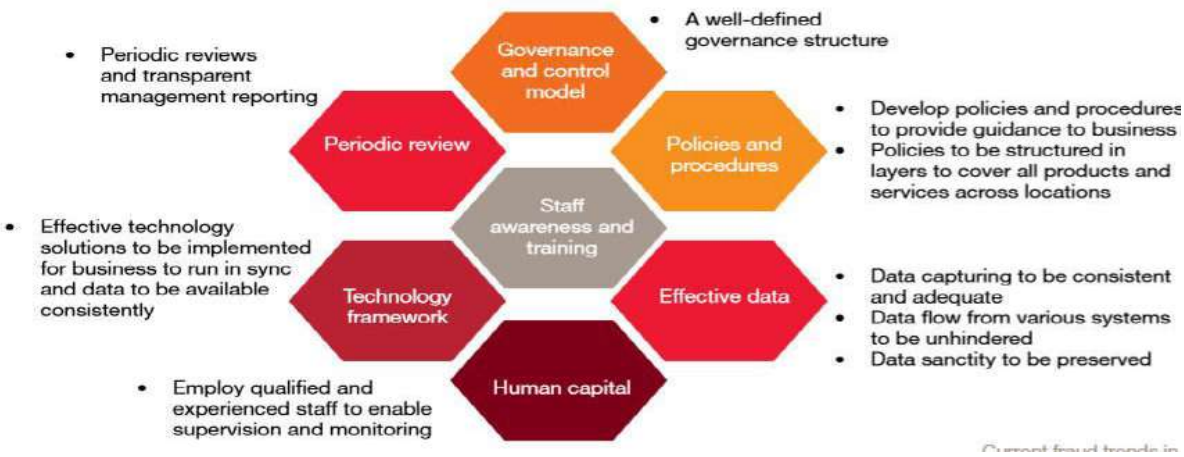
- To promote old age income security by establishing, developing and regulating pension funds
- To protect the interest of subscribers of pension schemes
- To protect the matters connected with the pension funds

5.2: Frauds and Its Prevention Efforts:

Figure-5: Defensive Actions:



5.2.1 Figure-6 : Key Components of effective anti-fraud Programme:



Source for figure 5&6:
https://www.pwc.in/assets/pdfs/publications/2015/current-fraud-trends-in-the-financial- sector.pdf

6. FINDINGS:

- Prudential supervision is all about maintaining the longer-run stability of the financial system by avoiding financial crisis.
- Certain sorts of institutions enter into contracts with the public whereby they promise to repay a specified nominal sum of money at any future date.
- The regulatory framework in India is evolving day by day. The regulators can be seen as more aggressive and stringent in enforcing the existing regulations.
- Regulators are also striving to constantly evolve these legislations and statutes to keep up with the international technology and service standards.
- Financial regulators are generally driven by the need for stricter regulatory compliance and the global standards of delivering financial products and services.

- Some risks are evolving in the financial sectors with the changing global standards are ***Cyber Crime, Identity theft, Money Laundering, Black Money and Loan loss, tax evasion, Data security, violation of KYC norms, etc.***
- Regulators are also following some technologies such as, ***digitised and automated accounting opening procedures and biometric products for enrolment, storage and verification of documents.***
- In Indian market two types of banking services are offered by the banks are Mobile banking and Mobile wallets. It is an easy convenient mode of transacting.
- Financial institutions are enhancing their processes, controls and fraud risk management frameworks to minimize the opportunities for frauds.
- Financial regulators are currently using the important fraud detection and prevention tools. Fraud detection tools are Data visualization, Behavioural Analytics, deep learning, forensic tools, Investigation cells, Flexible audit plans and vigil mechanism whereas Fraud prevention tools are awareness initiatives, Automated Controls, Real time Screening, Benchmarking, Internal controls, etc.
- The legal environment and regulators have pushed the financial sector in the right direction and individual institutions are also taking the lead in that direction.
- One of the objectives of financial regulators is a desire to protect the interests of users of financial services in situations where information about the characteristics of products is hard to assess. But they are on the path of appropriate standards of financial advice so that investors and borrowers are better able to make informed decisions.
- Most countries have regulatory bodies which aim to prevent anti-competitive practices. The use of competition regulation is to prevent monopoly, to challenge merger & acquisition and to prosecute breaches of competition laws.

7. CONCLUSION:

After all the main principles of regulations are Price stability, protecting the small investors and preventing market misconduct. The effect of good regulation ought to mean better market outcomes. Some important work can be done in present system are taking stock of all the regulators and their legal framework, removing decades – old design decisions, better harmonisation of principles of regulation across the various regulators. A theoretical alter to prudential supervision is that the customers make their own assessments of the soundness of individual banks and insurance companies, without the support of prudential rules. Government only cannot be responsible for prudent behaviour but it should be a complementary role for private rating agencies in combination with a high level of disclosure to assist in the supervision.

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Non-Performing Assets in Indian Banking Sector: A Study of Issues Related to Principal Contributing Sectors

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Abstract: *Strong banking system is a prerequisite for a growth of any economy. Non-performing Assets would adversely affect the performance of bank. It may have to undergo a process of securitization/ liquidation/ sale to another bank in order to recover its NPA. Balance Sheet of banks hurts badly due to NPA. Indian Banking Sector's NPA has been substantially rising from Rs. 6.18 lakh crore to Rs. 8.29 lakh crore (34.14 per cent) from June 2016 to June 2017. Out of these total NPA, State Bank of India, Punjab National Bank, Bank of India, IDBI Bank and Bank of Baroda accounted for 47.4 per cent of NPAs amounting to Rs 3.93 lakh crore as of June 2017. Recovery of these stressed assets is now becoming critical national issue. The Indian Government, RBI and Insolvency and Bankruptcy Board of India (IBBI) have been comprehensively working collectively to address the challenge of high NPA. Some recent measures include strengthening the legal framework through the enactment of Insolvency and Bankruptcy Code, 2016 (IBC), evolving the regulatory and supervisory framework, Institutional measures, and certain fiscal dimension. Prior to this, Debt recovery tribunal had also been set up and The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) promulgated but both of them unable to put any remarkable impact. At present, however, a few sectors are contributing a major proportion to NPAs of banking sector in India.*
This study is an attempt to identify regulatory changes in banking sector during recent years and challenges faced by sectors contributing to NPAs. It will also suggest appropriate strategies to diminish the menace of NPA. The expected outcomes of the study are factors contributing to high level of NPA, the effective way to deal with emerging issues related to banking sector and in sectors contributing to highest proportion of NPAs as indicated by recent performance of banking sector.

Key Words: Non-performing Assets, Insolvency and Bankruptcy Code 2016, SARFAESI Act

Theme No. 3: Scope of Corporate Governance in the Indian Financial Institutions

1. INTRODUCTION:

Banking sector is considered to be the backbone of Indian economy because India is a bank based economy. If the health of banking sector is not proper it would adversely affects the economic development of any economy. An asset, including leased assets, becomes non performing when it ceases to generate any income for the bank. In order to moving towards the best international practices and ensure greater transparency nonperforming assets means any loan or advance remain overdue for a period of more than 90 days except for agricultural/farm loan. Therefore, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where;

i. interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
ii. the account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),

iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
iv. interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
v. any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.(RBI, 2001)

The assets of the banks which don't perform well are called Non Performing Assets (NPA) or bad loans means that it doesn't bring any income for the bank. Bank's assets are the loans and advances given to customers. If client don't pay either interest or part of principal or both, the loan turns into bad loan. According to RBI, terms loans on which interest or installment of principal remain overdue for a period of more than 90 days from the end of a particular quarter is called a Non-performing Asset. However, in terms of Agriculture / Farm Loans; the NPA is defined as - For short duration crop agriculture loans such as paddy, Jowar, Bajra etc. if the loan (installment / interest) is not paid for 2 crop seasons, it would be termed as a NPA. For Long Duration Crops, the overdue would be 1 Crop season from the due date.(SCORE, 2017)

In India, The Non-Performing Assets (NPAs) has been rising during the period June 2016 to June 2017. The total gross NPAs at the end of financial year 2016-2017 were Rs 7.65 lakh crore. The gross NPAs in Q1 of FY18 increased to Rs 8.29 lakh crore. In the total NPAs as of June 2017, State Bank of India (SBI), Punjab National Bank (PNB), Bank of India (BOI), IDBI Bank and Bank of Baroda accounted for 47.4 per cent totaling to Rs 3.93 lakh crore. The NPAs have increased because of slowdown in recovery in global economy and also because of the continuing uncertainty in the global markets leading to lower exports of various products like textiles, engineering goods, leather & gems etc, factors like volatility in prices of raw material and the lack of availability of power to some sectors. The Indian government is committed to speedy resolution of bad loans in the banking system.

The Indian banks are struggling with NPAs and the recent enactment of Insolvency and Bankruptcy Code (IBC), 2016 has opened up new possibilities for time bound resolution of stressed assets. IBC, 2016 was passed in May 2016. The central bank in June 2017 had asked banks to finalise a resolution plan within 6 months to resolve NPAs. In case if a viable resolution plan is not agreed upon within six months, banks should be required to file for insolvency proceedings under the IBC. (ACEKP, 2017)

2. OBJECTIVES OF THE STUDY:

This study consists of following objectives.

- Analyse the reforms and regulatory changes that takes place during the recent years in the banking sector of India
- Uncover the challenges faced by sectors/industries that contributes major portion of NPA in Indian banking sector

3. REVIEW OF LITERATURE:

Reddy (2002) commented on handling the issue of NPA from the experience of other Asian countries. It also looked in to the impact of changes in reforms on the level of NPA along with suitable mechanism to deal with this NPA problem. It found that strong legal and legislative framework is a prerequisite for solving this issue. Foreign experiences must be used with domestic situation and flexible solution that fit to all stakeholders should develop.

Satpathy & Patnaik (2012) suggested that the banks should take care to ensure that they give loans to reliable parties only. They said a systematic framework with a clear objective, flexibility and sufficient financial support is required to resolve the distressed situation and for the strategy to succeed, adequate legal provisions and supporting regulatory environment are the fundamentals to control NPA in banking sector.

Kalra (2012) attempted to analyse different factors responsible for high level of NPA on the basis of industry and territory. Author found that quality appraisal, supervision and proper follow-up were help in reducing the menace of NPA. She concluded that it is not possible to fully avoid the existence of NPA for banks but definitely it can be managed in an efficient manner.

Velmurugan (2013) studied the NPA in the public sector bank of India in Tamilnadu state. He concluded that the profits of banks have been highly affected because of nonperforming assets especially public sector banks which accounted almost for one half NPA in India. Borrower have to take responsibility and needs to be come ahead in this bad situation without it India can't become an advanced country. He lastly commented that borrowers have to turn financially disciplined and support the positive working of Indian banking system.

Kapoor (2014) studied the impact of NPA on the banking business. The problem of NPA creates trouble for the further credit to the creditworthy customer and creates negative impact on the capital formation for bank. He concluded that the big problem of NPA would affect the smooth functioning of the recycling of the funds for banks.

The level of NPA has been rising substantially in the last few years, if adequate measures have not been taken to control rising level of NPA entire economy has to pay the severe repercussion.

Rathore et. all (2016) studied on NPA's impact on Indian economy and found that mismanagement of banks in choosing the client for lending resulted in NPA creates the liquidity crunch for banks. They concluded that the principal reasons for increase in NPA were slowdown in domestic growth, recession in global economy and uncertainty in global market created lower exports of textile & leather goods. In order to control NPA, they suggested proper pre sanctioning evaluation, control after disbursement and prompt follow up.

Singh (2016) has studied on the factor contributing to the NPA along with its causes and methods of recovering NPA through different channel. This study observed that the money remained block in the NPA creates big problem for the banks as well as economy. Compare to other banks, the public sector banks have been saddled with high amount of NPA. The difficulty in recovery is not with small borrowers but with large borrowers and a strict policy should be followed to curb this problem.

Singh & Brar (2016) identified the various factors that led to high amount of NPA includes, global slowdown, governance related issues, political factors as well as mal-intentions and misconduct. They concluded that dedicated national research institution of banking like National Institute of Bank Management and Indian Bankers Association play significance role in extensive research and suggest suitable measure to recover NPA. It also said that the gaps in legal policy and regulatory framework should be addressed properly in time bound manner.

FICCI (2016) provided insights about issues facing by the Indian banking sector post financial sector reforms in India. Stressed Assets (NPA and restructured assets) have been going up since 2010 resulted in negatively affecting bank's capital requirement especially in the light of Basel III norms. It concluded that improving the bargaining power of banks, cost saving, enhanced supervision and strengthen the corporate governance in the entire banking system of India is needed as a consolidation for this sector.

Sharma & Chhabra (2017) attempted to study growth in NPA, its reasons and its spreads in different sectors of India. Lending Hugh amount blindly to corporate sector especially to steel, power, telecom and infrastructure without sufficient justification was one of the primary reasons for growth in NPA. Since 2012 due to economic slowdown in global economy, these sectors didn't perform well like earlier time. Banks are now facing very crucial problem of NPA because of this corporate baseless lending. They concluded that in the year 2016, major companies such as Bharti, L&T, Tata Steel, Vedanta, Adani, DLF, Reliance Industries, and Jay Pee, etc. are shedding their debt load in order to stabilize their balance sheet by various means.

4. RESEARCH METHODOLOGY:

Researchers have used the descriptive research design because this study addressed the issue of sharp rise in the level of nonperforming assets and described the problem faced by of Indian business industries who primarily contributed in the menace of NPA. The present study is solely based on secondary data. The applicable data pertains to NPA of Indian banking sector have been collected from the authentic RBI publications like Annual Report on trends and progress of banking in India, RBI bulletin, several websites, magazines, reports of analyst/research agencies and books.

5. ANALYSIS:

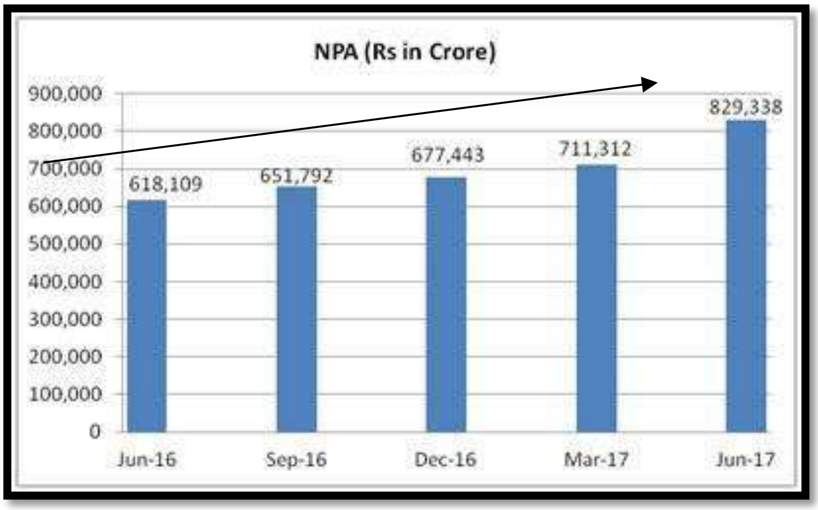
5. 1 Current scenario of NPA in Indian Banks as of June 2017

Table 1: Non Performing Assets in Indian Banks

Quarter ended	NPA (Rs in crore)	NPA Ratio
June – 2016	6,18.109	8.42
September – 2016	6,51,792	8.81
December – 2016	6,77,443	9.18
March – 2017	7,11,312	9.06
June – 2017	8,29,338	10.21

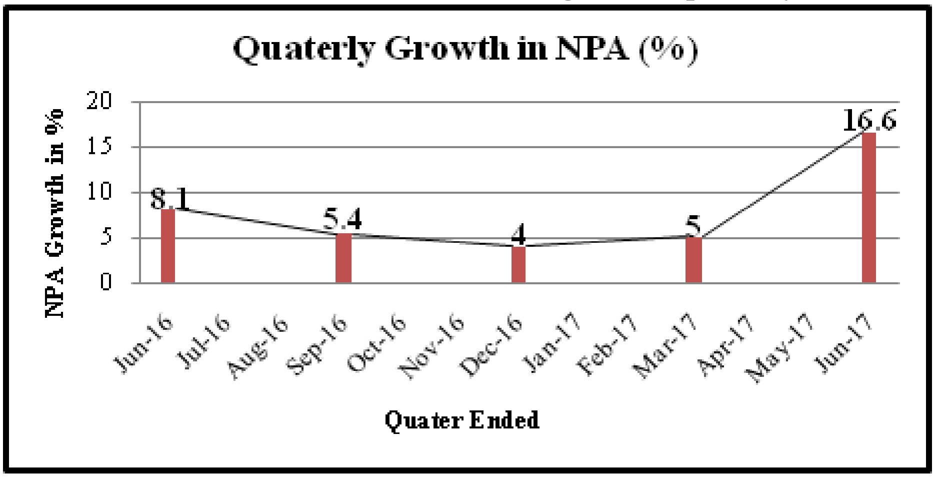
Source: Ace Equity

Chart 1: Non Performing Assets in Indian Banks



Source: Ace Equity

Chart 2: Growth in Non Performing Assets (quarterly)



Source: Ace Equity

This data is clear cut evidence that growth in NPA in the Indian banking sector have been gone up by 100% in the last one year. If appropriate action will not be taken in a time bound manner it hurts the economy so badly. The above data are not at all good for any nation's banking system. Indian banking system requires some serious measures quickly in order to cope up with this bad situation.

5. 2 Sectors that primarily contributes to the NPA of Indian banking sector

Table 2: Major Sector Contributed to Non Performing Assets in Indian Banks

TOP NPA SECTORS	
Metal (Iron & Steel Mainly)	Engineering
Infrastructure	Textiles
Power	Gems & Jewellery
Construction	Textiles
Chemicals	Telecom

Source: Disclosure by Banks (10 banks comprising 51% of NPAs)

Indian banking sector witnessed the sharp increase in the amount of NPA because of the above sectors not performed as per their expectation. The industry-wise analysis clearly shows that the major contributors are metal sector which includes iron & steel, infrastructure, power, engineering, textiles, construction, chemicals and gems & jewellery. This remain true because out of these sector some of them are having high capital intensive project specially infrastructure and power that couldn't able to deliver result due to slowdown in economic activity and global recession.

Sectors like steel, textile, power, telecom and infrastructure are accounts for most of banks stressed assets. About 60% of banking systems stress belongs to these sector alone. The 60% of Banks stressed assets are from these five sectors only. As per the ZeeBiz WebTeam, the gross NPA of banks are expected to reach at Rs. 9.5 lakh crore by financial year 2018. The Steel sector exposure as a percentage of gross credit exposure was highest in public sectors banks compared to private sector Bank. At the end of March 2016 the gross NPA of Steel sector was about Rs. 1.15 lakh crore. By the similar time, power sector exposure is expected to be at Rs 2.3 lakh crore accounted for a 35% of stress level. Debt of total listed telecom companies was at Rs 2,14,477 crore as on September 2016. The gross NPA of textile sector stood at Rs. 37383 crore against the gross advance of Rs. 2.14 lakh crore as on June 2016 as per RBI. As far as infrastructure sector is concern the Stressed assets in this sector already reached at 17.4% in the year 2013 and stood at 18.6% by September 2016. It is also expected to pose more risk in the coming year because their interest coverage ratio is less than 1.

Chart 3: Interest Coverage Ratio of Main Sector Contributed to NPA

	Interest Coverage Ratio		
Sectors under stress	**Q3FY16**	**Q2FY17**	**Q3FY17**
Textiles	0.8	2.8	0.7
Telecommunication	2.0	2.5	0.7
Construction	0.9	1.0	0.8
Iron and Steel	0.3	0.8	1.1
Computer and Electronic Equipments	1.6	1.7	1.1
Parts, Accessories and Other Transport Equipments	NA	3.6	1.1
Electricity and Gas - Supply	1.8	1.4	1.1
Wholesale and Retail Trade	1.4	1.0	1.2

Source: RBI, PL Research

Chart 4: Increasing share of loan to metal, power and infrastructure sector

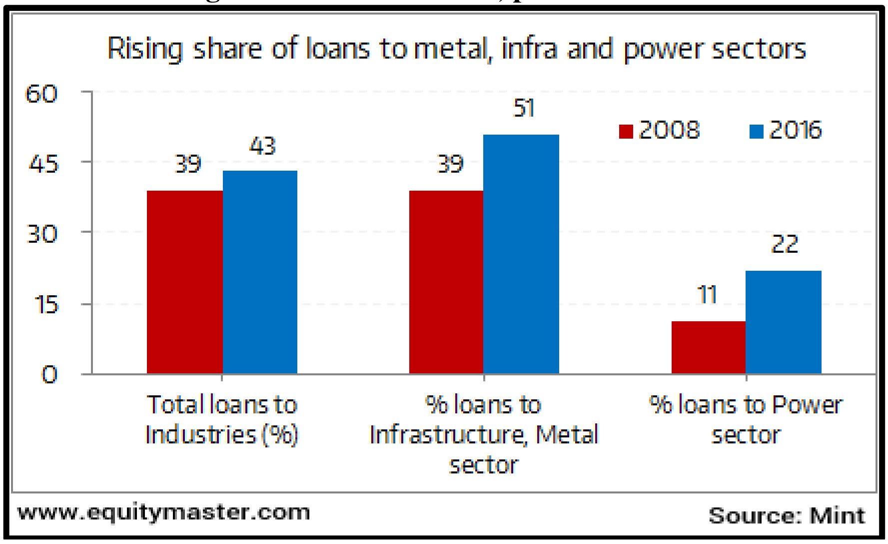
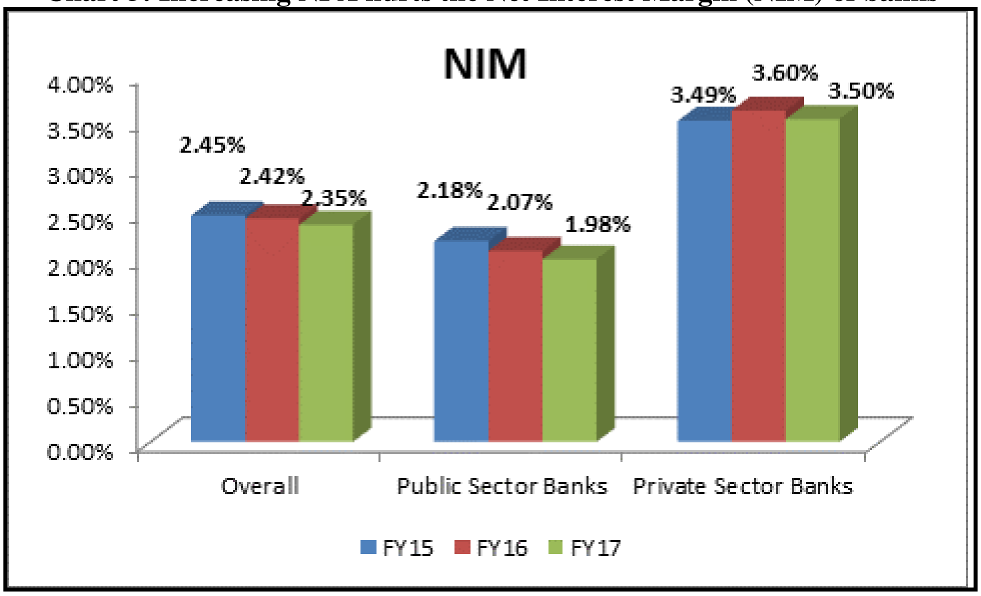


Chart 5: Increasing NPA hurts the Net Interest Margin (NIM) of banks



Source: CARE Ratings & Banks

Sluggish credit growth and weakening in asset quality has affected the earnings growth of banks as well as profitability during the financial year 2017. The 35 banks studied by CARE Ratings showed moderate growth of 6% due to interest reversals on NPA accounts as well as a low credit growth. However, fee based income and treasury gains in a declining interest scenario helped non-interest income increase by 32% during the same time. PSBs reported growth of 3% in total income while private banks reported growth of 13% in the year 2017. The Net Interest Margin (NIM) has witnessed a declining trend over the last three years largely on account of decline in margins of PSBs. The private sector banks have been able to maintain their NIM in the range of 3.40% to 3.60% over the last three years. The PSBs were affected mainly because of provisioning rise due to the increase in the NPA which further reduces the profitability of PSBs. Compare to PSBs, the private banks could able to maintain the better picture as far as Net Interest Margin is concern.

5. 3 Recent reforms and regulatory changes regarding NPA in Indian banking sector

- **Formation of National Company Law Tribunal (NCLT)**

The Central Government has constituted National Company Law Tribunal (NCLT) under section 408 of the Companies Act, 2013 (18 of 2013) w.e.f**. 01st June 2016**. NCLT is a quasi-judicial body in India that adjudicates issues relating to companies in India. NCLT has benches all over the India including one primary bench in New Delhi. Decisions of the NCLT may be appealed to the National Company Law Appellate Tribunal. The decisions of NCLAT may be appealed to the Supreme Court of India.

- **Formation of Insolvency and Bankruptcy Board of India (IBBI)**

Insolvency and Bankruptcy Board of India was set up on **1st October 2016** under the Insolvency and Bankruptcy Code, 2016 (Code). It deals with corporate insolvency resolution, corporate liquidation, individual insolvency resolution and individual bankruptcy under the Code. The main objective of IBBI is a insolvency resolution of a individual or a entity in a time bound manner for maximization of the value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders.

- **Strategic Debt Restructuring (SDR)**

The mechanism use in this measure was banks were given chance to convert the loan amount into 51% equity and then were supposed to be sold to maximum bidder after the firms becomes viable. The constrain under this measure for banks to resolve their bad was only 2 sales have taken place because of the viability issue. The challenges in implementation of SDR were getting the buyer and deviation over valuation.

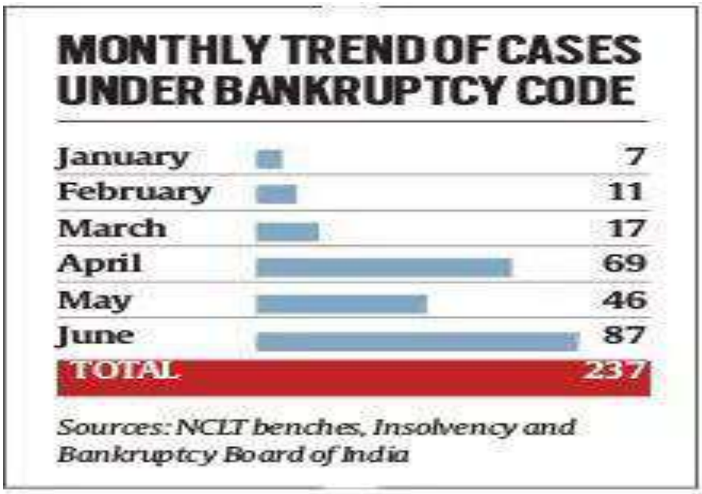
- **Assets Quality Review (AQR)**

For the recovery of bad loan it is essential to identify the bad loan hence the RBI had ensured the banks to assess the loans in line with RBI classification rules till March 2016. The biggest problem in this measure was banks are still not showing the real picture of their balance sheet by continuing to evergreen loans.

- **Insolvency and Bankruptcy Code (IBC Code)**

The Insolvency and Bankruptcy code was formed in financial year 2016 that seeks to combine the existing framework by creating a single law for insolvency as well as bankruptcy. In order to resolve the case of bankruptcy in India currently it takes more than 4 years but this IBC code expect to reduce this time to less than a year. IBC codes also suggest the separation between corporate insolvency and individual insolvency. The maximum time limit for corporate insolvency has been set at 180 days with further extension of 90 days.

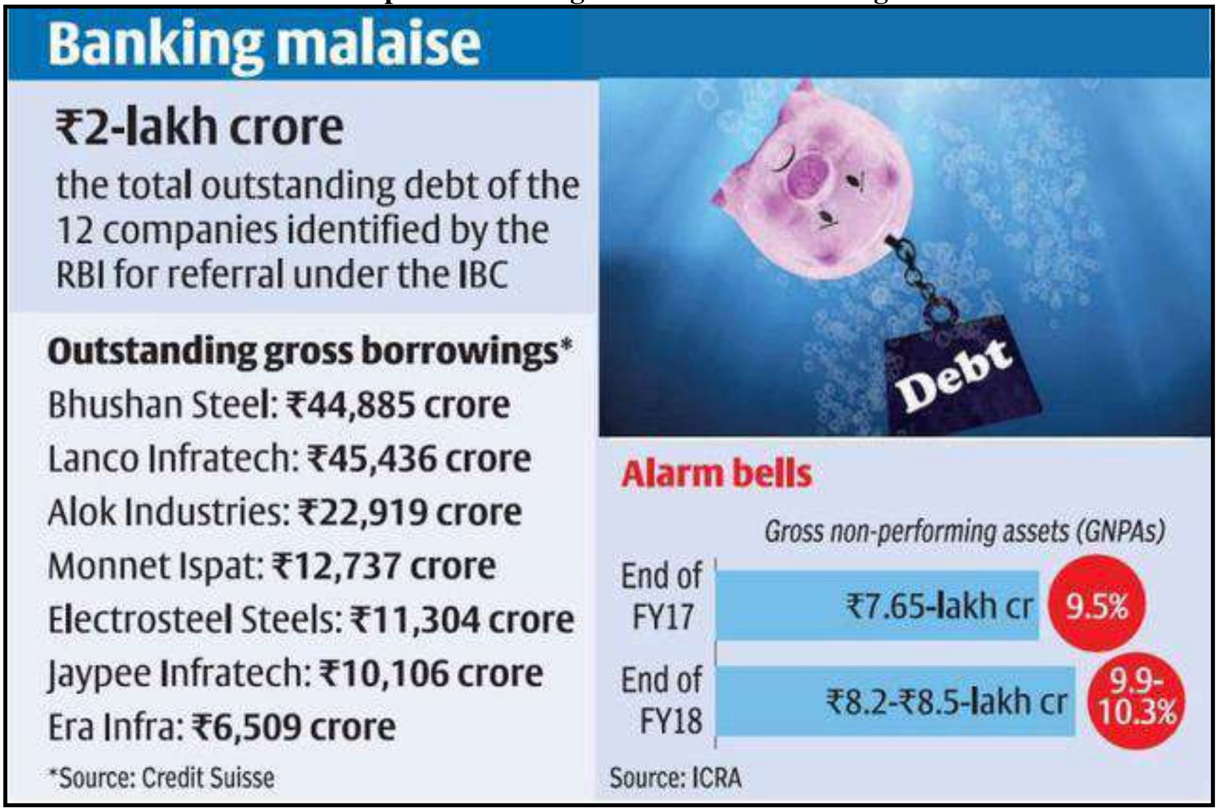
Chart: 6 Trend of Cases under IBC in the Year 2017



- **RBI also identified 12 large companies for referral under IBC recently**

Big corporations in the steel and infrastructure sectors lead the list of 12 large accounts identified by an RBI panel for resolution under the Insolvency and Bankruptcy Code, 2016 (IBC). The combined outstanding debt of these accounts is about Rs. 2 lakh crore.

Chart: 7 Companies with large amount of outstanding loans



RBI and the Government of India are now very keen to recover this bad loan from the defaulters in order to keep the economy on track. RBI has instructed the Banks to take immediate action on NPA accounts whose value is higher than Rs. 5000 crore. Banks will have six months to come up with the resolution plan for bad loan accounts as on March 31, 2016. The corporate insolvency process required to be completed within the 180 days which further can be extended to 90 days with prior consultation from NCLT. If the resolution plan is rejected, than the company will go for a liquidation of assets.

- **Public Sector Asset Rehabilitation Agency (PARA)**

The anticipated formation of a public sector asset rehabilitation agency with the acronym of PARA in the Economic Survey 2017 is similar to the notion of bad bank which is in debate. The framework of this agency is as follows.

Firstly its buys the loan of highly indebted steel and infrastructure firms will than converted into the equity which sale the different stake either in auction or by granting debt reduction. Government would than provide capital support to the banks which will help in improving the financial health of the bank expected to result in make them ready to grant fresh credit. When the financial viability of the companies is restored, the operational efficiency can be achieved. PARA is considered to be the better option than Asset Reconstruction Companies (ARC) till the ownership remained in the hand of Government.

6. CONCLUSION:

Undoubtedly, there has been a rapid growth over the years in Indian banking sector but the asset quality of this sector has come under a scanner in the last several years because of the breakdown in the economic activity as well as some issue of industrial sector. The amount of NPA & NPA ratio was at the highest of Rs. 8.29 lakh crore and 10.21% respectively as on June 2017. There were few measures been taken by regulator before 1990 includes Sick Industrial Companies Act, 1985, Board for Industrial and Financial Reconstruction (BIFR), The Appellate Authority for Industrial and Financial Reconstruction (AAIRFR) and Lok Adalat. It took lot of time for banks to recover the loans in cumbersome judicial process before 1990. RBI along with Government, have initiated different institutional measures to speed up the recovery process than after. Debt Recovery Tribunal, SARFAESI Act, 2002, Central Repository of Information on Large Credits (CRILC) and Joint lenders Forum (JLF) and 5/25 Schemes were such examples. However, with the continuous increment in the amount of NPA in the Indian banking sector gives birth to the newer measures. NCLT, IBBI, SDR, Asset Quality Review, IBC Code are the recent measure to handled the large and complex cases of insolvency and bankruptcy.

Currently, one of the major challenges for Indian banking sector is to critically address the issue of high NPA and take out the banking system from this trouble to run the economy on the right track. Various actions have been taken to deal with this issue with the IBC Code remains the most recent one where some of the larger NPAs have been identified for speedy resolution. The outcome of these recent changes would be known in the near future.

The principal sectors that have contributed to the NPAs of the Indian banking sector are Metal & Metal products including Iron and Steel, Infrastructure, Power, Engineering, Textiles, Construction, Chemicals and Gems & Jewellery. There were different reason behind this situation includes blind lending of hugh fund to some corporate sector especially infrastructure, metal and power by bankers. Steel, Power, Telecom and Infrastructure sector were also taken large amount of loan without sufficient ground at a time of recession and crisis of year 2008. After that large capital intensive project in few sectors performs badly due to aggressive approach, slowdown of global economy as well as retard in Chinese economy badly hurts their performance. There is a high scope of governance, responsibility and accountability to reduce the menace of NPA in Indian Banking Sector. It is expected that recent steps taken by RBI, Government and other regulator would help to decrease the level of NPA in core sector such as infrastructure, power, telecom, metals and mining. The way ahead is bit long term to recover from this big issue but bankers and government are hoping to improve this bad scenario in the course of time.

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Digitalization's Impact on Employee Work Family Balance

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Abstract: *In the event of today's digitalization in every aspect of human lives whether personal or professional, the impact is both positive and negative. Present day technology enables organizations to boom at a rapid pace with latest software, new improved tools and processes, finding the best talent from the pool of talents with advanced HR techniques & global market penetration thus giving competitive advantage to organizations. The biggest challenge these modern organizations face is talent management on the course of global competition, 24*7 working culture, occupational stress, and ever changing technology, disturbed health of workers and disturbed work and life balance. Employees are instructed to bring and adapt to change but change management is not systematized as per employees need and requirement. Employees lack proper autonomy and flexibility in the work place to bring out the innovations and balance their personal front also. The result is disengagement of employee from the organization and eventually turnover. Thus the main focus of this study is to find out any relation of current trends in digitalization and its impact on quality of life and work family balance of employees.*

Key Words: Work life balance, Happiness, Job satisfaction, Quality of life.

Theme 6: Human Resource Dimensions and Corporate Governance
Sub theme: Training and recruitment of workforce fit for digital era

1. INTRODUCTION:

The present time is witnessing tremendous changes in the working dimensions whether it be the change in organizational structure or the technological advancements or the key investment of Human resources in terms of cultural and geographical diversities. The concept of global working and globalization has dissolved the boundaries between nations and has made the appointment of global talents possible. Employees from different culture are appointed and imbibed in the culture of the home company. Due to enormous advancements in the technology across borders it is inevitable for companies to adapt to those changes and stay competitive. Companies are multidimensional performing in varied sectors. There is extreme pressure on the management of these companies to perform, excel and stay ahead of the competition at all times. This pressure of competitive advantage is transferred along the hierarchical chain to the subordinates and employees. To fit in this competitive organizational structure employees have to be multiskilled, multitasking, tech savvy, initiative and experimentative. The present generation of employees is generally called as digital employees, digital natives, millennial or net generation. This results in a tensed and rigorous work environment where employees are subjected to frequent changes in policies, norms, systems, processes, management or technology.

The most significant impact on the employees is due to the enormous changes in technology and processes and digitalization in almost all activities of the organization. Digitalization is a method of transforming business processes/ activities/ functions into digitally able actions or knowledge. Workstations are loaded with tremendous technology advancements. Management is able to track the activity and progress of its employee on a daily basis via digital dashboards; employee score cards etc and they are providing daily feedbacks. Organizations are moving from pen and paper to digital data sets. The real word is more and more transforming into the "virtual world". Employees on the other end are taking daily tasks, targets and working round the clock to meet them and be ahead of their peers.

This has breached the boundaries between personal and professional lives of employees. With the added advantage of cheap data plans (with the revolution of Reliance Jio in India) internet is available on mobile handsets, laptops, tablets so the employee as soon as he/she leaves the physical office checks in into the virtual set up of office which have no time bound work. (Hill, E. J., Miller, B. C., Weiner, S. P., & Colihan, J. (1998) Client, customers, end users, managers, supervisors are all in contact with the employees round the clock. Even when the employee reaches home any emergency meeting or Skype call or conference call will breach the family domain and impact the quality of time one must devote for family. Employee are not able to complete the assigned task in the official time and are thus carrying their workloads home (like making presentation, making report, some client calls, working on some data analysis part, making a blue print for the next day or near future). The result is an extreme exhausted both physically & mentally and a family detached employee who is emotionally drained too.

2. THEORETICAL FRAMEWORK:

2.1 Work life balance/ work family balance

In our day to day life we invest our time and energy in our family roles, workplace, our social relations, self development and spiritual obligation. The amount of time and energy invested depends on one's priority and need. One cannot divide and distribute equal amount of time and energy in all the domains. This proper prioritizing and balancing of time and energy distribution in various domains is known as work life balance. For organizations this is crucial as it leads to effective and efficient performance of the employees, better productivity, reduced absenteeism and turnover and attracting better job aspirants. (Downes, 2011)

But when there is a clash of the priority between these domains and time and energy investment is sought more than the specified it will lead to a disturbance in all other domains which will impact the overall balance between the major work roles and family liabilities.

2.2 Work family conflict

When there is a disturbance in the amount of time and energy invested in the work and non work roles and any domain seeks more attention than the specified it will lead to an imbalance in the remaining domain whether it is social, family, work, self or spiritual. (Frone, 2003) This disturbance is multidirectional as it can arise in any domain and is transferred across all other domains. For organizations this is crucial as work family conflict is positively related to turnover intentions. (Muhammad Ghayyur, May 2012) This will lead to turnover eventually.

When work responsibilities and liabilities start impacting the non work roles of the employees or his/her family responsibilities it is termed as work to family interference similarly when family responsibilities and liabilities hamper the work commitments of the employees it is termed as Family to work interference. (Tennakoon, 2007) This means both work and family responsibilities can hamper each other when time and energy distribution is not efficient and proper.

Work life imbalance leads to

(a) Low productivity (b) Low employee retention, (c) Low level of morale and motivation, (d) Low performance levels, (e) Increased number of grievances, (f) Poor organizational image and (g) Increased absenteeism and turnover. Work life imbalance and stress have positive relation with turnover intentions (Wayne, Musisca, & Fleeson, 2004) (Sarooj Noor) (Rashid Saeed, 2013)

2.3 Factors effecting work life balance

Enormous factors affect the balancing of time and energy of employees for work and non work roles namely management style of the organization, organizational policies & practices, supervisor's support, colleagues support, work life balance initiatives implemented by theorganization, role conflicts, role ambiguity, role overload, proper training facilities available, career development options available for employees, rewards and recognitions, overtime compensations, employee benefit programs, spousal support, family support, child care/ dependent care, family type, marital status, income etc. individual factors like emotional stability, personality career stage also influence the act of balancing work and family roles. It was found by the study of (Hechanova, 2013) that Organizational support mediates the relation between work life conflict and intention to leave.

<u>Work related outcomes of work life balance</u>

Job / Work satisfaction; Career satisfaction; Organizational commitment; Employee turnover; Absenteeism; Retention of employees; Job performance; Motivated workforce; Decrease in health care cost (checks stress related illness); Proper Time Management

<u>Non work related outcomes of work life balance</u>

Marital satisfaction; Family satisfaction; Life satisfaction; Leisure satisfaction; Burnout; Health outcomes; Family performance; Quality of life; social contribution; Overall development

Knowing the serious impact of work life imbalance on the health, stress levels, job satisfaction, commitment, motivation & morale of the employees and in turn on organizational issues like absenteeism, sickness leaves, reduced employee engagement and poor performance, globally companies have designed and implemented various work life balance initiatives for the employee. (Thompson & Prottas, 2006) namely flexi timings, work from home options, compressed work week , telecommuting, alternative work arrangement, job sharing, fitness centre, relax zone, family discounts (sports activities), online library; casual working atmosphere, family care responsibilities, employee assistance programs, good compensation packages, family leave programs (e.g., parental leave, adoption leave, compassionate leave), eldercare services, child care services like onsite Crèches, financial and non- financial rewards, better maternity benefits, educating employees to understand work life balance practices/policies at work place, checking employee burnout are among the widely used work life balance initiatives.

While using these initiatives (Jennifer Smith, March 2007) found that age was not related to the use of WLB initiative; gender was related as women used more initiatives than men; managerial and supervisors support was related to higher use of initiatives. Previous researchers have found that compressed work week have significant correlation in handling work life conflict; also management and supervisor support helps in maintaining work life balance and reducing work life conflict (MARK JULIEN, 2011). Proper work and life balance ensures effective and efficient performance of the employees, better productivity, reduced absenteeism and turnover and attracting better candidates. (Downes, 2011)

2.4 Technology and work life balance

Now day's employees are working round the clock. As soon as they leaves their work set up in office they are virtually employed due to the technological advancement of ICT (Information and Communication Technology) (Nam, 2014) with the help of smart phones, laptops, tablets, Skype etc. This has lead to both positive and negative impact on the lives of the employee.

With the latest advancements the complex work is simplified, quality of product/process/policy/services is improved; work is effective, communication is fast, digital documentation has reduced manual labour, proper time management is possible, performance evaluation is effective (Rose, R. C., Beh, L., Uli, J., & Idris, K., 2006). With the use of intranet, internet transfer and access to information is rapid. Smartphone nowadays are close to computers that too with added advantage of mobility (Jones, F., Burke, R. J., & Westman, M. (Eds.), 2013) These have enabled employees to be in touch with their clients, teams, superiors or subordinates at any point of time. Business and management decisions and actions are possible at a fast pace. Technology and digitalization have made work from home options (Guest, D. E., 2002) possible for employees specially female workforce to have flexibility in handling their family responsibilities without giving up on their work. (Perrons, D, 2003). Freelancers are currently becoming the major segment of professionals who are using latest of the technology and working from the comfort of their home at the time or shift that suits them the best. (SYLVAIN, 2011) Also organizations nowadays are appointing freelancers on contract basis to get the task done without added cost of employee benefits.

As counter to the ease, growth and positive advancements of technology and digitalization in almost all aspects of life there are certain negative consequences in personal lives as employees take their incomplete work home and consume the time to be devoted to family in completing their task or arranging some conference call or meeting. They are virtually working with the help of mobile phone even when they are with their family or in social gatherings. (Duxbury, L., & Smart, R. 2011). Due to this negligence on family part the quality of life is suffered and relations with family members are jeopardized. As a result of which employee is more and more isolated and hence impacts the emotional and mental stability of the employees and in turn creativity and performance of the employee. (Fageria, april 2016)

As a consequence of prolonged sitting in front of laptops, desktops and even nowadays on smart phones health of employees is compromised to such an extent that employees start developing problems in eyesight, irritation of eyes, headache, fatigue, insomnia, and migraine, reduced thinking ability, continuous stress, blood pressure, depression, cardiac problems or even death. For the organizations also it becomes an added cost as there will be increased medical and health insurance claims, absenteeism, increase in sick leave and even turnover.

Even in the workplace due to enormous technology changes and digital adaptation employee may suffer Job burnouts. Old technology gets obsolete and so does the skill of the employee so in order to remain in the workforce and stay competitive employees must be ready and adapt for any change that occurs. With the interference of work and life roles employees will be dissatisfied in both the fronts which will affect their performance, work quality and productivity. This may lead to issues like absenteeism, turnover intentions and possibly turnover. It will adversely affect the retention policies of any organization.

Company image will be deteriorated as recruitment and selection will be difficult for company that cannot safeguard its employee's personal and professional well being.

Few of the past studies have highlighted the issues of addiction with excess use of digitalization and technology. Internet and smart phones have been identified as addictive by various clinical research findings (American psychological association). Internet addiction disorder (IAD), Email addiction (Jackson, 2012) has been identified as psychological disorders. Scientist/researchers have even identified certain behavioral, physiological and psychological issues related to excess use of social networking sites like face book syndrome and whattsup syndrome. (The impact of technology on work/life balance, 2015) Prolonged use of computers leads to extremely fatal diseases.

Measures to check the digitalization negative impact

Proper installation, training and user guide for the employees for any digitalization activity of any process or system so that employees are not left out. Also ensuring comfort, acceptance and adequate training of the employee before digitalizing any activity.

Checking the level of digitalization of the organization as nothing can ever replace humans or manpower. Also such decisions should be taken after proper discussion and employee participation.

Providing employee with some level of autonomy to decide for their job roles and improve their performance by self assessments. This will ensure their acceptance for technology changes and digitalization which will improve individual and organizational performance.

Periodic meetings between employees/superiors/supervisors/managers should be conducted to enhance face to face interaction rather than via intranet or telecom.

Having an onsite library can be of a great use as it will help in reducing job induced stress and also inculcate reading habits among employees. As not everything is on Google.

Social gathering should be organized by management for employees and their families.

Small yoga and meditation sessions should be organized for employees to reduce job burnout.

Discouraging the act of taking work at home and this culture can be cultivated when managers themselves set examples.

2.5 Future scope of the study

The proposed study is conceptual. A practical implication of digitalization and its negative influence on employee's personal and professional lives can be studied. Also impact of mentoring, coaching, psychologist assistance on the well being of employees can be studied. Studying pre training and post training analysis on the successful implementation of digitalization will give greater insight on the importance of proper training in digitalization activities. Impact of yoga and meditation on distressing of employees can also be studied.

3. CONCLUSION:

Based on the study it can be concluded that the excess use of technology and digitalization will have severe negative impacts on the employee's professional and personal lives more than the positive ones. The quality of employee life is measured by social, personal life, physical, mental and emotional well being and it should be given sufficient importance and be maintained to ensure overall organizational performance. Excess digitalization of the organization will reduce the concentration, understanding, creativity, thinking ability, innovations and in turn the performance of the employees even though it will save time and energy. Thus the level of digitalization should be controlled by the management in order to ensure balance in work and family domain of employees, improved quality of life and performance of employees.

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Effect of Corporate Governance on Stock Performance

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Abstract: *Corporate governance becomes important elements before investing in any stock of company. Corporate governance is set of rules and incentives by which management of company is directed and controlled in order to maximize the profitability and long term value of share holders. This paper investigates the effect of corporate governance on stock performance, share prices and stock return of companies. In this research paper, we have used component of corporate governance such as ownership concentrations, institutional ownership, board size, board independence, CEO tenure, audit committee, transparency and disclosure. The purpose of this study is to evaluate whether corporate governance associated with stock prices and returns. The author hypothesize that firms with strong corporate governance have significant impact on stock prices and performance. This research is important to regulators and standard setters as it indicates information that affects investors' investment decisions.*

Key Words: corporate governance, stock performance, share prices, stock return.

Theme No. And Name: Theme -5- Indian Financial Markets and Corporate Governance

1. INTRODUCTION:

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed and controlled. Corporate governance also includes the relationship among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, the board of director, employees, customers, creditors, suppliers, and community at large.

1.1. CLAUSE 49:

Clause 49 of the listing agreement to Indian stock exchange that came into effect from 31 December 2005. it has been formulated for the improvement of corporate governance in all listed company in indian stock exchange. The term clause 49 refers to clause number 49 of the listing agreement between a company and the stock exchange. Clause 49 of the listing agreement is applicable to companies which wish to get themselves listed in the stock exchange. In 2014, the clause 49 was amended to include whistle blower policy as mandatory provision. The clause 49 has both mandatory and non mandatory agreements.

A) Mandatory provisions:

1) Board of directors:

- Compositions of board
- Attendance of each meeting by board members
- Number of other board and board committee
- Number of board meeting held, dates on which held.

2) Audit committee:

- Brief description of terms of reference
- Compositions, name of members and chairperson
- Meeting and attendance during the year.

3) Remuneration committee:

- Brief description of terms of references

- Composition, name of members and chairperson
- Attendance during the year
- Remuneration policy
- Details of remuneration to all the directors

4) Shareholder committee:

- Name of non executive director
- Name and designation of compliance officer
- Number of shareholder complaints received so far
- Number not solved to the satisfaction of shareholders
- Number of pending complaints

5) General body meetings:

- Location and time of annual general meeting
- Whether any special resolution passed in the previous annual general meeting
- Person who conducted the postal ballot exercise
- Procedure for postal ballot

6) Disclosure:

- Disclosure on martially significant related party transaction that that may have potential conflict with the interest of company at large.
- Details of non compliance by the company , penalties
- Whistle blower policy and affirmation that no personnel has been denied access the audit committee.
- Details of compliance with mandatory requirements and adoption of non mandatory requirements of this clause.

7) Means of communication:

- Quarterly result
- Newspapers wherein results normally published
- Any website , where displayed
- Whether it also displays official news release
- The presentation made to institutional investors

8) General shareholder information:

- Financial year
- Date of book closure
- Dividend payment date
- Listing on stock exchange
- Stock code
- Market price data
- Registrar and transfer agent
- Share transfer system

b) Non mandatory:

- The board
- Remuneration committee
- Shareholder rights
- Audit qualification
- Training of board members
- Mechanism for evaluating non executive board members
- whistle blower policy

1.2. Development Of Corporate Governance In India:

- The confederation of Indian industries and securities and exchange board of India constituted committee to recommended initiative in corporate governance.
- The SEBI appointed committee, known as the Kumar mangalam Birla committee recommendations led to the addition of clause of 49 in the listing agreement.
- yet another major development includes constitutions of committee by SEBI under chairman ship of shree narayan murthy for reviewing and implementations of corporate governance code in India

1.3. Issues In Corporate Governance:

- **Distinguishing the roles of board and management**: the responsibility for managing the business is delegated by board to CEO who in turn allocate responsibility to other executives. The board occupies a key position between the shareholders and company’s management.

- **Composition of board and related issues:** the composition of the board of director refers to number of director of different kinds who participate in working of board. There has change in the numbers and proportions of different board of directors as time pass.
- **Separation of the roles and the CEO and the chairperson**: combine role of CEO and chairpersons leads to conflict decision making and concentration of powers. The role of CEO is to give direction to senior executives , while the role of chairperson is to manage all board members . Other responsibility of board includes evaluating the performance of senior executives and company.
- **Appointments to the board and directors re-election:** shareholders are owner of the company . But shareholders are located in the different region and location . So it is not possible for them to manage company. So they are appointing board of directors on behalf of them to manage corporate affairs. Boards of directors are responsible for managing the company.
- **Directors and executive remuneration:** the Cadbury committee report stress that shareholder should be informed all the details regarding to board of directors, remuneration of board of directors and executives, financial statements and financial position of the company.
- **Disclosure and audit**: the Cadbury committee report termed the annual audit as one of the corner stone's of the corporate governance. Audit also provides a basis of reassurance for everyone who has stake in the company.
- **Protection of shareholder rights and their expectations:** there are numbers of question relating to this issues such as: a) should the company adhere to one share one vote principle? b) Should the company retain voting by a show of hands or by poll? c) Should shareholders approval be required for all major transactions?

2. OBJECTIVES:

- General overview of Indian companies in various area of corporate governance like transparence, disclosure, protecting rights of share holders and overall performance in corporate governance.
- To determine relationship between stock price and corporate governance.
- To know association between corporate governance rank and share price.
- To know effect of corporate governance on sales and revenue of the company.
- To know effect of corporate governance on the earning per share
- To know the effect of corporate governance on the return on equity ratio.

3. RESEARCH METHODOLOGY:

3.1. Research design: There are three types of research design.

- Exploratory research design
- Descriptive research design
- Causal research design

In this research paper, I have used descriptive research design.

3.2. Sources of Data: There are two types of sources of data: primary data and secondary data. in this research paper , I have used secondary sources of data. I have used annual reports of companies, websites of company and share markets, journals, reports of government and SEBI on corporate governance.

3.3. Population: Population is the entire pool from which a statistical sample is drawn. In this research paper, population includes all the companies listed in the stock exchange.

- **Unit:** defining the population for a study involves two separate decisions. The unit is the 'what' that is to be counted. In this research paper, unit includes companies listed in stock exchange.
- **Boundaries:** the second decision is to define the boundaries of population which units are includes and which are excluded. In this research paper, ***boundaries of population include companies' listed Indian stock exchange in Bombay stock exchange (BSE) and national stock exchange (NSE).***

3.4. Sample: Sample is the subset of population. In this research paper, I have chosen two companies listed in Bombay stock exchange. Selected companies are TATA steel limited and Infosys limited. These two companies are leading company in the area of corporate governance. These companies are following corporate governance norms in the best way than any other company in India. I have analyzed share price and corporate governance ranking from 2013-2016.

3.5. Sampling Method: Sampling methods refers to the way that observations are selected from population to be in the sample. There are two types of sampling method: probability and non probability sampling. In this research paper, I have used ***judgmental sampling method*** that is non probability sampling method.

4. LITERATURE REVIEW:

4.1. Wafaa Salah Mohamed " The Impact Of Corporate Governance On Stock Prices And Trade Volume" International Journal Of Accounting And Financial Reporting, 2016, Volume-6, Number-2, ISSN:2162-3082

The purpose of this paper is to investigate whether corporate governance is associated with stock prices and trade volume for 62 publicly traded firms on Egyptian stock exchange during 2007-2014. The author hypothesize that firms with strong corporate governance have significant impact on stock prices and trade volume. to examine this associations, a multiple regression is used . Consistent with the first hypothesis, these study finds firms with strong corporate governance have significant effect on stock prices while has no significant effect on trade volume. Findings indicate that quality of corporate governance have significant effect impact on stock prices trading volume is not affected by the strength of corporate governance. The results suggest that the firms should improve their performance in corporate governance because it affects to firm's value. This research is important to standard setter and regulators

4.2.Kevin Jih, Simone Kelly And Ray Mcnamara " The Effect Of Corporate Governance Variables On Share Price: A Comparisons Of 'Class A' And ' Class B' Shares In The People's Republic Of China " Asian Pacific Conference On International Accounting Issues, , 2011:

this paper examines the interaction between corporate governance and earnings as they affect market performance. The research focuses on Chinese capital markets because of their unique characteristics with respect to elements of corporate governance. The results suggest that corporate governance does not affect markets reactions to earnings. Investors do not reflect differently due to different accounting standards, board structure and audit quality. Contrary to exceptions, the earnings response of AB- shares is not significantly different from that of A-shares earnings response. These findings imply that Chinese listed companies based on western governance perform no better than Chinese listed companies based on Chinese governance. , in terms of market's reactions to earning management.

4.3.Julia Bistrova And Natalja Lace "Evaluation Of Corporate Governance Influence On Stock Performance Of CEE Companies"

corporate governance becomes a very essential factor to consider prior to investing in company. a number of studied proved its importance on developed equity markets. however, intuitively corporate governance should gain more importance due to high of degree uncertainty because of the unstable environment. . For assessing the influence of corporate governance quality on central and eastern Europe companies stock performance, the CG assessment model , which includes 21 evaluation criteria , was developed. Based on the model rating, the companies with the highest corporate governance quality (top 25%) outperformed companies with the worst corporate governance (bottom 25%) by 0.98% on monthly basis during period of 2008-2010.

4.4.saif ullah malik (2012) " relationship between corporate governance score and stock prices: evidence fromKSE-0 index companies" international journal of business and social science, volume-3, no.-4

The price of stock like any other commodity goes up and down due to a number of factors. Corporate governance is one of the important determinants of stock price. This paper makes attempt to study the relationship between corporate governance score and stock prices of the company. The research involves the study of KSE 30 Index Company. The independent variables (corporate governance score) and dependent variables (company's stock price) have identified for year 2009 and 2010. Hypothesis is that there is significant relationship between share price and corporate governance score. The study conclude that better governance have higher stock price. This is due to fact that better managed company will perform better and as result stock prices increases.

5. ANALYSIS PART:

5.1. General Overview of Corporate Governance Ranking Of Indian Companies In Various Areas Of Corporate Governance:

Table 1: Best overall for corporate governance :(2016)

Rank	Company	%
1	Mahindra and Mahindra	6.26%
2	Bharti airtel	5.71%
3	Tata motors	5.03%
4	Idea celluiar	3.95%
5	Bajaj auto	3.81%

source:www.globalcapital.com/asia/data/polls-and-awards/2016-results/corporate-governance-poll/india-and-indonesia

Table 2-best for disclosure and transparency (2016)

Rank	Company	%
1	Oberoi realty	5.46%
=2	Bharti airtel	4.92%
=2	Idea cellular	4.92%
=2	Infosys	4.92%

=2	Tata motors	4.92%

source:www.globalcapital.com/asia/data/polls-and-awards/2016-results/corporate-governance-poll/india-and-indonesia

Table-3- best for shareholders' rights and equitable treatment (2016)

Rank	Company	%
1	Mahindra and Mahindra	8.50%
2	Bajaj auto	5.23%
=3	Bharti airtel	4.58%
=3	Tata motors	4.58%
=3	Idea cellular	4.58%

source:www.globalcapital.com/asia/data/polls-and-awards/2016-results/corporate-governance-poll/india-and-indonesia

Table-4-Best for responsibilities of management and the board of directors:(2016)

Rank	Company	%
=1	Eicher motors	6.76%
=1	Godrej properties	6.76%
=3	Bharti airtel	6.08%
=3	Mahindra and Mahindra	6.08%

source:www.globalcapital.com/asia/data/polls-and-awards/2016-results/corporate-governance-poll/india-and-indonesia

Table-5-best for investor relations (2016)

Rank	Company	%
1	Oberoi realty	6.85%
2	Tata motors	5.48%
=3	Bharat forge	4.79%
=3	Bharti airtel	4.79%

source:www.globalcapital.com/asia/data/polls-and-awards/2016-results/corporate-governance-poll/india-and-indonesia

Table-6-best for corporate social responsibility (2016)

Rank	Company	%
1	Mahindra and Mahindra	10.48%
2	Bharti airtel	9.52%
3	Bajaj auto	7.62%

source:www.globalcapital.com/asia/data/polls-and-awards/2016-results/corporate-governance-poll/india-and-indonesia

5.2. INFOSYS COMPANY:

5.2.1. Corporate governance policy:

Following are corporate governance policy followed in Infosys Company.

- whistle blower policy
- code of conduct and ethics
- dividend distribution policy
- insider trading policy
- corporate policy statements on investors
- policy for determining materiality for disclosure
- nomination and remuneration policy
- policy on material subsidies
- related part transactions policy

5.2.2. Corporate governance philosophy: The corporate governance philosophy is encompassing culture, policies, and relationships with stakeholders, integrity and transparency.

5.2.4. Board committee: There are seven committee in the company: board committee, audit committee, corporate social responsibility committee, nomination and remuneration committee, risk and strategy committee, stakeholder relationship committee, finance and investment committee.

5.2.5. Corporate governance rank of Infosys Company:

Table: 7- corporate governance rank of Infosys Company

Year	Rank (out of 100)
2013	10
2014	9
2015	11
2016	12

Source: www.futurescape.in/india-best-companies.

5.2.6. Share price of Infosys Company:

Table: 8- average share price of Infosys Company

Year	Average Share price (RS)
2013	2903.075
2014	2242.04
2015	1342.00
2016	1103.825

Source: annual report of Infosys Company

Table: 9- share price of Infosys Company in BSE stock exchange

Month	2013	2014	2015	2016
January	2561.125	3610.65	2068.05	1100.75
February	2857.375	3691.82	2219..125	1110.3
March	2929.075	352.1	2221.75	1161.825
April	2591.225	1628.7	1044.15	1209.5
May	2347.25	1557.85	995.75	1221
June	2440.425	1571.25	1000	1217
July	2686.225	1654.39	1030.15	1125.5
August	3036.825	1745.19	1115.5	1051.5
September	33071.5	1837.365	1108.85	1046.5
October	33181.5	1917.5	1153.05	1037.5
November	3354.275	2108.45	1083.925	955
December	3444.425	2049.25	1066.75	989.5
Average	2903.075	2242.04	1342.00	1103.825

Source: annual report of Infosys Company

Interpretation: here, I have calculated average share price of Infosys Company listed in Bombay stock exchange for each month from 2013 to 2016. **Average share price of each month** = high price + low price /2. **Average share price of yearly=** monthly average share price of all months /12. In this study, stock of company includes share price of company listed in BSE.

5.2.7. Co-relation between share price and corporate governance rank:

H0: population correlation coefficient is 0, there is no association=0

H1: population correlation coefficient is less than 0, p<0

Correlations

		corprank	shareprice
corprank	Pearson Correlation	1	-.774
	Sig. (1-tailed)		.113
	N	4	4
shareprice	Pearson Correlation	-.774	1
	Sig. (1-tailed)	.113	
	N	4	4

Interpretation: here, H1 is accepted. There is negative relationship between corporate governance rank and share piece. Corporate governance rank improved then share price would be improved.

5.2.8. Regression analysis:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.774[a]	.598	.398	644.39873

a. Predictors: (Constant), corprank

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1237889.476	1	1237889.476	2.981	.226[a]
	Residual	830499.451	2	415249.726		
	Total	2068388.927	3			

a. Predictors: (Constant), corprank

b. Dependent Variable: shareprice

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7122.241	3043.036		2.341	.144
	Corprank	-497.572	288.184	-.774	-1.727	.226

a. Dependent Variable: shareprice

5.2.9. Co-relation between sales and corporate governance rank:

Table: 10- corporate governance ranking and sales

Year	**Rank (out of 100)**	**Sales(RS.crores)**
2013	10	40352
2014	9	50133
2015	11	53319
2016	12	62441

Source: annual report of Infosys Company
H0: population correlation coefficient is 0, there is no association p=0
H1: there is no associations

		corporank	sales
corporank	Pearson Correlation	1	.707
	Sig. (2-tailed)		.293
	N	4	4
sales	Pearson Correlation	.707	1
	Sig. (2-tailed)	.293	
	N	4	4

Interpretation:h1 is accepted. it means that there is no relation between the corporate governance rank and sales. There is positive co-relation between sales and corporate governance rank. it means that corporate governance rank is not much affected to sales. Generally customers are not affected by corporate governance. The major stakeholders are affected by corporate governance ranking are shareholders and investors.

5.2.10. Co-relation between EPS and corporate governance rank:

Table: 11- corporate governance rank and EPS

Year	Rank (out of 100)	EPS
2013	10	41.22
2014	9	46.59
2015	11	53.94
2016	12	59.03

Source: annual report of Infosys Company

H0: population correlation coefficient is 0, there is no association p=0

H1: population correlation coefficient is less than 0, p<0

Correlations

		corporank	EPS
corporank	Pearson Correlation	1	.821
	Sig. (1-tailed)		.089
	N	4	4
EPS	Pearson Correlation	.821	1
	Sig. (1-tailed)	.089	
	N	4	4

Interpretation: there is positive co-relation between EPS and corporate governance rank.

5.2.11. Co-relation between ROE and corporate governance rank:

Table: 12- corporate governance rank and ROE

Year	Rank (out of 100)	ROE
2013	10	34.9
2014	9	33.7
2015	11	33.7
2016	12	32.2

source: annual report of Infosys company

H0: population correlation coefficient is 0, there is no association p=0

H1: population correlation coefficient is less than 0, p<0

Correlations

		corporank	ROE
corporank	Pearson Correlation	1	-.666
	Sig. (1-tailed)		.167
	N	4	4
ROE	Pearson Correlation	-.666	1
	Sig. (1-tailed)	.167	
	N	4	4

Interpretation: h1 is accepted. There is negative co-relation between corporate governance rank and return on equity. if the corporate governance rank degrade then it would reduce return on equity. it means that corporate governance rank is more affecting to the equity share holders.

5.3. TATA STEEL COMPANY:

5.3.1. Corporate governance philosophy: Tata steel company believes that company's affairs must be managed in fair and transparent manners. They are not following just stated corporate governance guidelines but also global corporate governance practices. In accordance with the vision, Tata group aspires to be the global industry benchmark for value creation and corporate citizenship.

5.3.2. Committee in Tata steel company: board committee: there are various committee in Tata steel company such as audit committee , nomination and remuneration committee, corporate social responsibility and sustainability committee, risk management committee, share holder's relationship committee, executive committee of the board, ethics and compliance committee, , safety, health and environment committee.

5.3.3. Corporate governance rank of Tata steel company:

Table: 13- corporate governance rank of Tata steel company

Year	Corporate goveranance Rank (out of 100)
2013	1
2014	3
2015	1
2016	2

source: www.futurescape.in/india-best-companies.

5.3.4. Average share price of Tata steel company:

Table: 14- average share price of Tata steel company listed in BSE

Year	Average Share price (RS)
2013	324.855
2014	452.25
2015	295.52
2016	340.75

Source: annual report of Tata steel Company

Table: 15- average share price of Tata steel Company in BSE stock exchange

Month	2013	2014	2015	2016
January	422.6	385.18	396.7	252
February	375.325	366.65	367.1	236.525
March	331.8	365.325	334.25	290.65
April	307.2	412.575	344.7	335.25
May	307.825	434.15	351.925	331.025
June	281.7	533.25	311.825	326.6
July	245.875	534.225	276.925	345.25
August	240.425	536.775	234.2	374.95
September	293.8	492.525	221.325	380.975
October	307.875	464.6	233.725	405.65
November	367.185	474.825	228.3	404.2
December	416.65	427	245.278	406
Average	324.855	452.25	295.52	340.75

Source: annual report of Tata steel Company

5.3.5. Co-relation between average share price and corporate governance rank of Tata steel company:

Table: 16- co-relation between average share price and corporate governance rank

Year	Average Share price (RS)	Corporate goveranance Rank (out of 100)
2013	324.855	1
2014	452.25	3
2015	295.52	1
2016	340.75	2

Source: annual report of Tata steel Company

H0: population correlation coefficient is 0, there is no association=0

H1: there is association between corporate governance rank and share price

Correlations

		corporank	shareprice
corporank	Pearson Correlation	1	.941
	Sig. (2-tailed)		.059
	N	4	4
shareprice	Pearson Correlation	.941	1
	Sig. (2-tailed)	.059	
	N	4	4

Interpretation: h1 is accepted. There is positive co-relation between corporate governance ranking and share price

5.3.5. Regression analysis of average share price and corporate governance rank of Tata steel company:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.941[a]	.885	.827	28.47227

a. Predictors: (Constant), corporank

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	235.477	33.248		7.082	.019
	Corporank	67.352	17.169	.941	3.923	.059

a. Dependent Variable: shareprice

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12474.904	1	12474.904	15.388	.059[a]
	Residual	1621.340	2	810.670		
	Total	14096.244	3			

a. Predictors: (Constant), corporank

b. Dependent Variable: shareprice

5.3.5. Regression analysis of average share price and corporate governance rank of Tata steel company:

Table: 17- co-relation between corporate governance rank and sales

Year	Corporate governance Rank (out of 100)	Sales (in crores)
2013	1	46309.34
2014	3	46577.26
2015	1	42686.29
2016	2	53260.96

Source: annual report of Tata steel Company

ho: there is no any association between sales and corporate governance rank.

h1: there is association between sales and corporate governance rank.

Correlations

		corporank	sales
corporank	Pearson Correlation	1	.378
	Sig. (2-tailed)		.622
	N	4	4
Sales	Pearson Correlation	.378	1
	Sig. (2-tailed)	.622	
	N	4	4

Interpretation: h0 is accepted. There is association between corporate governance rank and sales. There is positive associations between sales and corporate governance rank.

5.3.5. co-relation between corporate governance rank of Tata steel company and earning per share:

Table: 18- co-relation between corporate governance rank and EPS

Year	Corporate governance Rank (out of 100)	EPS(in RS.)
2013	1	66.02
2014	3	66.30
2015	1	50.46
2016	2	35.47

Source: annual report of Tata steel Company

Correlations

		corporank	EPS
corporank	Pearson Correlation	1	.104
	Sig. (1-tailed)		.448
	N	4	4
EPS	Pearson Correlation	.104	1
	Sig. (1-tailed)	.448	
	N	4	4

Interpretation: there is positive co-relation between corporate governance ranking and earnings per share.

6. FINDINGS

- **Effect of corporate governance on share price:** It is found that corporate governance is affecting to share price of the company.
- **Association between corporate governance rank and share price:** There is negative co-relation between the corporate governance ranking and share price of the company. it means that if the corporate governance rank decreased (for example corporate governance rank increased from 5 to 3 out of 100, it is consider better), then share price would be increased. it means that company's performance in areas of corporate governance is directly affecting to the share price of the company listed in the stock exchange.
- **Effect of corporate governance on sales and revenue:**it is found that corporate governance is not affecting to sales and revenue of the company. It is found that there is no any association between sales and corporate governance. Generally, customers are not considering the corporate governance. The major stakeholders are affected by corporate governance ranking are shareholders and investors. Share prices are more affected y corporate governance ranking. other financial performance variable are not much affected by corporate governance.
- **Effect of corporate governance on earning per share**: Corporate governance is not affecting to earn per share of the company. earnings per share is more dependent on the business environment.
- **Effect of corporate governance on return on equity(ROE):**Corporate governance is also affecting to return on equity (ROE). There is negative co-relation between ROE and corporate governance ranking. Because ROE is concern with the equity share holders. Generally, equity share holders are more affected by corporate governance than any other investors.

7. CONCLUSION:

We can conclude that corporate governance is affecting to the share price. Sales and earnings per shares are not affected by corporate governance. This study helps to improve the performer of the company in area of corporate governance. Manager could benefit from knowing that strong corporate governance affect share price and company's performance. Policy makers can help firms improve their performance by establish framework for corporate governance disclosure. One of the most influential factors on stock performance is information disclosure and transparency. Besides, skills versality of board members are also affecting to share price performance and returns. Corporate governance cannot be neglected. So primary suggestion to investors are that they should consider their rights, disclosure, transparence and information reliability.

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IMPACT OF CORPORATE GOVERNANCE ON STAKEHOLDERS

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Abstract: *Since the birth of Corporate Governance, it's revolving around 4 terminologies: Responsibility, Accountability, Transparent, and Fairness which ultimately are the governance principles and leading towards stakeholders' satisfaction. Corporate Governance, governed by the Companies Act 2013, earlier 1956, and also other compliance legislation like SEBI Listing Agreements, Corporate Social Responsibility, all collectively make up a company abide by the laws of ultimate checks and balances.*
Corporate Governance is entangled around the company's management policies, framing of the rules and regulation in order to deal with the legal aspect of better functioning.

The debate is whether strong and stringent governance is better for the stakeholder or it may act as a hurdle in cracking new deals and broaden its horizon in terms of market share. No doubt, more reporting, and compliance are always helpful to evade the chance of scandals and scams in nearer future which are unseen through naked eyes. But, the corporate governance principles will directly or indirectly protect the interest of the shareholders. The entire group of stakeholders that is the government, creditors, lenders, employees, union, suppliers are somewhat left out when it comes to safeguarding their interest. Nevertheless, still, it's somewhat in a secured shell which cannot be broken so easily which is either a shareholder-oriented policy or a holistic deal. By the unveiling of various scams time and again, the law becomes stronger which is for the interest of the stakeholders only. The governance gives a higher profit model to the shareholders, reducing the risk of whole time directors as well as independent directors and untimely the goal for stakeholders is achieved to safeguard their right, interest and return to the organization that the trusted and invested in the company with a moto.

Key Words: Corporate Governance, Shareholders, Stakeholders, Organizations, Compliance, Interest.

Theme No and Name: Theme - 1: Contemporary Dimensions of Corporate Governance.

1. INTRODUCTION

1.1. What is corporate governance?

World Bank defines it as Corporate Governance (CG) concerns the system by which companies are directed and controlled. As quoted "Corporate governance is the system of rules and responsibilities delegated to several groups within a corporation as well as procedures on handling corporate matters. One of the groups, shareholders, is given certain rights as owners of corporations. These rights are protected by law, and honoring them is one of the objectives in corporate governance" (Howell). It is about having companies, owners and regulators become more accountable, efficient and transparent, which in turn builds trust and confidence. Well-governed companies carry lower financial and non-financial risks and generate higher shareholder returns. They also have better access to external finance and reduce systemic risks due to corporate crises and financial scandals. Reliable financial reporting, timely disclosures, better boards and accountable management also facilitate the development of stronger capital markets. They improve a country's ability to mobilize, allocate and monitor investments and help foster jobs and economic growth. Better supervision and monitoring can detect corporate inefficiencies and minimize vulnerability to financial crises (Bank, world bank, 2016).

As we know that India is going through a dynamic phase where the companies are into a battle for grabbing the market share, and thus the importance of corporate governance is a been seen through the strategic lens, whereby the monitoring/ reporting of the companies is taken care of to maintain the utmost level of transparency. Corporate governance is nothing but the rules of the company which gives them a circumference to work in that circle only. It caters a company to set it boundaries for better functioning of the management and in totality benefits all the stakeholders. It clearly defines the responsibility of the organization which in turn helps to meet all the financial, material, statutory, societal, environmental mandates of the company giving its a holistic framework for functioning.

It’s a step forward from corporate governance to corporate social responsibility (CSR), which is now a requirement of every company to abide by who falls under the primary screening tests set as per section 135 of the Companies Act 2013. Corporate Governance proactively looks at the welfare of the community at large keeping in mind the objective of the company which is the ultimate idea of every entity to do business, that is, make profits. This type of spectrum not only focus on the shareholders, but all the stakeholder's interest is been aligned under one umbrella.

1.2. Who are stakeholders?

The definition given by World Bank of stakeholder stands as follows: Stakeholders are people or organizations who either (a) Stand to be affected by the project or (b) Could ‘make or break’ the project’s success. They may be winners or losers, included or excluded from decision-making, users of results, participants in the process (Bank, World Bank).

Stakeholders are the individual or group of individuals who invest in your business with a motive in all the business activity what the organization does. Each stakeholder has a different interest in the company. They invest for different purposes. Some go for wealth maximization, few go for relationship management, while come has a business relation, some are the societal concerns. The interest in the enterprise is either on the performance bases or on the resource utilization factor of that company. The stakeholder’s theory of corporate governance given by R. Edwards

Freeman in the book Strategic Management: A Stakeholder Approach where the different stakeholders were been addressed depending on their influence in the organization[1]. The different stakeholders are as follows:

Figure 1

2. OBJECTIVE

The objective of this paper is to analyze the corporate governance principles in line with each stakeholder differently, the benefit which is reaped by them either directly or indirectly, seeing a larger picture of the entire circle been formed in the corporates functioning. The paper will be more focused on the shareholder's interest at particular keeping in mind all the stakeholders together as a whole, as we know that corporate governance is the

[1] R. Ewards Freeman, (2010). Stakeholder theory, the state of art. http://library.uniteddiversity.coop/Cooperatives/MultiStakeholder_Coops/Stakeholder%20Theory_%20The%20State%20of%20the%20Art.pdf

driving wheel for any organizations success and the drivers are the directors carrying the load of all the stakeholders.

3. RESEARCH METHODOLOGY

The research paper is strictly pertaining to the doctrinal approach of analysis for the said topic. The reading available online of the various research articles, journals, books are been scanned for a guidance to write this paper. Many citations of various organizations as well as the business players have been taken into account for successful completion of this paper which can give better insights to the readers.

4. LITERATURE REVIEW

Many works have been done on the corporate governance to analyze the impact on the stakeholders either in totality or each stakeholder is been addressed by a different author in their work. Work of scholars done outside India are of The Barbra Dozier's Blog: Impact of Corporate Governance on the Needs of Stakeholders (wordpress.com, 2011) where the example of Tesco, a large business unit is been analyzed when it comes to the impact on its stakeholders. Another work on Impact of Corporate Governance on Stake Holders (Farooq, 2016) published in RADS Journal of Social Science & Business Management by Warisha Ather and Kiran Farooq whereby the revised corporate governance code 2014 was been analyzed which were given by Pakistan concerned authorities. The impact of those revised clauses was been considered on the stakeholders.

5. ANALYSIS AND FINDING OF IMPACT OF EACH STAKEHOLDER ON CORPORATE GOVERNANCE

5.1 Shareholders

Shareholders are the real owners of the company. They have the stocks of the company which makes them the owners of the Company by law. The shareholders have the powers in regulating the business in which they have invested money. But, the cant directly deals in the day to day functioning of the company's business activities because of the number of shareholders are large and it is practically not possible to bring all the people on board. Therefore, they have a selected and elected group of learned, experienced people commonly known as the Board of Directors which take care of the shareholder's interest in the organization. They act as an agent to the shareholder decisions. The Companies Act 2013, Chapter XI (ministry of corporate affairs), clearly draws a distinct line between the shareholder and the Board of Directors where the powers, duties, responsibilities all is been expressly defined and every functioning organization falling within the boundaries of Companies Act is to abide by the said provision of the Act. However, the supreme power rests in the hands of the Shareholder who are the ultimate drivers of the company. Nevertheless, it also in certain clauses happens vice-versa where the opinion of the shareholder is to take while the ultimate decision is on the board to give their final consent. But, in all circumstances, the stakeholder's interest is given utmost priority and the interested directors have to give in undertaking if any such matters where the conflict of interest between the directors and the companies.

The Companies Act 2013, has defined the Shareholders, in general, has the following powers (Sridhar, 2016):

a) To attend meetings of shareholders and exercise voting rights, either personally or through proxy
b) To transfer shares
c) To receive dividend when declared
d) To elect directors
e) To requisition an extraordinary general meeting of the company
f) To have right shares and bonus shares
g) To apply to Tribunal
h) To file class action suits
i) To file a suit in case of any misleading statements in the prospectus

The investments of shareholders are the company which gives them the above-mentioned powers and by excising those powers the shareholders either get constant returns or value growth or maybe both. The shareholders invest in the company with a moto and if that is not been taken care of, then it becomes debatable. Therefore, due care is taken while framing the company's Articles of Association as well as defining the rules by which the organization will time and again refer to in the normal course of business which is commonly termed as corporate governance. With more involvement of shareholders in the affairs of the company, it becomes more transparent functioning of the organization in the corporate world which ultimately raises the wealth of all the shareholders in total. Above all, with the introduction of replaced Companies Act 2013 with 1956 Act, the minority shareholders are also given certain rights and powers, they have also become an inclusive class now in the decision making in a more powerful manner when compared to earlier. Therefore, the shareholders have all the stake in the companies' affairs in all the circumstances. The corporate governance principles are been upheld by the shareholder's involvement in the organization which at the end gives a silent statement whereby stating that the shareholder's interest is protected the most in all situations.

5.2 Employees

As all of us are well aware of the fact that the employees are a pillar on which a company's growth, success, and downfall rests. The hard work of the employees is what the shareholders eat fruits as dividend and capital growth. But, the inclusion of the employees in the decision-making process is the major concern which is to be addressed for a better corporate governance principle. The employees are the ones whom the organization entrust is a decision and they have to abide by it in all circumstances. But if by taking their due consent and then making a decision will ripe more dual benefits that are to the organization as well as to the employees as they will be more loyal and keen to work for the company. Earlier the employees had no stake in the decision making, where the shareholder primacy model was followed which states that Shareholder primacy theory is a dominant principle in corporate law that leads the corporation decision-makers to focus on the shareholders' interests (lawteacher, 2013), but gradually over the period of time, the importance of employee's inclusion was realized as they are one of the most important ingredients for any organization to function.

The wealth increment is determined by the employee's labor and the importance of human capital says it all to protect the knowledge, skill, and expertise which is rarely found in the corporates, and if found need to be safeguarded. The shareholder's interest in the long-run is very well taken care of if the employees of that organization are taken care of while making a decision and their involvement in the governance is been looked into because they are into direct touch which day to day activities of the company which matters when the stakes involved are high. That way one of the important aspects of the corporate governance is the Employees Stock Options Plan (ESOP). ESOPs are often used as a corporate finance strategy and are also used to align the interests of a company's employees with those of the company's shareholders (investopedia). By this, we can now draw a connection as to why the employees are an important pillar of corporate governance and their impact is directly is the shareholders if they don't work efficiently.

5.3 Government

As with the progress in the corporate world, especially pertaining to the developing countries like India, the need of government interference in the functioning of the organization on fair principle is must protect the larger interest of all the stakeholders involved. The effective framework is needed because of the emerging competition in the market, the fight for the market share and capital, advancement of technology which creates a major difference between the competitors working into same line of business, all this raises the need for a common pattern of governance to be followed which is laid down by any authority having much more power in the country whose provisions become binding on the organization. The regulators of corporate governance providing a legal framework are:

- Ministry of Corporate Affairs (MCA)[2]
- Securities and Exchange Board of India (SEBI)[3]
- Reserve Bank of India (RBI)[4]
- Insurance Regulatory and Development Authority of India (IRDA)[5]
- The professional institutes like-
  - Institute of Chartered Accountants of India[6]
  - The Institute of Company Secretaries of India[7]
  - The Institute of Cost Accountants of India[8]

There are many more governing bodies in the respective areas functioning to maintain the highest level of governance principles in the country providing a holistic atmosphere for every kind of organization to function effectively. The professional institutes have a great importance as they provide the code of ethics to the professional who applies those in the organization.

Recent corporate scandals have led to public pressure to reform business practices and increase regulation. Of course, dishonesty, greed, and cover-ups are not new societal concerns. The public outcry over the recent scandals have made it clear that the status quo is no longer acceptable; the public is demanding accountability and responsibility in corporate behavior. It is widely believed that it will take more than just leadership by the corporate sector to restore

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[2] http://www.mca.gov.in/
[3] https://www.sebi.gov.in/
[4] https://www.rbi.org.in/
[5] http://www.irdaonline.org/
[6] https://www.icai.org/
[7] https://www.icsi.edu/
[8] http://icmai.in/icmai/index.php

public confidence in our capital markets and ensure their ongoing vitality. It will also take effective government action, in the form of reformed regulatory systems, improved auditing, and stepped up law enforcement (Kataria).

The government has taken a lot of initiative to improve the standard of the corporate governance principles in the country as strong laws help to avoid scams and scandals which when exploded degraded the level of trust of the government from its stakeholders. By government having a strong backbone of legal support to a country helps to upgrade the ranking of that country developing trust among the investors from foreign as well as high net worth individuals into the companies as the shareholders. This can be justified by the laid down of new Companies Act 2013, which is more stringent, regulated having the highest level of deterrence, providing protection to all the stakeholders involved.

5.4 Local Community and Society

The local community and society are affected when it comes at the cost of the environment. The firms when tries to make profits by exploiting the natural resources, the people having an interest in those resources raises a voice and it leads to societal misbalance. To avoid all this, the regulators have given certain guidelines and standards which every functioning organization falling into the legislation so published need to comply with. This creates checks and balances in the society which lead to better governance. The disclosures are mandatory in nature because it ensures fair, transparent, responsible corporate behavior.

One of the most important steps taken is the Corporate Social Responsibility (CSR) as per Section 135 of Companies Act, 2013[9], which is the best practice followed by every organization to do something for the society and the needy. Above all, India being a developing country, economic integration is must which will ultimately boost up the entire system of the country. The local community and the society members take due care of the environmental concerns if any arise during the operational period. But when a company expressly discloses any related matter, the confidence on the community individuals increases which creates an improved image of the company in the corporate. For better environmental disclosure, the Securities and Exchange Board of India (SEBI) should mandate all the companies to disclose detailed monetary and non-monetary information on environmental issues in their companies' periodic report and also more emphasis should be given to strengthening the corporate governance attributes (Ezhilarasi G, 2017). This is in fact labeled as corporate governance principles.

5.5 Suppliers, Lenders, and Customers

Corporate governance is the path by which organizations illustrate responsibility to the greater part of their stakeholders. The drivers of good corporate management are the general public, the institutional/retail investors, media also, the regulators. The governance when setting to its highest standard, the lenders especially gait banks develop confidence in the company and hence smoothen the process of availing loans/credit facility from them at own convenience. The lenders always at the first glance look for the on-balance sheet financing and when an organization maintains a clean & clear track record of all sort of compliances, it makes stress-free for a company to avail the facilities. The banks have a sureness of less default when the company has a decent standard of governance.

The regular suppliers of the company become regular when they have over a period of time developed trust in the organization and this comes by compliance with the standard rules and regulations in the industry. By doing a bit extra can certainly give benefits to the organization in terms of good credit policy, better quality and timely service etc. The new suppliers when hunted in the industry are easy to tap when the past track record of governance is at its best.

Customers are the real drivers of any company. A product/ service success depends upon how the real consumers react to it. They are in a real sense the shaper of a company's future. This is decided by the customer on bases of its corporate actions. Even the share price of a firm is decided on the bases of its sales. It has a direct correlation. Therefore, the corporate governance plays an impact on the customers to maintain a loyal relation in long term.

5.6 Managers and Owners of Business

The Companies Act of 2013 presented some open-minded and translucent processes which help stakeholders, directors as well as the managing persons of corporations. Investment advice-giving services and proxy companies make available concise facts and figures to the shareholders about these newly presented procedures and principles, which intent to improve the corporate governance in India.

The managers are the agents who work on the directions of the shareholders. The shareholders when entrusting certain responsibility to the managers/ directors their lies the role of every individual in the said position to comply with all the governance principles which uplift the confidence of every stakeholder. With the new Companies Act 2013, Section 149 to 172, exclusively deals with the provisions of directors and further chapters are dealing with the managers and key managerial personnel. Thus the new government legislation makes it more crystal clear on the image of a company as to nothing is hidden with is in conflict with the interest of the stakeholders.

[9] http://www.mca.gov.in/SearchableActs/Section135.htm

The owners of the business have just one goal that is to build up their empire and grow by leaps & bounds. For this the compliance is mandatory as and when outside world will see a better image of the company, they wish to invest in it, helping their business to achieve the set targets. Now the declarations as required by the owners makes it more concrete evidence that the investor's money is saved and protected, because usually when any fraud happens, the owners escape from their liability very smartly which is not a good governance indication.

6. CONCLUSION

A business that has decent corporate governance has a considerable advanced level of sureness among the stakeholders related to that corporation. Active and independent managements add towards a constructive viewpoint of the establishment in the monetary marketplace, definitely persuading share prices. Corporate Governance is one of the significant standards for foreign institutional investors (FII) and Foreign Portfolio Investors (FPI) to choose on which corporation to put in money.

The Companies Act of 2013 brought together ground-breaking approach to aptly bring equilibrium in judicial and governing changes for the development of the organization and to intensify international exposure. The guidelines and principles are procedures that escalate the participation of the stockholders in resolution making and bring transparency in governance, which eventually protect the interest of the all the investors and related individuals with the firm. Corporate governance maintains not only the administration but the welfare of the all the investors as well and promotes the trade and industry development of India to match up with the level of world standards and increase the world ranking in nearer future.

Further, in the context of liberalization and globalization, there is growing realization in the emerging economies including India that a country’s business environment must be maintained and operated in a manner that is conducive to investors’ confidence so that both domestic and foreign investors are induced to make adequate investment in corporate companies. This will be conducive to the rapid capital formation and sustained growth of the economy (Mukher).

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A Study on Testing Weak Form of Efficiency Hypothesis for National Stock Exchange -Nifty – Fifty Index

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Abstract: *The main objective of this research paper is to analyse the market efficiency of Indian stock market by using daily data of Nifty – Fifty Index of National Stock Exchange for the period April, 2008 to March 31, 2016. The National Stock Exchange indicated efficiency as random walk hypothesis for Nifty Fifty is accepted. It was found that variance ratio test and unit root test produced similar result and therefore, the researcher accepted the random walk for National Stock Exchange – Nifty – Fifty Index. Interestingly, the variance ratio test is more meaningful than the unit root tests; therefore, the researcher concluded random walk on the basis of variance ratio test. The volatility persistence is due to the asymmetry in the availability of publicly available information other than historical prices of stock indices and private information.*

Key Words: Weak Form, Nifty Fifty, Stock Exchange, Random Walk, Volatility, etc.

Theme-5: Indian Financial Markets and Corporate Governance

1.INTRODUCTION:

According to Fama (1970)[1] efficient market is the market where there are a large number of national profit maximises actively competing with each trying to predict the future market and where the current information is almost freely and equally available to all participants. Efficiency of the market depends on the extent of absorption of information, the time taken for absorption and type of information absorbed. The markets are said to be efficient, if there is a free flow of information and stock market absorbs this information quickly. Efficiency means the ability of the capital market to function in a way so that prices of securities react rapidly to new information. Such efficiency will produce prices that are appropriate in terms of current knowledge and investors will be less likely to make unwise investment. The absorption of information by the markets is of different degrees. Fama has classified efficiency of the stock market as weak, semi-strong and strong. These three forms are explained as follows:

Weak Form: This form asserts that the past prices are already absorbed by the market and any attempts to predict prices on the basis of historical information is totally futile as future changes are independent of past prices changes. Hence, the market efficiency and the predictability of price changes in stock market are inversely related. *Semi strong Form:* The Semi-strong form of Efficiency Market Hypothesis (EMH) postulates that market absorbs quickly and efficiently all the publicly available information as well as information regarding historical prices. As prices adjust to the information quickly superior profits cannot be earned on a consistent basis. *Strong Form:* In strong form of EMH, prices of securities fully reflect all available information both public and private. If this form is true; price reflects that information is available to the select groups like mutual funds, management, financiers, and stock exchange officials. Thus, according to this form no information that is available be it public or inside can be used consistently to earn superior returns. In practice this extreme form of market efficiency hypothesis is very unlikely to hold since there are positive trading and information costs.

2. REVIEW OF LITERATURE:

Bhaumik (1997)[2] analysed the Sensex data for only 115 days starting from November 1996 and found that the stock prices closely represent a random variable. Barua (1981)[3] found that the Indian stock market was weak form of efficient.Ramasastri (1999)[4] tested Indian stock markets for random walk during 1990s using the Dickey-Fuller unit root test and study supports the null hypothesis that stock prices are random walk. Cooper (1982)[5] analyzed the world stock markets by taking 36 countries. The study categorized the stock markets of the US and the UK as efficient because the random walk hypothesis was confirmed in their case. In other markets the random walk hypothesis was rejected and thus were labelled as inefficient.Chauduri and Wu (2000)[6] investigated whether stock-price indexes of seventeen emerging markets can be characterized as random walk (unit root) or mean reversion processes implementing a test that can account for structural breaks in the underlying series and is more powerful than standard tests. The study found that for fourteen countries, stock prices exhibit structural breaks. Furthermore, for ten countries, the null hypothesis of a random walk can be rejected at the one or 5% significance level. Results hold true regardless of whether stock indexes are denominated in US dollar terms, in local currencies terms, or in real terms. Pant and Bishoni (2001)[7] tested the random walk hypothesis using Nifty NSE-50, Sensex, BSE-100 and BSE-200 during the period April 1996 to June 2001. The unit root test strongly accepted the null hypothesis of random walk for all the indices, whereas it was rejected using heteroscedasticity corrected variance ratio test. The study compared the autocorrelation results for daily and weekly returns. It was observed that there was significant first order autocorrelation for daily returns, which are in general absent in weekly return. Cooray (2003-05)[8] tested random walk hypothesis for stock markets of the US, Japan, Germany, the UK, Hong Kong and Australia using unit root tests and spectral analysis. The study observed that all the selected markets exhibit a random walk model. Sharma and Kennedy (1977)[9] compared the stock indices of three stock exchanges, the Bombay, London and N'SE during 1963-73 using run test and spectral analysis. Both run tests and spectral analysis confirmed the random movement of stock prices for selected stock exchanges. Worthington and Higgs (2005)[10] examined the weak-form market efficiency of Asian equity markets using daily returns for ten emerging (China, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Sri Lanka, Taiwan and Thailand) and five developed markets (Australia, Hong Kong, Japan, New Zealand and Singapore). The serial correlation and runs tests concluded that all of the markets are weak form inefficient. The unit root tests suggest weak form efficiency in all markets, with the exception of Australia and Taiwan. The results from th`e more stringent variance ratio tests indicate that none of the emerging markets are characterized by random walks and hence are not weak-form efficient, while only the developed markets in Hong Kong, New Zealand and Japan are consistent with the most stringent random walk criteria.

3. RESEARCH METHODOLOGY:

In this study, a long-time series of daily data of NSE Nifty Fifty were downloaded from the NSE Website for the period of April 1, 2008 to March 31, 2016. Many econometric tests have been used in the study for the overall periods under study to check the random walk hypothesis for National Stock Market. The tests, namely, unit root tests and Lo & mackinlay variance ratio test are used. A data series must be stationary if its mean and variance are constant over time and the value of covariance between two time periods depends only on the distance or lag between the two-time periods and on the actual time at which the covariance is computed. The correlation between a series and its lagged values are assumed to depend only on the length of the lag and not when the series started. A series observing these properties is called a stationary time series. It is also referred to as a series that is integrated of order zero. The unit root test checks whether a series is stationary or not. Stationary condition has been tested using Augmented Dickey-Fuller (ADF). For this the following types of Augmented Dickey Fuller (ADF) regression has been applied:

$$\Delta Y_t = \alpha_1 Y_{t-1} + \sum_{m=1}^{n} \beta_m \Delta Y_{t-m} + \mu_t \qquad 1$$

$$\Delta Y_t = \alpha_0 + \alpha_1 Y_{t-1} + \sum_{m=1}^{n} \beta_m \Delta Y_{t-m} + \mu_t \qquad 2$$

The additional lagged terms have been included to ensure that errors are uncorrelated. The following hypotheses have been tested by applying unit root tests:

Hypothesis H_0: Y_t is not integrated of order zero

HypothesisH_1: Y_t is integrated of order zero

If the calculated ADF statistics are higher than their critical values from Fuller's table, then the series are non-stationary or not integrated of order zero. Hence, unit root exists. Alternatively, if the calculated ADF statistics are less than their critical values from Fuller's table, then the series are stationary or integrated of order zero. Hence, unit root does not exist.

4. VARIANCE RATIO TEST:

Lo & Mackinlay has indicated that the variance ratio test is more powerful than the well-known Dickey-Fuller unit root tests. Thus, variance ratio test developed by Lo & Mackinlay (1988) is also applied on daily Nifty-Fifty series as the findings of this test are considered to be robust. The first null hypothesis is stated as follows:

Hypothesis H_0 : The variance ratio at lag q is unity under the random walk hypothesis:

i.e. $VR(q) = \frac{\sigma_c^2(q)}{\sigma_a^2} = 1$

The alternative hypothesis will be VR (q) is not equal to one i.e.,

$$VR(q) = \frac{\sigma_c^2(q)}{\sigma_a^2} \neq 1$$

To explain, let P_t denote the price of NSE index (Nifty-Fifty) at time t and that

$$P_k = \mu + P_{t-1} + e_t$$

Then the price variable is said to increment in a random walk fashion. Here t stands for arbitrary drift parameters and e_t is random disturbance allowed to vary with time and deviate from normality. This specification of e_t is far more lenient than the traditional random walk specification, which restricts e_t to being identically and independently distributed. If the movement of P_t follows a random walk, then the variance of P_t is 1/n times the variance of P_{t-1}. The daily stock prices based on Nifty – Fifty; P_0. P_1, P_2...P_{nq} considered in study are at equally spaced intervals. If q were any integer greater than one, the ratio of 1/q of the variance of (P_t – P_{t-q}) to the variance of (P_t-P_{t-1}) would be equal to unity. Lo & Mackinlay (1988) stated that in a finite sample the increments in the variance are linear in the observation interval for a random walk. The variance of its q-differences is q times the variance of its first difference for a random walk series. The variance ratio of q grows linearly with the size of q. That is, the variance of P_t-P_{t-2} is twice the variance of P_t-P_{t-1}. The variance ratios are calculated for nq+1 observations i.e. P_0, P_1. P_2,..., P_{nq} at equally spaced intervals, where q is any integer greater than I and nq is the number of observations of Nifty – Fifty of NSE . The variance ratio is defined as follows:

$$VR(q) = \frac{\sigma_c^2(q)}{\sigma_a^2}$$

Under the random walk hypothesis all VR (q) will have values close to one since the variance of the increments of a random walk is linear in the sampling interval. The estimates of unbiased q period $\sigma_c^2(q)$and one period (σ_a^2) are calculated as follows:

$$\sigma_a^2 = (\frac{1}{nq-1})\sum_{k=1}^{nq}(P_k - P_{k-1} - \mu)^2$$

$$\sigma_a^2(q) = (\frac{1}{m})\sum_{k=q}^{nq}(P_k - P_{k-q} - q\mu)^2$$

$$m = q(nq - q + 1)(1 - \frac{q}{n})$$

$$\mu = \frac{P_{nq} - P_0}{nq}$$

5. EMPIRICAL RESULTS & DISCUSSION:

Unit root test is conducted on the data for the period of April 1, 2008 to March 31, 2016. One of the basic assumptions of the random walk model is that if stock index Nifty Fifty series follow random walk hypothesis then these series will be non-stationary at levels and their first differences will be a random variable. Augmented Dickey Fuller (ADF) values based for the overall period for both levels and first differences are presented in Table 1. Table 1 shows that for each of these three sub-periods separately and also for the overall period, the series of NSE – Nifty-Fifty are non-stationary at levels but stationary when first differences of these three series are considered, i.e., series are integrated of order one i.e., I (1). Thus, based on unit root test it can be concluded that Nifty - Fifty follows random walk hypothesis and Indian stock market is efficient.

Table No: 1 Results for the Augmented Dickey-Fuller Unit Root Test

Series (Period)	ADF Test Statistics	Critical Value	P-Value
NSE Nifty-Fifty (2008-2016)	2.31	-2.36	0.99
A Nifty - Fifty(2008-2016)	-41.66	-2.36	0.00

The results of unit root test accept the random walk hypothesis for NSE Nifty Fifty i.e., stock market is in the weak form of efficient for the periods. Thus, weak form of efficiency is further checked by Lo & Mackinlay (1989) variance ratio test since the variance ratio test is more powerful than the well-known Dickey-Fuller unit root test. The following table 2 presents the variance ratios of the daily values and the corresponding z statistics for the null hypothesis that a ratio has a value of 1.

The variance ratio test accepts the random walk hypothesis for overall period since values of Z(q) are insignificant for each q value at 1% level of significance. Thus, variance ratio test supports the null hypothesis that the variance ratio at lag q is unity. Hence, It is confirmed that NSE-Nifty – Fifty is efficient in weak form.

Table 2
Variance Ratios for Daily Values of NSE Nifty – Fifty and Corresponding Z Values

Series (Sample Period)	No. of Observations (nq)	No. of observations aggregated to form variance ratio		
		q=2	**q=4**	**q=8**
April 1, 2008 to March 31, 2016	1728	1.09 (5.65)	1.07 (1.65)	1.13 (1.01)

6. CONCLUSION:

The study observed that unit root test confirmed random walk hypothesis. The random walk hypothesis is accepted for national stock market based upon daily Nifty Fifty values using heteroscedasticity corrected variance ratio test. Since the variance ratio test is more powerful than the well-known Dickey-Fuller unit root or the Box-Pierce Q tests, so we go by the results of variance ratio test. The results are same for all the whole period. The results of the study indicate that future stock prices cannot be predicted based on historical prices. The introduction of reforms like trading automation and rolling settlement for all kind of scrips were expected to control volatility shocks since these reforms basically aimed at shortening the settlement period for securities traded in the stock market. The scope of informational asymmetry increases with increase in the volume of transactions by foreign institutional investors. Thus, the volatility persistence is due to the asymmetry in the availability of publicly available information other than historical prices of stock indices and private information available only to select groups such as mutual funds, management, financiers, and stock exchange officials. The results of this study have important implications for policy makers. Policy makers should take necessary steps to improve corporate disclosure so that stock prices reflect besides the historical prices the other publicly available information instantly and check the withholding of information regarding future events

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The Changing Role of Banking Sector in The Digital Era- An Indian Perspective

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Abstract: *Digitalization has grabbed lot of speed; technology evolution is the main factor supporting the digitalization process. Slowly and gradually every sector is moving towards it and banking sector is the most influenced sector among the entire financial sector with regard to technology evolution and digitalization. Today's demand of customer with respect to anywhere and anytime banking is possible because of this; as now a days customers are empowered and prefer to be tech-savvy. Digitalization has changed the approach of working of banks, it is not just related to moving from traditional banking to digital banking; it is more than that. The demand of customers is also changing with changing phase of the bank. They not only need basic banking services but more than that like providing wealth building advises and other services related to money investment and saving that too instantly. So here the question that arises is, does the role of banking is changing because of the digitalization and what is the significance of banking sector in this digital era? So the main aim of this paper is to evaluate the changing role of banks in this digital era and to find out the customer experience related to it. For this conceptual paper many related articles and papers were referred. The findings shows that there is lot of scope in banking sector with regard to digitalization, if a bank wants to see themselves growing then digital platform is the key. Moreover this will give banks lot of opportunities leading to extra ordinary growth and development of this sector.*

Key Words: Digitalization, Digital banking, Information communication & technology, Digital Era, Technology

Theme-2: Technological Dimensions and Corporate Governance

1. INTRODUCTION

In a country's financial system, many intermediaries both banking and non-banking plays a major role. India being the largest democratic economy, there are many financial and non- financial institutions contributing towards the economy. With the passage of time our economy is moving towards growth and development, with this gradually the role of these intermediaries is also changing. Banking sector as an intermediary is a crucial intermediary, any change in this intermediary will lead to magnificent impact to the economy. Role of banking system is to streamline the savings and help investing it in fruitful way to get more returns. It acts as link which brings together those who have surplus money and wants to invest and those who are in requirement of funds. Gradually the role of this sector contributing towards the economy is changing and here the credit for changing the role goes to advent of information communication and technology. Information has become more accessible to firms and individuals with the development of electronic technologies and the Internet (Ghosh, 2016). The adoption of information technology has enabled the financial service sector to improve the overall efficiency and offer its valuable customers with better variety of products and quality service. This technology has altered the way financial institutions used to work and banking industry has faced most changed dynamics in last few years because of this. The changes includes difference in consumers preference and demographics, focus towards cost reduction without deteriorating the services offered and try to incorporate delivery of financial services and products leading to customer satisfaction by concentrating on class banking instead of mass banking. Retail banking is probably the most affected by technological innovations that have been brought about by electronic commerce (Kalakota, 1998).

Slowly and gradually the banks are moving from providing traditional banking services like opening accounts for deposits and giving advances as loans to multiple services not only limited to above mentioned traditions banking facilities. With the advent to new technologies in this digital era, banks are trying to come up with innovative new products and services incorporating the new features of these technologies in order to suffice the customers ever changing demands. Banks are inclined in processing the transactions through internet as it is a way to provide effective service and reducing its cost. For example, a 1997 study by Booz Allen (corrorborated in 2000 by Arthur Andersen) suggested that a transaction at a teller window costs a bank $1.07, an automatic teller machine (ATM) transaction $0.27, and an Internet banking transaction only $0.01. The main purpose behind adopting this new technology is retention of the valuable customer and enhancing their share of wallet keeping the cost under control. Banks are trying to satisfy their customers by considering their stated and unstated needs with the help of these new technologies But as it is said that every coin has two sides, though internet banking as a new channel delivery has reduced the cost, depending on the quality and nature of service may create distance between a bank and its customers, and a perception of inferior service unless the quality of internet service is very high (Ghosh, 2016).So it becomes very important for banks to offer the products and services effectively if they want to increase their customer satisfaction and retention.

The overall digitalization of the economy provides lot of opportunities to all the sectors and banking is one such sector getting the maximum advantage of it. The main benefit is new roles that banks got to play because of the digitization. Now banking is not only limited to traditional banking but advent of new technology presents new way of delivering the products and services. Banks are now offering services not limited to banking only like e-filing of returns, investment into equity or mutual funds, opening of demat accounts and so on. Because of all these, the main beneficiary is the customer; leading to enhancement of satisfaction and their retention with the bank. But banks have to face many difficulties because of this technology as intense competition has been compelled among the banks, moreover it is not only limited to different banks but many other financial institutions are giving competition to banks as they are also offering financial services and products similar to banks leading to customer switching if a single query faced by them. Many such challenges have compelled banks to make effective use of these technologies in order to have an edge over competitors.So question that arises here is what is the impact of the digitalization over banking sector? How the role of banking sector is changing because of this advancement of digitalization? Therefor the main aim of this paper is to evaluate the changing role of banks in this digital era and to find out the customer experience related to it. Along with that the other purpose is to evaluate the impact of digitalization on banking sector as a whole.

2. OBJECTIVE & SCOPE

The main purpose of this paper is to evaluate the changing role of banks in the digital era and to find out the customer experience related to it while the scope is only limited to changing role if traditional banking and internet banking particularly when digitalization is considered.

3. DISCUSSION

3.1 Traditional banking & digital banking

Traditional banking is the brick-mortar model where every transaction is carried out manually, the chances of error is more. While digital banking on the other hand is totally technology oriented where banking transactions are carried out with the help of technology making the transaction time fast and accurate, the chances of error is also negligible. Banking through online platform has helped in achieving better efficiency; cost reduction through replacing the paper based work and labor intensive methods, thus helping in achieving higher productivity and profitability. Innovations with regard to these new technologies in banking sector changed the face of traditional banking; this challenging environment helped in creating more innovative products, services and processes in banking sector focusing towards better customer experience and satisfaction (Malik, 2014)

Moreover there are certain factors like awareness, accessibility of internet & computers, privacy and availability of required support that helps in determining the adoption of internet banking (Gao and Owolabi, 2008). The main driver of this change is changing customer needs and expectations. Customers in urban India no longer want to wait in long queues and spend hours in banking transactions. This change in customer attitude has gone hand in hand with the development of ATMs, Mobile phone and net banking along with availability of service right at the customer's doorstep. Likewise the adoption is made easy by factors like banks' image in terms of size, market share, awareness, trust on it etc. (Jaruwachirathanakul and Fink, 2005) and (Al-Somali et al., 2008). While certain factors discourage the usage and adoption; low awareness about the internet banking is the critical factor hindering the adoption (Al-Somali et al., 2008). Non availability of computers and internet connection also contributes towards the non-adoption (Kerem, 2003). The banks are looking for new ways not only to attract but also to retain the customers and gain competitive advantage over their competitors. (Padhy, K. C. 2007) studied the impact of technology development in the banking system and he also highlights the future of banking sector. The core competencies will provide comparative advantages.

3.2 Banking from employee's point of view

In traditional banking employees find difficult to carry out lot of transactions on time because of which the service part suffers leading to customer dissatisfaction. But the positive aspect of traditional banking is the face to face communication with the customer, due to which the customer feel confident about the transaction and a deep relationship can be developed with them leading to cross selling and better interaction with the customers. Technology affects employee's productivity; increased productivity was the outcome of the technology usage in banking sector (Rishi and saxena, 2004). In order to improve the operation efficiency and customer service quality, technology is mandate; it helps in adding value to service, develop new products and manage risk effectively (B.Janki,2002).

3.3 Banking from customer's point of view

Customers trust more in carrying out the transaction at bank branch as there is no risk associated, plus the transaction will get carried out with surety. Even the face to face communication builds confidence among customer leading to their satisfaction and retention. While some customers find it very convenient and easy to carry out the transactions without any time & location barrier because of the digital banking. They can carry out their transactions at anytime and anywhere in the world. Perception about o line banking in customers is affected by the perceived ease of us of website and privacy policy (Hua G, 2009)

As both traditional banking and digital banking have pros and cons, which type of banking is useful in this technology oriented century? Every bank has to cop up with the changing demands of the customers. Now the question arises, whether the traditional banking acts as substitute to digital banking or act as a complimentary to it?

3.4 Changing role of traditional banking

Another aspect to this was brought in light by (Marr, 1994) through his article, which specified that gradually the use and adoption of internet banking would increase but at the same time the traditional banking would also exist along with it; there would be certain changes in traditional banking with regard to the role it will play which in turn enhance the use of internet banking. Changing of role of traditional banking in this digital era was also explained by (Yakhlef, 2001). Moreover location of traditional banking should not be a concern for customers as internet banking gives them the convenience to carry out their transactions without ant time or location barrier; but still for customers location of the bank will be an important factor to select a bank in this digital era signifying the important of presence of traditional banking (Robbins, 2006). One more point was discussed by (Howcroft, 2003) which again explained the importance of traditional banking in the digital era. The researcher explained that face to face communication at any day is a better option for customers which is only possible through traditional banking and even to sell complex products it is required as it becomes difficult to sale such products online. From this we can say that there is due importance of traditional banking, we cannot replace it with the new technologies in this digital era. The only major difference would be with regard to the role that they play.

As everything is getting digitalized slowly and gradually, it becomes necessary to understand the digital customer behavior. It becomes important to consider the changing demands, needs, likes and dislikes of customers whether stated or unstated; as in digitalization phase most of the organizations are moving from product centric to customer-centric view. Customers are at the center of attraction in this digitalized era. For this an Omni-channel approach will be required in which every channel is highly integrated with all other channels and customer would be at the center of the integration.in this, all the key aspects online & offline banking, data, technology, customer's behavior & their experiences are brought at one platform.

Thus from all these arguments we can say that traditional banking will always play an important role in banking sector. With the advent of the digital era, only the role of traditional banking will change signifying the benefits of its presence as for relationship marketing we cannot replace traditional banking with online banking. Here traditional banking instead of giving competition to online banking compliments the online banking and facilitates its usage and adoption.

4. FINDINGS

- In digital era, it becomes very important for banking sector to make an effective use of the opportunities presented. Gradually the usage and adoption of online banking will increase.
- The traditional banking's presence will be important in future even in the digital era, the only difference would be in the role that it plays.
- The role of traditional banking would be of facilitating and complimenting the online banking by focusing on the relationship marketing.

- From even employees' point of view, online banking would help in enhancing their individual performance. They would be able to solve the customer's query very fast leading to customer happiness and satisfaction. Thus it will help in improving overall performance of employees
- It would be very easy and convenient for customers for carrying out their transactions through online banking but there are certain factors hindering the usage and adoption like security risk, privacy risk, lack of trust and awareness etc.
- Omni-channel approach is the need of today's time where every channel is highly integrated with all other channels and customer would be at the center of the integration in this.

5. IMPLICATIONS OF THE STUDY

The study will enhance the understanding with regard to the overall developments that are taking place in banking sector in terms of new technologies. This will increase the understanding about the customers demand and experience and making changes in products & services keeping their liking and disliking in mind. A better understanding of customer requirements is very crucial in today's competitive world. Overall customer satisfaction will be increase because of this better understanding. Moreover this study will explain the changing role of traditional banking in this digital era and what are the challenges faced by them and how it need to tackled effectively. It will also help in identifying and understanding the opportunities that will help banks to improve their performance.

6. CONCLUSION

The digital era has offered lots of challenges and opportunities to the banking sector. Day by day new innovations with regard to technology is taking place and banks have to inculcate these changes in their organization. In this changing era, banks should try to explore new innovative and creative products and services keeping the customers' needs and demand both stated & unstated into consideration. By providing latest products and services to customers will lead to their satisfaction towards the bank. Overall service quality will be enhanced making a customer happy. And if a customer is happy with the services of the banks this will stimulate the demand for online banking leading to more usage and gradually adoption of it. For this the challenges like stiff competition, global standard technology, lack of trust & awareness among the users that are faced by banking sector needs to be handled effectively and awareness about the online banking should be spread through different ways like inviting customers for client meetings on regular basis. The online banking is still in the evolution phase in our developing economy signifying the abundant opportunity for banking sector, so banks should try to encash such opportunities and make effective utilization of them. The role of traditional banking as discussed above will still remain important even in the changing phase; only the role that they will play will alter. Their main role would be helping and complimenting the online banking which will help in its growth.

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Corporate Governance in SMEs: Evidences and Corollaries from Indian Perspectives

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Abstract: *"There is a need of an hour to instrument a corporate governance code for SMEs in India", emphasized by Chakrabarty K., Deputy Governor, RBI at the Economic Times Thought Leadership Conclave. Small and Medium Enterprises are perilous for economic growth in India. Dominant limitation to SMEs development is lack of corporate governance structure. This manuscript deliberates challenges faced by SMEs which have necessity for espousal corporate governance. Unearthing a large number of conventional systematic review identifies few challenges. Deficiency of responsiveness among these SMEs regarding implication of corporate governance. Financial marketplaces are challenged with the problematic information disproportionateness which effects as high cost of enactment. Some SMEs are hesitant about introducing independent non-executive directors due to charges of remuneration to be given to them. High level of problems found in Family – owned businesses with sympathetic perspective towards vagaries in passé of business growth and internal policymaking structures. As enterprises also they facade disputes concerning to transparency, responsibility and judicious revelation of information. This paper intends to suggest hypothetical corporate governance framework for implementation taking account of the assorted culture of SMEs.*

Key Words: Corporate Governance, Corporate Governance Challenges, Small and Medium Size Industries

Theme No and Name: Theme-3: Scope of Corporate Governance in the Indian Financial Institutions

1. INTRODUCTION:

Small-and medium-sized enterprises (SMEs) are comprehensively recognized as operative implements for cohort of occupation and commercial development. Even in nations with large establishments like the United States of America, SMEs underwrite considerably to occupation opportunities, and they source goods and services to customers and big productions. The speedy conversion of high-performing Asian countries such as India, Malaysia & Indonesia also affords indication that SMEs are chief substances in monetary expansion. SMEs are progressively fetching the support of the economy, their rate of survival and competitiveness are a cause for concern.

2. DEFINITION OF MSMEs:

MSMEs have been defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 passed by the Indian government to discourse the policy concerns touching SMEs, and to encompass the exposure and speculation maximum of the sector. The Act supplementary categorizes these originalities into micro, small and medium enterprises, based on their speculation in plant & machinery (for manufacturing enterprises) or investment in equipment (for services enterprises). With the arrival of planned economy from 1951 and the succeeding industrial policy followed by Government of India, both planners and Government reserved a singular role for Small and Medium Enterprises (SMEs) and medium scale diligences in the Indian economy. Due fortification was bestowed to both sectors, and predominantly for small-scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization.

FIGURE 1 DEFINITION OF SMES IN INDIA

Definition of MSMEs in India

Manufacturing Enterprises – Investment in Plant & Machinery		
Description	**INR**	**USD($)**
Micro Enterprises	upto Rs. 25Lakh	upto $ 62,500
Small Enterprises	above Rs. 25 Lakh & upto Rs. 5 Crore	above $ 62,500 & upto $ 1.25 million
Medium Enterprises	above Rs. 5 Crore & upto Rs. 10 Crore	above $ 1.25 million & upto $ 2.5 million

Service Enterprises – Investment in Equipments		
Description	**INR**	**USD($)**
Micro Enterprises	upto Rs. 10Lakh	upto $ 25,000
Small Enterprises	above Rs. 10 Lakh & upto Rs. 2 Crore	above $ 25,000 & upto $ 0.5 million
Medium Enterprises	above Rs. 2 Crore & upto Rs. 5 Crore	above $ 0.5 million & upto $ 1.5 million

(Source: As Per Micro, Small & Medium Enterprises Development (MSMED) Act, 2006| MSME Report, 2006)

Definite merchandises were reticent for small-scale components for a long time, though this list of products is declining due to modification in industrial strategies and environment. SMEs continuously embodied the model of socio-economic strategies of Government of India which highlighted thoughtful use of foreign exchange for import of capital goods and inputs, labour intensive mode of construction, occupation generation, non-concentration of dissemination of economic power in the hands of few, disheartening anticompetitive observes of production and marketing, and to close actual involvement to foreign exchange grossing of the nation with low import-intensive operations.

FIGURE 2 MONTLHY FINANCE PHYSICAL PERFORMANCE OF SMES- 2017
SOURCES: OFFICE OF DEVELOPMENT COMMISSIONER REPORT 2017.

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OFFICE OF DEVELOPMENT COMMISSIONER, MSME

Expenditure (Rs.Crore)					Physical Performance (Number)				
Group of Schemes	Dec.'17	Upto Dec.'17	Dec.'16	Upto Dec.'16	Indicators	Dec.'17	Upto Dec.'17	Dec.'16	Upto Dec.'16
Technology Upgradation and Quality Certification	13.33	27.86	17.40	25.91	*MSMEs Benefitted*	16	347	208	448
					Trainees Benefitted	46	1,308	258	1,580
					Awareness Prog.Conducted	57	210	61	184
NMCP - CLCSS	0.40	255.60	0.00	227.47	*No. of MSMEs*	0	4,027	10	3,529
Credit Support Programme	0.00	2801.80	0.00	17.78	*Credit Proposals Approved*	21,064	2,00,548	24,302	3,67,776
Marketing Development Assistance	2.11	5.50	0.56	3.57	*MSMEs Benefitted*	2488	9843	3390	9109
					Participants Benefitted	1688	2003	0	1437
					programmes/Fairs Conducted	53	167	50	195
Promotional Services Institutions and programme	80.41	115.56	0.14	16.43	Programmes Conducted	0	6	0	13
					Trainees Benefitted	10,129	49,301	2,166	25,793
Infrastructure Development Programmes	29.35	284.99	23.08	225.88	*MSMEs Benefitted*	3,184	25,747	2,201	26,010
					Trainees Benefitted	12,565	1,06,264	7,412	1,14,736
MSME DataBase	0.00	3.58	0.16	5.57					
Establishment O/o Dc (MSME)	3.86	19.58	0.00	0.00		-	-	-	-
Capital Outlay on Public Works	1.67	9.73	0.00	10.00		-	-	-	-
Total	131.12	3524.20	41.34	532.61					

FIGURE 3 STATE WISE PHYSICAL PERFORMACE APR'17 – DEC '17
SOURCES: OFFICE OF DEVELOPMENT COMMISSIONER REPORT 2017

Physical Performance from Apr.'17 to Dec.'17.

Sl. No.	State/UTs	Incubation Certificate		Design Clinics Scheme	ZED	CLCSS	IPR		Bar Code	CGTMS		MATU		
		HI Approved	NI Approved	MSMEs Benefitted	Awareness Programme	MSMEs Benefitted	Awareness Programme	Participants Benefitted	Units Benefited	Credite Proposal Approved	Credite Gurantee Approve (Rs. In Crore)	Domestic Fairs Approved	International MSMEs benefited	Domestic MSMEs benefited
1	A & N Island	0	0	1	0	0	0	0	0	201	17.48	0	3	0
2	Andhra Pradesh	0	3	1	4	45	0	0	6	7011	235.41	0	4	0
3	Arunachal Pradesh	0	0	0	0	0	0	0	0	318	20.94	0	1	0
4	Assam	1	0	1	3	0	1	53	12	5444	337.55	1	1	8
5	Bihar	0	0	29	8	6	3	180	12	8331	393.18	1	4	8
6	Chandigarh	0	0	0	1	3	0	0	0	424	47.87	0	0	0
7	Chhattisgarh	0	0	0	3	8	1	46	0	2187	210.64	0	1	0
8	D & N Haveli	0	0	0	0	14	0	0	0	78	32.26	0	0	0
9	Daman & Diu	0	0	0	0	15	0	0	0	20	4.70	0	3	0
10	Delhi	0	0	6	4	18	1	178	25	3007	426.88	2	25	19
11	Goa	0	0	0	0	2	0	0	1	881	79.53	0	2	0
12	Gujarat	0	0	36	15	1859	1	95	59	7412	1101.73	1	18	4
13	Haryana	0	0	5	10	213	0	0	28	3201	349.66	1	11	3
14	Himachal Pradesh	0	0	0	5	6	1	55	8	2696	162.50	0	8	0
15	Jammu & Kashmir	0	0	0	0	0	0	0	6	7488	175.71	0	0	0
16	Jharkhand	1	0	2	4	5	1	45	1	7502	673.03	0	3	0
17	Karnataka	4	0	80	20	176	0	0	46	15906	1428.18	1	0	1
18	Kerala	0	0	1	8	11	1	94	5	14486	440.27	0	0	0
19	Lakshadweep	0	0	0	0	0	0	0	0	9	0.25	0	10	0
20	Madhya Pradesh	0	0	3	12	24	1	57	30	14423	864.42	5	17	40
21	Maharashtra	6	2	6	11	579	2	154	143	14531	1708.41	3	29	10
22	Manipur	0	0	0	1	0	0	0	0	798	37.05	0	1	0
23	Meghalaya	0	0	0	0	0	0	0	0	677	31.84	0	0	0
24	Mizoram	0	0	1	0	0	0	0	0	291	13.56	0	0	0
25	Nagaland	0	0	0	0	0	0	0	0	814	40.36	0	1	0
26	Odisha	3	3	1	7	11	1	76	18	9425	547.16	1	4	9
27	Puducherry	0	0	0	0	2	0	0	0	529	21.38	0	1	0
28	Punjab	1	3	16	5	364	1	46	10	5719	361.76	5	12	21
29	Rajasthan	0	0	5	14	215	1	81	74	3653	318.79	4	30	30
30	Sikkim	0	0	0	1	0	0	0	0	133	7.26	0	2	0
31	Tamil Nadu	5	22	118	14	239	0	0	13	24393	1307.26	3	6	29
32	Telangana	1	0	1	8	77	0	0	0	5008	406.48	0	0	0
33	Tripura	0	0	0	1	0	1	46	0	631	23.15	0	1	0
34	Uttar Pradesh	1	11	4	14	108	1	40	38	22560	1221.86	7	12	18
35	Uttarakhand	0	0	1	5	10	1	62	4	2093	164.05	0	1	0
36	West Bengal	0	0	29	13	17	0	0	2	7668	623.83	4	12	28
All India		23	44	347	191	4027	19	1308	541	200548	13836.41	39	223	228

Sl. No.	State/UTs	Export Promotion		VDP		MDP / EDP Skill Dev	Tool Room		CDP	MSMETCs / MSMETs	
		Programme Conducted	MSMEs Benefited	Programme Conducted	Participants Benefited	No. of Trainees Benefitted	No. of Trainee Trained	Unit Assisted	CFC Completed	No. of MSMEs benefitted	Tests Conducted
1	A & N Island	0	0	0	0	32	0	0	0	0	0
2	Andhra Pradesh	0	0	8	706	1091	0	0	0	0	0
3	Arunachal Pradesh	0	0	0	0	366	0	0	0	0	0
4	Assam	1	58	8	404	1702	1439	662	2	0	0
5	Bihar	2	302	6	359	2119	2492	182	0	0	0
6	Chandigarh	0	0	0	0	96	0	0	0	0	0
7	Chhattisgarh	1	87	3	188	1102	0	0	0	0	0
8	D & N Haveli	0	0	0	0	513	0	0	0	0	0
9	Daman & Diu	0	0	0	0	307	0	0	0	0	0
10	Delhi	2	120	6	358	2054	0	0	0	45	11640
11	Goa	0	0	3	178	261	0	0	0	0	0
12	Gujarat	1	74	12	657	2458	12428	3113	0	0	0
13	Haryana	1	90	5	294	2154	0	0	3	0	0
14	Himachal Pradesh	0	0	4	213	1323	0	0	0	0	0
15	Jammu & Kashmir	0	0	1	27	331	0	0	0	0	0
16	Jharkhand	0	0	4	140	1907	5086	1044	0	0	0
17	Karnataka	2	145	12	667	2548	0	0	0	20	188
18	Kerala	2	211	6	187	1183	0	0	1	1	6
19	Lakshadweep	0	0	0	0	406	0	0	0	0	0
20	Madhya Pradesh	0	0	0	0	2629	4109	103	2	178	3719
21	Maharashtra	2	134	11	314	3517	15116	3035	5	167	9725
22	Manipur	0	0	0	0	673	0	0	2	0	0
23	Meghalaya	0	0	0	0	592	0	0	0	0	0
24	Mizoram	0	0	0	0	576	0	0	0	0	0
25	Nagaland	0	0	0	0	570	0	0	0	0	0
26	Odisha	1	0	9	321	2404	24483	1237	0	0	0
27	Puducherry	0	0	0	0	122	0	0	0	16	7826
28	Punjab	1	114	2	107	1994	2921	5509	0	0	0
29	Rajasthan	2	217	6	542	2521	0	0	1	18	16176
30	Sikkim	1	150	0	0	541	0	0	0	0	0
31	Tamil Nadu	0	0	4	268	1808	3855	201	2	31	61361
32	Telangana	0	0	8	706	1279	4988	509	0	639	3018
33	Tripura	0	0	0	0	849	0	0	0	0	0
34	Uttar Pradesh	3	243	10	1004	4635	18405	6886	1	0	0
35	Uttarakhand	0	0	5	261	808	5325	302	0	0	0
36	West Bengal	0	0	6	950	1676	5557	1034	1	215	30558
All India		22	2003	145	8851	49207	106204	24417	20	1330	144217

FIGURE 4 STATE WISE PHYSICAL PERFORMACE APR'17 – DEC '17
SOURCES: OFFICE OF DEVELOPMENT COMMISSIONER REPORT 2017.

3. EVIDENCES AND COROLLARIES OF CORPORATE GOVERANCE IN INDIAN SMES

Corporate governance refers to the structures by which corporations are directed and meticulous. The construction and operation of the board of directors, financial reporting, transparency and audit, separation of powers and minority shareowners' privileges are fundamental to the corporate governance system. Corporate governance is also increasingly documented as a revenues to discourse the congregating interests of affordability, corporate citizenship, and social and environmental responsibility, and as a mechanism for inspiring proficiency and struggling corruption. Scrawny corporate governance classifications that lack pellucidity and fortification for marginal shareowner rights have been shown to reduce foreign investment and capital flows to developing economies. At the company level, good governance practices have been found to be associated with creditworthiness and higher average annual total returns).

"Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society."

Sir Adrian Cadbury in Corporate Governance and Development, Global Corporate Governance Forum, World Bank, 2003.

Good corporate governance indications to enlargement of a agenda that delivers satisfactory reinforcements to the comforts of stakeholders and emphasizes the fiduciary errands of those consigned with the expert to act on behalf of the stakeholders. Corporate governance reassures companies and those who own and manage them to accomplish their corporate intentions concluded a more resourceful use of funds. Furthermore, corporate governance background should distinguish the human rights of stakeholders as conventional by law. Corporate governance is a momentous factor in cultivating economic proficiency and evolution. It has been empirically experienced that good governance practices of a company gives a constructive signal to stockholders. With the globalization of marketplaces, international capital streams have become enormously valuable source of external bankrolling. It is indispensable for companies to witness good corporate governance principles in order to competitively activate in the global capital market and to entice long-term foreign capital. It is precarious to contemplate the consequence of economic growth on human welfare. A lethargic economic commotion fallouts in poverty and unsatisfactory distribution of resources, lack of health and edification accommodations and redundancy. These questions exist in various immature and emerging economies.

4. FINANCIAL ISSUES

Access to equity and finance are major restriction to SME progression in many unindustrialized countries. The remaining edifice of financial sector only attends large originalities and profitmaking banks usually apply conventional policies while imparting to SMEs. Mainstream of the banks contemplate lending to SMEs an unappealing endeavor due to a range of factors comprising information asymmetries and consequently high transaction costs, collateral requirement, financial products not meeting SME sector necessities in medium to long term. In accumulation to ownership structures, SMEs do not attitude formal financing for the following reasons:

a) High price of credit & long time for dispensation
b) Documentation, Certification and measures obligatory for retrieving formal finance are overlong and burdensome and Indemnity necessities
e) Revelation of assessments and encumbrance enforced by disorganized tax authority & Expose of evidence cause the firm to unfastened concealment vis-à-vis its contenders.
f) Discernment that banks will start inquisitive in the internal matters of the organization.
g) Nonexistence of evidence apropos reimbursements of corporate governance.

5. FAMILY –OWNED ENTERPRISES

The greatest vital factor of family-owned enterprises is the nonexistence of separation of possession from controller indicating that boards and executives cannot be illustrious. This indications to trustworthiness difficulties as there is no system of checks and balances between shareholders, directors and managers. The obligations and responsibilities, and treats of family members are not noticeably defined. Typically in family-owned firms, the personal has the obligatory balloting power to individually terminate boards or management. Thus the impression of independent directors does not succeed in these firms. The family habitually hungers to remember control over the business and see directors with trepidation. The approach of family owners is that they see whatsoever peripheral with intimidation. It is for this motivation that they are not straightforwardly influenced to go for external sponsoring. Other issues for family-owned businesses include:

1. Absenteeism of clear dogmas and long term scheduling
2. Lack of external estimations on premeditated road.
3. Reimbursements and reparation for family members are not unmistakably defined
4. Hiring family members who are not experienced or lack the skills and abilities for the organization

6. INTERNATIONAL EXPOSURE

A self-motivated SME sector is an imperative counterpart to a more open economy as knowledge shows that SMEs subsidize suggestively to trades. East Asian frugalities deliver models like Japanese through sub-contracting by SMEs with large firms or Taiwanese model through small intermediary agents. SMEs happen in systems of suppliers, buyers and competitors and they are customarily reliant on on other large firms. In developing nations, these firms are pebbledash unbendable competition from new domestic and global market competitors predominantly with the influx of low-cost Chinese products. With higher level of trade discrepancy in developing nations, role of SMEs in exports will become dangerous.

SMEs because of their stretchy configuration are in a better locus to forge transnational linkages. In many nations, SMEs have been able to counterfeit tougher connections with domestic export-oriented large farms. Though, it is now imperative that SMEs ripen relationships with Multinational Corporations (MNCs) conceivably inflowing through authorizing linkages or supply the finished products. Embryonic nations with cheap labor dynamism can be predominantly useful for this organization.

7. ENGAGEMENT WITH MANAGEMENT IN RESOLVING CONFLICTS

Corporations inaugurate efficient apparatuses to advantage prevent and smoothen the advancement of the management and declaration of any ultimate skirmishes of concentration between adherents of the Board of Directors and interest groups.

8. TRANSPARENCY AND TRUTHFULNESS OF DATA

Productions endeavor to inaugurate mechanisms for ensuring the perfect, unvarying and timely commentary of company's information. Small productions see to it that such information confession mechanisms do not dwelling an exaggeratedly administrative or financial encumbrance on equivalent firms instead; they fashion a positive impact on the forward and backward integrating factors.

9. CONCLUSION

Corporate governance permits SMEs to formulate for the forthcoming enlargement and sustainable growth. The fundamental principles of limpidity and answerability will be entrenched in their business philosophy. This ethos of transparency and responsibility will also designate professional management and good governance for efficacious and well prearranged companies. As it was discussed, the employment of corporate governance might open up an oceanic encounters for the SMEs. The SMEs should branch to some customs mentioned in government rules and regulations which might surface the way to achievement of the business as well as the economy. By employing corporate governance structure in Indian SMEs in an operative custom, they can straightforwardly developed their future into MNCs.

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Corporate Governance Disclosure Practices Adopted by Banking Sector in India: A Study on Public and Private Sector Bank

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Abstract: *In 200 years of Indian Banking History, banking sector has undergone many structural changes during the development phase. Latest technology has lead the banking industry at a strategic level. Transformation from traditional banking to modern banking evidences a global economic effect which leads the virtual banking concept. Banking sector being the generator and provider of finance seek special attention of general public. Strong corporate governance mechanism from internal functioning of management to share holders' value creation will infuse faith in the minds of stakeholders towards banking industry. This paper has tried to throw a light on how effectively and to what extent the Corporate Governances practices is adopted by sample banks. The research was carried out for the latest period 2015-16. Exploratory research design is used. Study is made on secondary data collected from the respective bank's website. It is tried to check whether public and private sector bank differs with respect to CG Score. Simple linear regression model is used to check impact of CG Score on firm value. The study has been made on secondary data which has its own limitation moreover certain selected financial and non financial parameters are considered for study. The result of the study reveals that there is no significant and positive impact of CG Practices on value of firm. For analysis, SPSS 21.0 and R 3.4.3 are used.*

Key Words: corporate governance, financial indicators, performance indicators

Theme No.3- Scope of Corporate Governance in the Indian Financial Institutions

1. INTRODUCTION:

In early 2000s through introduction of clause 49 of the listing agreements all companies listed on the stock exchange were required to comply with these norms. Thereafter , in late 2009 the Ministry of Corporate affairs has released a set of voluntary guidelines marked as a reversal of the earlier approach i.e. to revert to a voluntary approach as opposed to the more mandatory approach of clause 49. However, with the introduction of Companies act 2013, Corporate Governance reforms in India have completed two cycles - moving from voluntary to mandatory and then to voluntary and now back to mandatory approach. (SWETA, 2015)

The listing regulations which were notified by the Securities and Exchange Board of India has replaced the erstwhile clause 49 of the listing agreement with effect from December, 2015. The bank is committed to achieve the highest standard of corporate governance and it constantly benchmarks itself with best practices. The purpose of the study is that whether the Corporate Governance Report of sample banks for the financial year 2015-16 adheres to the conditions relating to Corporate Governance as stipulated under chapter IV of the listing regulations or not.

In 200 years of Indian Banking History, banking sector has undergone many structural changes during the development phase. Latest technology has lead the banking industry at a strategic level. Transformation from traditional banking to modern banking evidences a global economic effect which leads the virtual banking concept. Banking sector being the generator and provider of finance seek special attention of general public. (KALYAN, MISHRA, & DAS, 2013) Strong corporate governance mechanism from internal functioning of management to share holders' value creation will infuse faith in the minds of stakeholders towards banking industry. This paper had tried to throw a light on how effectively and to what extent the Corporate Governances practices is adopted by sample banks. The research was carried out for the period 2015-16. Exploratory research design is used. Study is made on secondary data collected from the respective bank's website.

2. REVIEW OF LITERATURE:

(Peni & Vahamaa, 2011) have made efforts to study whether stronger corporate governance mechanism leads to higher profitability and better stock performance even in crisis and concluded that bank with strong corporate governance practices had comparatively higher return on stock even after the period market meltdown supporting that good governance may have mitigated the adverse influence of the crisis on bank credibility.

(Panchasara & Bharadia, 2013) have discussed in their paper that corporate financial reporting provides the fundamental information to all stakeholders. More specifically transparent disclosures of information led to a dynamic and competing financial environment. Research study was made for the period 2007-12012. CGDI was formatted in such a way to help in evaluating the corporate governance disclosure practices and have applied multiple regression analysis on score so obtained. They have concluded that CG Disclosures are positively associated with financial performance indicators of the banks.

(Deb, 2013) examined the practices of corporate governance attributes in banking sector and how they adhere to corporate governance practices. The analysis resulted that enhanced need for transparency and disclosure for board structure and board committee. Though secondary data analysis established that good corporate governance is needed in banking sector, both private and public sector banks were not practicing completely the corporate governance code.
(sharma & Gupta, 2013) discussed in their paper about evaluation of disclosures made by banks viz. Public and Private Banks in the year 2008 and after following the amendments of 2012 for CG Disclosure. Study is made on 34 (18 public and 16 private) banks on 49 parameters and Corporate Governance Disclosure Index has been computed and analyzed result indicated that disclosure practices followed by public sector and private sector banks were higher in 2012 as compared to 2008.

(Gowd, Kiran, & Rao, 2013) have made an attempt to study the CG Practices of SBI and to see the relationship between Market Valuation and Operating Performance with CG Score of SBI. The data is (Gowd, Kiran, & Rao, 2013) analysed by correlation analysis, multiple regression and t – test revealed that sales, market value, dividend policy, PAT of SBI and its CGS are positively correlated. The CG performance of SBI is improving year on year in the study period 2007-08 to 2011-12. The impact of CG on market value, PAT and DPR is not statistically significant.

3. RESEARCH METHODOLOGY:

This research paper focuses on CG Disclosure practices adopted by banking sector in the view of SEBI (Listing Obligation & Disclosure Requirements) Regulation 2015.
The objective of the present study is:

- To examine the present status of Corporate Governance Practices in Indian Banking Sector
- To conduct qualitative analysis of selected banks with regards to the implementation of good CG Practices
- To test significant difference between public and private sector banks with respect to CG Score
- To examine the impact of CG Score on Value of firm through Tobin Q

4. DATA AND METHODOLOGY

The study is undertaken for the year 2015-16 in which the provisions of SEBI (LODR) REGULATION 2015 is adopted. CG Score Index is framed on 17 parameters to evaluate the extent of disclosures made by the 8 sample banks. Banks are scored out of 100 for their corporate governance practices and disclosures. To test whether any significant difference for CG Score between selected public and private sector banks, t-test is applied. To examine impact of CG Disclosure on Tobin Q, regression model is fitted.

5. SOFT WARE USED

For analysis of the data, SPSS 21.0 and R 3.4.3 are used.

6. RESULTS AND DISCUSSION

The results for all the checklist parameters of corporate governance are discussed separately below:

I. Company's Philosophy On Code Of Governance

The first parameter of corporate governance disclosure score is the declaration of the bank's philosophy on code of governance with a weight–age of 1 on a scale of 100. All the 8 banks have made satisfactory disclosure of the declaration of their philosophy on code of governance. So, all sample bank scored 1.

II. Composition Of The Board And BOD Meetings Held

Composition of the board and BOD meetings held is the second parameter with a weight age of 5 points as score 1 for each point given in Table 1.

Table 1: Compliance/non-compliance of banks to board composition and meeting requirements

	Number of Banks		Total
	Compliance	Non Compliance	
Not less than 50% of the Board of directors comprising of non-executive directors	7	1	8
In case of non-executive Chairman, at least one-third of Board comprise of independent directors and in case of an executive Chairman, at least half of Board comprise of independent directors	7	1	8
At least one woman director	8	0	8
At least four BOD meetings a year	8	0	8
Attendance record of BOD meetings	7	1	8

The table shows the number of banks which have complied and not complied with board composition and BOD meetings related requirements given under clause 49 of the listing agreement. The results disclose that 7 banks out of 8 sampled banks have a Board with at least 50% of non-executive directors, so get the likely score of 1 & left over 1 bank scored 0 for non -compliance of this requirement. 7 out of the 8 scored 1 by complying with the requirement of the maximum (highest) strength of independent directors and remaining 1 bank did not get any point. Further, all banks get 1 point as having at least one woman director on their board. Moreover, all banks score 1 as they held at least four BOD meetings during the year. As well as, all the 7 banks disclose the attendance record of directors at BOD meetings scored by 1 and remaining 1 bank did not get any point for that.

III. Chairman & CEO Duality

Another important parameter is Chairman and CEO duality with a maximum score allotted is 5. Banks with non-executive autonomous directors are taken as ideal chairmanship and scored 5 for this parameter. Banks consisting non-promoter non-executive Chairman of their Board are scored 4 and banks with promoter nonexecutive chairman are scored with 3 marks. Then, firms with non-promoter executive Chairman and promoter executive Chairman has scored 2 and 1 respectively. Distribution of firms on the basis of this criterion is discussed below with the help of Figure 1.

Graph1: Distribution of Banks on the basis of board chairmanship

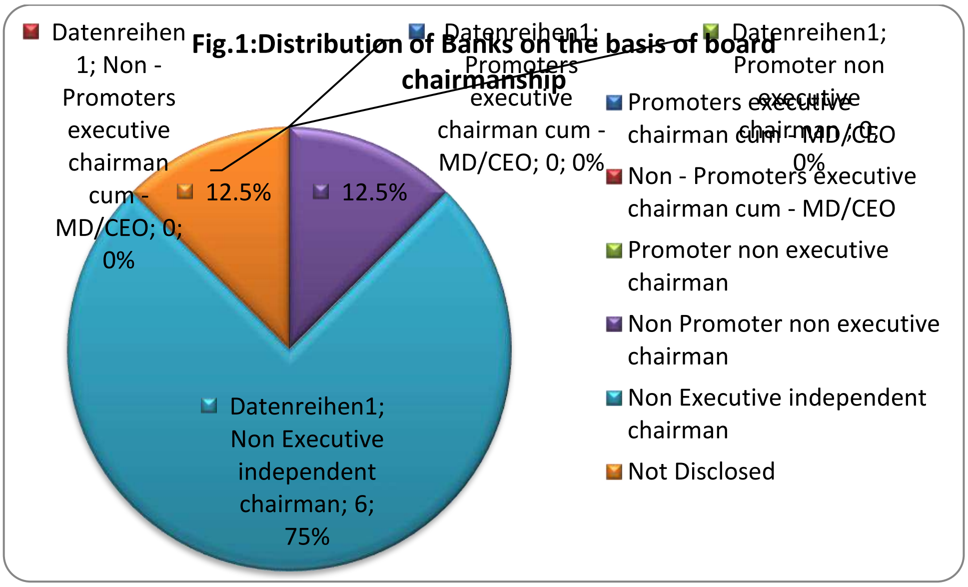

Figure 1, exhibiting different chairmanship wise distribution of sampled banks, reveals that 75% banks have non -executive independent Chairman of Board of members. Not disclosed and non-promoter non-executive Chairman are equally distributed as their percentages 12.5% for both. No bank prevails in category of Non – Promoters executive chairman, Promoter non executive chairman and Promoters executive chairman.

IV. Disclosure Of Tenure Of Directors

The fourth checklist parameter of corporate governance, disclosing director's tenure, has weightage of 1. Results reveal that all sampled banks get a score of 1, making adequate disclosure regarding the tenure of directors.

V. Disclosures Regarding Definition, Separate Meetings And Selection Criteria For Independent Directors

The fifth parameter is concerning disclosures regarding definition, separate meeting of independent directors and selection criteria for directors including independent directors, having a weightage of 3 points, one point for each.
Table 2: Distribution of firms for disclosure/non-disclosure of items under 5th parameter

	Number of Banks		Total
	Disclose	Not Disclose	
Definition of independent director	6	2	8
Separate meetings of the independent directors	6	2	8
Selection criteria for directors including independent Directors	5	3	8

VI. Board Meeting Follow-Up System And Compliance With The Board Procedure

Disclosure practice of about post Board meeting follow-up system and compliance with the Board procedure is the sixth important parameter having weight-age of 2 on a scale of 100. All considered banks get a score of 2 by making appropriate disclosure regarding past Board meeting follow-up system and compliance with the Board procedure.

VII. Appointment Of Lead Independent Director

Seventh parameter with a weight-age of 2 points is in relation to the selection of lead independent director. Outcome revealed that all considered banks scored 0 for not entertaining the post of lead independent director in the company.

VIII. Directorships And Committees' Membership/Chairmanship Of Directors Across All Companies

The eighth parameter of Corporate Governance is about revealing of directorships and committees' membership/Chairmanship of directors across all companies in which he/she is a director, having a weightage of 2 points. For this parameter all the 8 banks scored 2 points by making adequate disclosure.

IX. Code Of Conduct

The ninth parameter to evaluate the companies CG score is about the code of conduct having weightage of 2 points and for that all 8 considered banks scored 2 points as for making sufficient disclosure regarding code of conduct.

X. Disclosure About Board Committees

The tenth parameter taken for the evaluation of CG score is disclosures regarding various board committees with the weightage of 23 points inclusive of 8 points for audit committee, 6 points for remuneration committee, and 3 points for the stakeholder relationship committee, 2 points for nomination committee where as 4 points for additional committees. Tables 3-4 illustrate the number of companies having disclosures and non-disclosure of the information regarding detailed points, scheduled in CG checklist.

A. ***Audit committee***: 7 points relating to audit committee are included in CG checklist to score banks on the upper limit of 8 on the range of 100. All the 7 points scheduled in Table 3 have an equivalent weight-age of 1 except the point 'information about the participation of head of finance, statutory auditor and chief internal auditor in the committee meeting' which has the weightage of 2.

Table 3: Distribution of firms for disclosure/non-disclosure about audit committee

	Number of Banks		Total
	Disclose	Not Disclose	
Composition of audit committee	8	0	8
Compliance of minimum requirement of the number of independent directors on the committee	6	2	8
Compliance of minimum requirement of the number of meetings of the committee	8	0	8

Information about literacy and expertise of committee members	8	0	8
Information about participation of head of finance, statutory auditor and chief internal auditor in the committee meeting	4	4	8
Audit committee charter/terms of reference	8	0	8
Publication of audit committee report	2	6	8

Table 3 illustrates the number of companies who have stated or have not stated the above mentioned seven points. The results denote that all 8 banks produce lucidity in the composition of the audit committee and scored 1. 6 banks scored full points for compliance of minimum requirement of the number of independent directors in the committee. Moreover, all banks get score 1 for complying with the minimum requirement of the number of meetings of the committee, for the disclosure of facts about education qualification and industrial expertise of committee members as well as audit committee charter/terms of reference. In accumulation, 4 banks scored 2 for disclosing the fact regarding the participation of head of finance, statutory auditor and chief internal auditor in the committee meeting. Further, only 2 banks scored 1 point for publication of the audit committee report in the annual report.

B. ***Remuneration committee*****:** 6 points associated to remuneration committee are incorporated in CG checklist to score companies on the ideal score of 6 on the scale of 100. All the 6 points as given in Table 4 have the same weight-age of 1.

Table 4: distribution of firms for disclosure/non-disclosure about remuneration committee

	Number of Banks		Total
	Disclose	Not Disclose	
Formation of the committee	8	0	8
Information about number of committee meetings	8	0	8
Compliance with minimum requirements of the number of non-executive directors on the committee	7	1	8
Compliance of the provision of independent director as Chairman of the committee	6	2	8
Information about participation of all members in the committee meetings	7	1	8
Disclosure of sitting fees in Board & committee meeting	8	0	8

The table demonstrates the number of firms who have or have not disclosed the above mentioned information regarding remuneration committee. The result discloses that all 8 banks have disclosed information regarding formation of the remuneration committee as well as information about number of committee meetings held during the year. Moreover, equal number of banks, i.e. 7, gets a score of 1 for the disclosure of information about participation of all members in the committee meetings and 1 point for observance of minimum requirements of the number of non-executive directors on the committee. Further, 6 banks disclosed observance of the provision of independent director as Chairman of the committee. In addition, all 8 banks get score 1 for disclosure of sitting fees in Board & committee meeting.

C. ***Shareholder relationship committee*****:** There are three parameters associated with shareholders' Relationship committee incorporated in CG checklist and shown in Table 5, to score firms on the total score of 3 on the range of 100, 1 point for every parameter.

Table 5: distribution of firms for disclosure/non-disclosure about investors' grievance committee

	Number of Banks		Total
	Disclose	Not Disclose	
Transparency in composition of the committee	8	0	8
Information about the nature of complaints and queries received and disposed	7	1	8
Information about number of committee meetings	8	0	8

Table 5 depicts that all the 30 firms maintain transparency in the composition of stakeholder relationship committee and get a score of 1 each. Out of 8, 7 banks get 1 point for disclosing information about the nature of complaints and queries received and disposed. Moreover, all 8 banks scored 1 for disclosing information about number of committee meetings.

D. ***Nomination committee*****:** Disclosures associated with nomination committee consist of 2 points weight-age that is equally divided into 2 points, formation of committee and publishing of committee charter/term of references.

Table 6: Distribution of firms for disclosure/non-disclosure about nomination committee

	Number of Banks		Total
	Disclose	Not Disclose	
Formation of committee	8	0	8
Publishing of committee charter/references	8	0	8

Table 6 states that both formation of the committee as well as publishing of committee charter/term of references, all 8 banks scored of 1 as they disclosed the information very well.

E. ***Additional committees*****:** Additional committees of the Board have a weightage of 4 in corporate governance checklist for calculating CG score of companies. Each of 4 points, listed in Table 7 has weightage of 1 point each.

Table 7: distribution of firms for disclosure/non-disclosure about other additional committees

	Number of Banks		Total
	Disclose	Not Disclose	
Health, Safety and Environment Committee	1	7	8
CSR and Sustainable Development Committee	6	2	8
Investment Committee	1	7	8
Other Committee	8	0	8

The table exhibits that in all the sampled banks, only 1 bank include health, safety and environment committee (get score 1), 6 banks have CSR and sustainable development committee (get score 1), 01 bank has an investment committee (get score 1) and all banks have other committees of the Board (get score 1).

XI. Disclosure And Transparency:

Eleventh parameter for calculating company CG score is about disclosure practices and transparency having a weightage of 25 on a scale of 100. This factor consists of disclosure of 11 points in company's annual report as shown in Table 8. All these points have the same weight-age of 2 points excluding shareholders' information as it consists of a weight-age of 5 points.

Table 8: Distribution of firms for disclosure and non-disclosure of items under eleventh parameter

Particulars	Number of Banks		Total
	Disclose	Not Disclose	
Significant related party transactions having potential conflicts with the interest of the company	1	7	8
Non-compliance related to capital market matters during last three years	2	6	8
Accounting treatment	8	0	8
Director's remuneration amount & policy	8	0	8
Risk Management	8	0	8
Management discussion and analysis	8	0	8
Shareholders' information	8	0	8
Shareholder rights	8	0	8
Audit qualification	2	6	8
Training of Board members	8	0	8
Evaluation of performance of board	8	0	8

The table depicts that only 1 bank has proper disclosures regarding significant related party transactions and only 2 banks have non-compliance related to capital market matters as well as for audit qualification. Almost all sampled banks by making accounting treatment, director's remuneration, risk management, management discussion & analysis and shareholders' information, shareholder rights, training of board members as well as Evaluation of performance of board scored full for these points.

XII. General Body Meetings:

The twelfth parameter under consideration of this study is information about general body meetings carrying a weightage of 3 points on a scale of 100. All the points for this parameter as listed in Table 9 carry equal weightage of 1 point

Table 9: distribution of firms for disclosure of information regarding general body meetings

	Number of Banks		Total
	Disclose	Not Disclose	
Location and time of general meetings held in last three years	8	0	8
Details of special resolution passed in the last three AGMs/EGMs	3	5	8
Details of resolution passed last year through postal ballot, including the name of conducting official and voting procedure	2	6	8

The table presents that all the 8 banks get the ideal score for disclosure regarding location & time of general meetings held in last three years. Only 3 banks get details of special resolution passed in the last three AGMs/EGMs. Further, only 2 banks have disclosure of details regarding resolution passed last year through postal ballot.

XIII. Means Of Communication And General Shareholder Information:

For this parameter each and every bank made a satisfactory disclosure of this information assigned with the ideal score of 2.

XIV. Whistle-Blower Policy:

The results depict that all 8 banks get a score of 2 by adopting a policy of the whistle blower.

XV. CEO/CFO Certification:

For the fifteenth parameter 6 banks have the CEO/CFO certification for corporate governance and get the ideal score of 2 points on a scale of 100.

XVI. Compliance of Corporate Governance and Auditors' Certificate:

This parameter consists of a weight-age of 5 points on the range of 100 and the results denoted that 7 out of 8 banks have a clean certification from the auditor and scored full of 5.

XVII. Code For Prevention Of Insider Trading Practices:

Disclosure of code for prevention of insider trading practices with critical importance carries the weight age of 5 on the scale of 100 as seventeenth parameter. The results denote that 4 banks out of all sampled banks made a proper disclosure for having a code for prevention of insider trading practices. These 4 banks were given5 points and remaining were given 0 point.

XVIII. Disclosure Of The Stake Holder's Interest

The last parameter is about disclosure of the stake holder's interest with a weight age of 10 points on the scale of 10. Carrying 2 points apiece, environment/health/safety measures (EHS), human resource development (HRD) initiatives, corporate social responsibility (CSR), industrial relations (IR) and disclosure of policies on EHS, HRD, CSR and IR.

Table 10: distribution of firms for disclosure of the stake holder's interest

	Number of Banks		Total
	Disclose	Not Disclose	
Environment, Health and Safety Measures	8	0	8
HRD Initiative	8	0	8
Corporate Social Responsibility	7	1	8
Industrial Relations	1	7	8
Disclosure of policy for (a) to (d)	8	0	8

It is observed that all considered banks disclose EHS (get 2 points) as well as HRD initiatives (get 2 points). Further 7 banks make disclosures regarding CSR (get 2 points for each) and and only 1 bank make disclosure regarding IR. Moreover, none of the banks make disclosure about written policy for the above four criterions, however, all 8 banks make disclosure of policies on either of these issues. Therefore, these 8 banks are assigned 2 points even for giving partial reference of this point.

On the basis of above mentioned eighteen parameters CG score for each company is calculated separately.

7. EVALUATION OF CORPORATE GOVERNANCE STATUS

The quality and state of governance that the sampled banks have achieved is identified by observing their CG score on the corporate governance score card. Table 10 shows the allotment of sampled banks based on the scores obtained by them under different categories of the score range with their respective grade assigned.

Table 10: Distribution of firms on the basis of their achieved grade on cg score card

Score Range	Grade	No. of Companies
100-85	A-Excellent	03

84-75	B-Very Good	03
74-65	C-Good	02
64-50	D-Average	00
Below 50	E-Poor	00

Table clearly shows that 3 banks follow excellent governance mechanism with grade A. Further, 3 banks lie in the group of 84- 75 score range with B grade, which means 3 banks have a very good governance structure. 2 banks with C grade have good enough governance in their organisation. However, sampled banks have a grade range from A to C i.e. from excellent to average, with maximum 90 points and minimum 68 points obtaining an average score of 80.375 points. It evidences that the banks pursue very good/good governance and disclosure practices in India.

Sector- Wise Analysis Of Corporate Governance Practices For Banks In India

This section displays sector-wise differences of corporate governance practices in India with the help of Table 11.

Table 11: Sector-wise statistical analysis

Sectors	No. of Banks	Min. CG Score	Max. CG Score	Mean CG Score	S. D. of C G Score	No. of banks	
						CG Score>=Mean	CG Score<Mean
Public	4	68	80	73.75	5.68	2	2
Private	4	83	90	87.00	2.94	3	1

Test Of Significance Of Difference Of CG Score Between Public And Private Sector Banks: To test the significant difference of CG score between public and private sector banks, independent t test can be applied if assumptions of t test are satisfied.

Assumption 1: Assumption of Normality

H_0: Data follow to normal distribution.

H_1: Data do not follow to normal distribution.

Test of normality: CG Score	Type of Bank	Shapiro-Wilk		
		Statistic	df	Sig.
	Public Sector Banks	.916	4	.512
	Private Sector Banks	.953	4	.734

As the size of sample is less than 100, to check normality assumption, shaphiro wilk test statistic is used. It can be seen that p value is greater than 0.05 for both public and private sector banks. So it can be interpreted that data follow to normal distribution.

Assumption 2: Equality of variance:

H_0: Variance of both public and private sector group for CG square is equal.

H_1: Variance of both public and private sector group for CG square is not equal.

Independent Samples t- Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
CG Score	Equal variances assumed	5.500	.057	-4.143	6	.006	-13.25000	3.19831	-21.0760	-5.42403
	Equal variances not assumed			-4.143	4.504	.011	-13.25000	3.19831	-21.7516	-4.74843

t can be seen from Levene's test that p value is greater than 0.05 So H_0 is not rejected. So assumption of equality of variance is satisfied. So independent t test can be applied. From t test it can be said that there is significant difference between public and private sector banks. Private sector has more CG Score than public sector banks.

Analysis For Impact Of CG Score On Firm Value:

To check impact of CG Score on firm value, first of all correlation is found and tested whether there is any significant correlation is there between CG Score and Tobin Q.

H_0 There is no significant correlation coefficient between CG Score and Tobin Q.

H_1 There is significant correlation coefficient between CG Score and Tobin Q.

Correlation is 0.5663643 S = 8.6421, p-value = 0.002517

Here p value is less than 0.05so Ho is rejected. That means there is significant correlation coefficient between CG Score and Tobin Q.

To check impact of CG Score on Tobin Q, simple linear regression model using R 3.4.3 is fitted.

USING THE GLOBAL TEST ON 4 DEGREES-OF-FREEDOM:
Level of Significance = 0.05

gvlma(x = model)

	Value	p-value	Decision
Global Stat	8.7300	0.06821	Assumptions acceptable
Skewness	2.4035	0.12106	Assumptions acceptable
Kurtosis	0.2163	0.64184	Assumptions acceptable
Link Function	3.0680	0.07985	Assumptions acceptable
Heteroscedasticity	3.0422	0.08113	Assumptions acceptable

From above result it can be observed that all assumptions of linear regression model are satisfied So linear r egression model can be fitted. Literature suggests that C G Score has positive impact on firm value.

lm(formula = Tobin.Q ~ CG.Score)

Residuals:

Min	1Q	Median	3Q	Max
-0.07110	-0.04192	-0.02866	0.02825	0.15681

Coefficients:

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	-0.440939	0.290002	-1.520	0.179
CG.Score	0.006046	0.003592	1.683	0.143

Residual standard error: 0.07819 on 6 degrees of freedom
Multiple R-squared: 0.3208, Adjusted R-squared: 0.2076
F-statistic: 2.834 on 1 and 6 DF, p-value: 0.1433
The results of analysis indicate that there is no any impact of CG Score on firm value.

8. CONCLUSION:

The present study evaluates corporate governance practices of Indian banks based on the annual reports of selected 8 banks. It is inferred from the analysis that 3 banks have excellent governance mechanism, 3 banks have very good governance structure and 2 banks have good governance. It can also be concluded that private sector banks have higher CG Score than public sector banks. Yet it can be concluded that there is no any impact of CG Score on afirm value.

9. LIMITATIONS OF THE STUDY:

The present study has concentrated on public and private sector banks and that too for single year only and also limited parameters were considered for study which is in 2015 amendements of SEBI. The scope of the research is not very wide. Hence, it fails to show the absolute impact of CG Attributes on the performance of banks.

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Corporate Governance in India Evolution, Issues and Challenges

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Abstract: *Corporate governance is perhaps one of the most important differentiators of a business that has impact on the profitability, growth and even sustainability of business. Corporate governance is defined as the system by which business entities are monitored, managed and controlled In order to enhance long term shareholder values and enhancing firm performance. corporate governance is a set of policies that are creating for deciding company's performance and direction. corporate governance is about promoting corporate ethics, fairness, transparency and accountability. In recent years have the difficult task of leading their organization while maintaining proper governance, through these complicated times. With Growing unrest globally. Fluctuation market and the matter of internal organization management, there is lot to stay abreast of. Board need to ensure that they stay focused and have clear strategic plans around many potential sink-holes. In this paper the corporate governance Network has highlighted some of the dominant governance issues that are considerable.*

The paper discusses evolution of corporate governance in India. This paper also makes an attempts to examines the status of corporate governance issues and challenges. Through this existing research, it identifies issues that are peculiar to the Indian context and which are not being adequately addressed in the existing corporate governance framework. And lastly It finally makes some recommendations and suggestions which are considered the major contribution of this paper.

Key Words: corporate governance issues and challenges, evolution of corporate governance

Theme No and Name: Theme-5: Indian Financial Markets and Corporate Governance

1. INTRODUCTION

Corporate governance in India gained prominence in the wake of liberalization during the 1990s and was introduced, by the industry association Confederation of Indian Industry (CII), as a voluntary measure to be adopted by Indian companies. Corporate governance is a multidisciplinary field of study it covers a wide range of disciplines – accounting, consulting, economics, ethics, finance, law, and management. The main function of corporate governance is to make agreements that describe the privileges and tasks of shareholders and the organization. In case of disagreements because of conflict of interest, it is the responsibility of corporate governance to bring everyone together. It also has the function of setting standards against which corporations work can be managed and administered.

A good structure of corporate governance is that encourages balanced relationship among shareholders, executive directors and the board of directors. The governance mechanism is shaped by its political, economic and social history and its legal frame work. In the beginning most of the countries found company to be the convenient form of organizations that enabled entrepreneurs to raise money from large number of investors. Shareholders start agitating only when they perceive that the company is being highly mismanaged and the shareholder value is getting destroyed.

Corporate governance has played a very important role in the present economic condition of India. India successfully started its moves towards open and welcoming economy in 1991. From then onwards it has seen an amazing upward performance. Better Corporate governance can be associated to reduce financial crises. If Corporate governance practices are followed properly this creates better agreement with the stakeholders.

In this paper, the study showed how in India corporate governance has become an inseparable entity; next, we will discuss some specific issues regarding corporate governance.

2. OBJECTIVES

- Study the overview of Corporate governance and its evaluation.
- Study the Corporate governance issues and challenges.
-

3. RESEARCH METHODOLOGY

The research is an attempt of exploratory research, based on the secondary data sources from web, articles general reports and Online and desk-based reviews of books, reports and articles

Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type. Keeping in view of the set objectives. this research design was adopted to have greater accuracy and in depth analysis of the research analysis of the research study.

Available secondary data was extensively used for the study. The investigator procures the required data through secondary survey method. Different news articles, books and web were used which were enumerated and recorded.

4. LITERATURE REVIEW

A comprehensive study by Chakrabarti, Megginson, and Yadav has traced the evolution of the Indian corporate governance system and examined how this system has both supported and held back India's ascent to the top ranks of the world's economies. The authors of the study have found that while on paper, the framework of the country's legal system provides some of the best investor protection in the world; enforcement is a major problem in view of the slow functioning of the over-burdened courts and the widespread prevalence of corruption.

Gupta and Parua attempted to find out the degree of compliance of the Corporate Governance (CG) codes by private sector Indian companies listed in the Bombay Stock Exchange (BSE). Data regarding 1245 companies for the year 2004-2005 was taken for the study from the CG reports (which are included in the Annual Reports) of these companies and 21 codes (of which 19 are mandatory and 2 non-mandatory) were selected for study.

The enforcement of the corporate governance reforms in India has been analyzed by Khanna, who has attempted to find an answer to the paradox of foreign institutional investors (FIIs) increasing their presence and interest in the Indian stock markets when reforms were enacted but not immediately enforced. Khanna's analysis suggests that enforcement is important to the growth of stock markets, but the active civil enforcement of corporate laws may not always be critical to their initial development.

Khanna and Palepu have concluded that it did not appear that concentrated ownership in India was entirely associated with the ills that the literature has ascribed to it in emerging markets. On the other hand, they felt that if the concentrated owners are not exclusively, or even primarily, engaged in rent-seeking and entry-deterring behavior, concentrated ownership may not be inimical to competition.

Pratip Kar has explored the dynamics of culture and corporate governance in India by calling attention to three areas wherein the clash between the Indian cultural ethos and the Anglo-Saxon norms for good governance are the strongest, viz. related-party transactions; the promoter's or large shareholder's actions; and the board's nominations, deliberations, and effectiveness, and has suggested that Western best practices need to be suitably adapted to be in line with the Indian cultural sensitivities in these areas.

In a study that used only balance sheet information from four selected sectors of the Indian industry, Mukherjee and Ghosh analysed the efficacy of corporate governance. Their findings, by and large, painted a disappointing picture with the overall conclusion that corporate governance was still in a very nascent stage in the Indian industry.

The authors found that decision and policymaking was still taken mostly as a routine matter and among the institutional investors also, it seemed that the foreign institutional investors were the most consistent in stock picking whereas the performance of the domestic institutional investors was sporadic and volatile, at best. They also found serious shortcomings in the capital market in not being able to enforce better governance on the part of the directors or performance on the part of the managers.

5. EVOLUTION OF CORPORATE GOVERNANCE IN INDIA

Corporate governance is perhaps one of the most important differentiators of a business that has impact on the profitability, growth and even sustainability of business. It is a multi-level and multi-tiered process that is distilled from an organization's culture, its policies, values and ethics, especially of the people running the business and the way it deals with various stakeholders.

Creating value that is not only profitable to the business but sustainable in the long-term interests of all stakeholders necessarily means that businesses have to run—and be seen to be run— with a high degree of ethical conduct and good amount of capital invested rather than on their returns on investment. Competition, especially foreign competition, was suppressed. Private providers of debt and equity capital faced serious obstacles in exercising oversight over managers due to long delays in judicial proceedings and difficulty in enforcing claims in bankruptcy. Public equity offerings could be made only at government-set prices. Public companies in India were only required to comply with limited governance and disclosure standards enumerated in the Companies Act of 1956, the Listing Agreement, and the accounting standards set forth by the Institute of Chartered Accountants of India (ICAI).

Faced with a fiscal crisis in 1991, the Indian Government responded by enacting a series of reforms aimed at general economic liberalization. The Securities and Exchange Board of India (SEBI)—India's securities market regulator—was formed in 1992, and by the mid-1990s, the Indian economy was growing steadily, and Indian firms had begun to seek equity capital to finance expansion into the market spaces created by liberalization and the growth of outsourcing.

The need for capital, amongst other things, led to corporate governance reform and many major corporate governance initiatives were launched in India since the mid- 1990s; most of these initiatives were focused on improving the governance climate in corporate India, which, at that time, was somewhat rudimentary.

The history of the development of Indian corporate laws has been marked by interesting contrasts. At independence, India inherited one of the world's poorest economies but one which had a factory sector accounting for a tenth of the national product; four functioning stock markets (predating the Tokyo Stock Exchange) with clearly defined rules governing listing, trading and settlements; a well-developed equity culture if only among the urban rich; and a banking system replete with well-developed lending norms and recovery procedures.24 In terms of corporate laws and financial system, therefore, India emerged far better endowed than most other colonies. The 1956

Companies Act as well as other laws governing the functioning of joint-stock companies and protecting the investors' rights built on this foundation. The beginning of corporate developments in India were marked by the managing agency system that contributed to the birth of dispersed equity ownership but also gave rise to the practice of management enjoying control rights disproportionately greater than their stock ownership. The turn towards socialism in the decades after independence marked by the 1951 Industries (Development and Regulation) Act as well as the 1956 Industrial Policy Resolution put in place a regime and culture of licensing, protection and widespread red-tape that bred corruption and stilted the growth of the corporate sector. The situation grew from bad to worse in the following decades and corruption, nepotism and inefficiency became the hallmarks of the Indian corporate sector. Exorbitant tax rates encouraged creative accounting practices and complicated emolument structures to beat the system. In the absence of a developed stock market, the three all-India development finance institutions (DFIs)– the Industrial Finance Corporation of India, the Industrial Development Bank of India and the Industrial Credit and Investment Corporation of India – together with the state financial corporations became the main providers of long-term credit to companies. Along with the government owned mutual fund, the Unit Trust of India, they also held large blocks of shares in the companies they lent to and invariably had representations in their boards.

In this respect, the corporate governance system resembled the bank-based German model where these institutions could have played a big role in keeping their clients on the right track. Unfortunately, they were themselves evaluated on the quantity rather than quality of their lending and thus had little incentive for either proper credit appraisal or effective follow-up and monitoring. Their nominee directors routinely served as rubber-stamps of the management of the day. With their support, promoters of businesses in India could actually enjoy managerial control with very little equity investment of their own. Borrowers therefore routinely recouped their investment in a short period and then had little incentive to either repay the loans or run the business. Frequently they bled the company with impunity, siphoning off funds with the DFI nominee directors mute spectators in their boards. This sordid but increasingly familiar process usually continued till the company's net worth was completely eroded. This stage would come after the company has defaulted on its loan obligations for a while, but this would be the stage where India's bankruptcy reorganization system driven by the 1985 Sick Industrial Companies Act (SICA) would consider it "sick" and refer it to the Board for Industrial and Financial Reconstruction (BIFR). As soon as a company is registered with the BIFR it wins immediate protection from the creditors' claims for at least four years. Between 1987 and 1992 BIFR took well over two years on an average to reach a decision, after which period the delay has roughly doubled. Very few companies have emerged successfully from the BIFR and even for those that needed to be liquidated, the legal process takes over 10 years on average, by which time the assets of the company are practically worthless. Protection of creditors' rights has therefore existed only on paper in India. Given this situation, it is hardly surprising that banks, flush with depositors' funds routinely decide to lend only to blue chip companies and park their funds in government securities. Financial disclosure norms in India have traditionally been superior to most Asian countries though fell short of those in the USA and other advanced countries. Noncompliance with disclosure norms and even the failure of auditor's reports to conform to the law attract nominal fines with hardly any punitive action. The Institute of Chartered Accountants in India has not been known to take action against erring auditors. While the Companies Act provides clear instructions for maintaining and updating share registers, in reality minority shareholders have often suffered from irregularities in share transfers and registrations – deliberate or unintentional. Sometimes non-voting preferential shares have been used by promoters to channel funds and deprive minority shareholders of their dues. Minority shareholders have sometimes been defrauded by the management undertaking clandestine side deals with the acquirers in the relatively scarce event of corporate takeovers and mergers. Boards of directors have been largely ineffective in India in monitoring the actions of management. They are routinely packed with friends and allies of the promoters and managers, in flagrant violation of the spirit of corporate law.

The nominee directors from the DFIs, who could and should have played a particularly important role, have usually been incompetent or unwilling to step up to the act. Consequently, the boards of directors have largely functioned as rubber stamps of the management. For most of the post-Independence era the Indian equity markets were not liquid or sophisticated enough to exert effective control over the companies. Listing requirements of exchanges enforced some transparency, but non-compliance was neither rare nor acted upon. All in all therefore, minority shareholders and creditors in India remained effectively unprotected in spite of a plethora of laws in the books.

6. KEY ISSUES IN CORPORATE GOVERNANCE IN INDIA

Indian boards continue to struggle with the implementation of many of the major changes to corporate governance practices required by the companies Act, but reforms is progressing. While the complete Fallout from the recent Tata leadership imbroglio is not yet clear, it will almost certainly reverberate Through the Indian Corporate Governance landscape for years to come.

- Recent regulatory changes have increased the scope of responsibilities for the Nomination and Remuneration Committee, requiring boards to ensure that directors have the right set of skills to deliver on these new responsibilities. Increased emphasis on CEO succession planning and board evaluation have necessitated that Committee members become more fluent in these governance processes and methodologies, particularly as the requirement to report on them annually has increased the spotlight on the board's role in these processes.
  The introduction in 2013 of the mandatory minimum of at least one female director for most listed Companies has increased India's gender diversity at the board level to one of the highest rates in Asia, with 14% of all directorships currently held by women. However, concerns persist about the potential for "tokenism", as a sizeable portion of the women appointed come from the controlling families of the company.
- India has also attempted to integrate ESG and Corporate Social Responsibility (CSR) issues at the board level, having mandated that every board establish a CSR committee and that the company spend 2% of net profits on CSR activities. However, companies will need to ensure that their approach to CSR amounts to more than a box-ticking exercise if they want to attract the support of the growing cadre of ESG-focused investors.
- Boards are increasingly expected to take a more active role in risk management, particularly cyber security risks. Boards should also ensure that their companies are adequately anticipating and responding to cyber security threats.
- Changes to the Companies Act have considerably enhanced the duties and liabilities of directors, along with strict penalties for any breach of these duties and the potential for class action lawsuits against individual directors. While potentially helpful in increasing director accountability, these changes also significantly increase the personal risk that a director assumes when joining a board.

Governance of public corporations continues to move in a more shareholder-centric direction. This is evidenced by the increasing corporate influence of shareholder engagement and activism, and shareholder proposals and votes. This trend is linked to the concentration of ownership in public and private pension funds and other institutional investors over the past 25 years, and has gained support from various federal legislative and regulatory initiatives. Most recently, it has been driven by the rise in hedge fund activism.

It remains unclear whether, over the long term, greater shareholder influence will prove beneficial for shareholders, corporations and the economy. In the near term, however, there is reason to question whether shareholder influence is the panacea that some posited, or whether the current focus on shareholder value and investor protection is at the expense of other values that are central to the sustainability of healthy corporations.

These concerns underlie the issues that will define the state of governance in 2015 and likely beyond, including:
The long-standing debate about the purpose of the corporation and governance roles.
Tensions between achieving short-term returns and making long-term investment.

- The impact of shareholder activism on board decisions.
- Shareholder litigation and the reactive use of corporate by-laws to protect boards.
- Concerns about proxy advisor power and influence.
- Drawing the line between board oversight and management.
- Rebuilding society's trust in the corporation.

Managing the Dominant Shareholder(s) and the Promoter(s)

The primary difference between corporate governance enforcement problems in India and most western economies (on whose codes the Indian code is largely modeled) is that the entire corporate governance approach hinges on disciplining the management and making them more accountable. The 'agency gap' in western economies represents the gap between the interests of management and dispersed shareholders and corporate governance norms are aimed at reducing this gap. However, in India the problem—since the inception of joint-stock companies—is the stranglehold of the dominant or principal shareholder(s) who monopolize the majority of the company's resources to serve their own needs. That is, the 'agency gap' is actually between majority shareholders and other stakeholders.

Secondly, much of global corporate governance norms focus on boards and their committees, independent directors and managing CEO succession. In the Indian business culture, boards are not as empowered as in several western economies and since the board is subordinate to the shareholders, the will of the majority shareholders prevails.

Therefore, most corporate governance abuses in India arise due to conflict between the majority and minority shareholders. This applies across the spectrum of Indian companies with dominant shareholders—PSUs (with government as the dominant shareholder), multinational companies (where the parent company is the dominant shareholder) and private sector family-owned companies and business groups.

In public sector units (PSUs), members of the board and the Chairman are usually appointed by the concerned ministry and very often PSUs are led by bureaucrats rather than professional managers. Several strategic decisions are taken at a ministerial level which may include political considerations of business decisions as well. Therefore, PSU boards can rarely act in the manner of an empowered board as envisaged in corporate governance codes. This makes several provisions of corporate governance codes merely a compliance exercise.

Multinational companies (MNCs) in India are perceived to have a better record of corporate governance compliance in its prescribed form. However, in the ultimate analysis, it is the writ of the large shareholder (the parent company) which runs the Indian unit that holds sway, even if it is at variance with the wishes of the minority shareholders. Moreover, the compliance and other functions in an MNC are always geared towards laws applicable to the parent company and compliance with local laws is usually left to the managers of the subsidiary who may not be empowered for such a role.

Family businesses and business groups as a category are perhaps the most complex for analysing corporate governance abuses that take place. The position as regards family domination of Indian businesses has not changed; on the contrary, over the years, families have become progressively more entrenched in the Indian business milieu.

Global and Regional Trends in Corporate Governance in 2017

Based on our global experience as a firm and our interviews with experts around the world, we believe that public companies will likely face the following trends in 2017:

- Increasing expectations around the oversight role of the board, to include greater oversight of strategy and scenario planning, investor engagement, and executive succession planning.
- Continued focus on board refreshment and composition, with particular attention being paid to directors' skill profiles, the currency of directors' knowledge, director over boarding, diversity, and robust mechanisms for board refreshment that go beyond box-ticking exercises.
- Greater scrutiny of company plans for sustained value creation, as concerns increase that activist settlements and other market forces are causing short-term priorities to compromise long-term interests.
- Greater focus on Environmental, Social and Governance (ESG) issues, and in particular those related to climate change and sustainability, as industries beyond the extractive sector begin to feel investor pressure in this area.

We explore these trends and their implications for five key regions and markets: the United States, the European Union, India, Japan and Brazil.

7. CONCLUSION

As Corporate governance is more or less, a financial impropriety, it is imperative that the audit committee reviews the company's operations and determine whether management has established a mechanism to deal with antitrust laws, policies conflicts, insider trading, corporate funds misappropriation, etc. The SEBI had made it mandatory that all listed companies should create a mechanism for employees to report to the management concerns about any unethical behavior, fraud or violation of the code of conduct. There should be continued monitoring of the entire process.

If one has to summarize, the ultimate objective of corporate governance is to attain the highest standard of procedures and practices followed by corporate world so as to have transparency in its functioning with an ultimate aim to maximize the value of various stakeholders of the organization.[3] It is also realized that the application of corporate governance should be incorporated in both letter and spirit. Other measures to effective corporate governance include access to external financing for investment, reduction in cost of capital mitigating the financial risk and better resource allocation to all the stakeholders.

8. FINDINGS

- Lessons from corporate failure need to be learnt
- Corporate Governance and Human Resource Management should be dealt with together
- Disclosure, transparency, and accountability need to be ensured
- Compliance with laws and norms on regular basis
- Strengthening the external monitoring system
- Third party evaluation of the Related party transactions
- Demarcating fiduciary and other duties of the controlling shareholders
- Improving the quality and periodicity of the financial disclosures

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Applied Behavioral Science for Excellence in Corporate Governance: Literature Comprehension & Realistic Evidences

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Abstract: *Corporate governance is a system that incorporates every sphere of management, starting from action plan to internal control to performance measurement of individual till disclosures at organizational level. This means that corporate governance has active involvement of employees along with various organizational aspects i.e. individual, group and organizational levels of applied behavioral science (Organizational Behavior). System of corporate governance is based on rules, practices and process which are framed for balancing the interest of stakeholders along with achievement of company's objectives. Companies have two types of stakeholders: internal (shareholders, customers, suppliers, creditors, and employees) & external (general public, communities, activist groups, business support groups, and the media). This paper tries to measure influence of various levels of organizational behavior (internal stakeholders) on corporate governance. Among internal stakeholders: employees & owners perspective, who fall in individual, group and organizational level respectively according to organizational behavior is examined. To serve these objective literatures has been collected. Past literatures in area of corporate governance show various activities that should be undertaken by management/owners/employees for effectiveness of governance. Such literatures are examined from the point of view of owners and employees to get realistic perspective of corporate governance in today's scenario.*

Key Words: Applied behavioral science, Corporate Governance, Internal stakeholders & Organizational behavior

Theme: 6 - Human Resource Dimensions and Corporate Governance

1. CORPORATE GOVERNANCE & APPLIED BEHAVIORAL SCIENCE

A system that directs and controls the company is called Corporate Governance. This system encompasses Board of Directors who are responsible for fair running of the organizations as per the rules laid down in the code of conduct of the organizations. Shareholders role is to appoint directors and auditors who can check that appropriate governance is in place. Board is responsible for setting strategic objectives of company, supervise the other counterparts in organization for smooth functioning of the company and many such other responsibilities are there on these people who are subject to laws and regulations. Thus, Corporate governance includes arrangements for deciding on the composition of the board, the groups or persons to whom it is accountable and the criteria to be applied when assessing the board's performance. Usually while talking/discussing about corporate governance employees are considered as "outsiders", responsibilities of employees are rarely discussed or considered. While the matter of fact remains that if we look into the laws/regulations pertaining to governance employees – 'Human Capital' is at the heart. This research paper focuses on the application of opinions received from various levels of management into practices of corporate governance. Applied behavioral Science can be broadly classified as having three major scopes: Individual, Group and Organizational/structure. This paper aims at matching the expectations of Individual/group level with that of the organizational level so as to assess the gaps.

Study Variables: The objective of this paper is to assess opinion of employees who are serving at individual/group level in various organizations with that of the top level officials who actually design code of conducts/ strategies for effective functioning of governance in organization. Few variables like: Link between

Philosophy of organizations founder for corporate governance, Fair Application of rules at all levels of management, Impact of Common Organizational Goals on corporate governance, Consideration for stakeholder's benefits, Empowering employees in decision making and Transparent system were considered for study.

2. RESEARCH METHODOLOGY AND OBJECTIVES:

Research Methodology: Survey method has been adopted for collecting data from the employees of organization. A structured questionnaire in English language was prepared for these executives consisting of above mentioned research variables. From top officials who consisted of General Managers, Owners, CEOs and Managing Director 36 usable questionnaire was obtained. While from the same organizations from employees who served either middle level or bottom level of organization 66 usable questionnaires were obtained for analysis purpose. The data was analyzed using MsExcel.

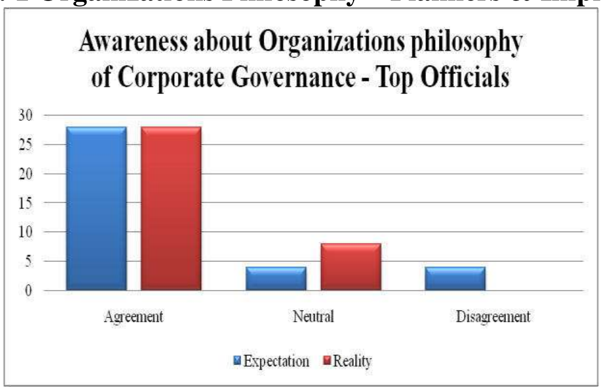
Research objectives:

- To understand expectations of employees wrt identified variable's impact on application of corporate governance
- To analyze expectations of Top level officials about identified variable's impact on application of corporate governance
- To assess the gap between practioners and implementers in terms of selected variable's

3. LITERATURE COMPREHENSION & REALISTIC EVIDENCES

Philosophy of organizations founder & corporate governance: Practicing governance should not be just for the sake of adherence to laws that the country/company's act specifies, it has a deep roots in the founder's philosophy/ objective of stating the organization. Indian company Tata Motors is a best example of company that ethically practices Corporate Governances. But this company's governance practices are founded upon rich legacy of fair, ethical and transparent governance practices, many of which were in place even before they were mandated by adopting the highest standards of professionalism, honesty, integrity and ethical behavior*(Tata Motors – 71st Annual Report 2015-16)*[1]

Chart: 1 Organizations Philosophy – Planners & Implementers Opinion



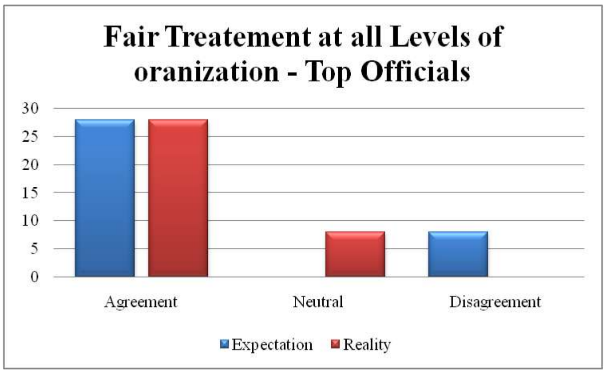
The survey results show the gap between planning and implementation stage. The top officials who design the strategy feel that organizational founders philosophy are very vital while formulating the strategic objectives related to corporate governance. While the people who actually have to implement those strategies feel that there is lack of awareness about organizations philosophy. *Thus, companies while socializing the new employees can take necessary steps to keep their joinees well informed about the practices that are followed in the organization. Its relevance with the philosophy of organizations founder should be emphasized to make those practices imbibed in the culture of the company thereby making it a STRONG CULTURE.*

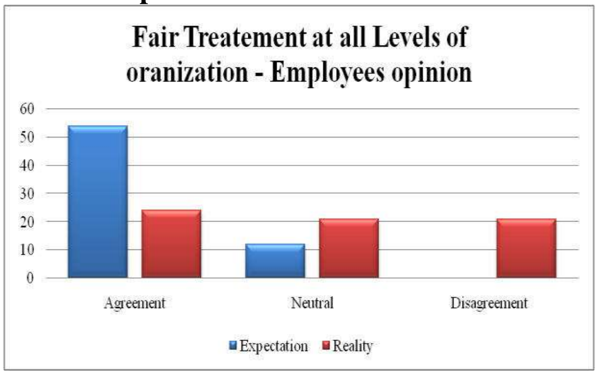
Fair Application of rules at all levels: Panasonic conducts various activities to enhance effectiveness of corporate governance practices in its company. They treat all shareholders equally and cooperate with them as they consider that sustainable growth is a result of contributions from all stakeholders. They are believers of transparency for which they appropriately discloses corporate information and give fiduciary responsibility and accountability to shareholders, the Board of Directors set the broad direction of corporate strategy, establish an environment where

[1]Report on Corporate Governance : http://www.tatamotors.com/investors/financials/71-ar-html/report-corp-gov7.html

appropriate risk-taking is supported and carry out effective oversight of Directors and management from an independent and objective standpoint *(Corporate Governance - Panasonic)*[2]

Chart: 2 Fair Treatment at all Levels – Planners & Implementers Opinion





As mentioned above in the case of Panasonic company which considers that sustainable growth is the result of support from all stakeholders. Hence these variables aimed at identifying the essence of FAIR treatment of all officials at different management levels. It was been observed that planners felt that they were equally to all but implementers were not certain about the element of fairness in the organization. A huge gap is visible in the opinion of both segments which is very vital aspect to be considered as they can propagate word-of-mouth for the organization and if treated with care it can lead to organization citizenship behavior.

Common Organizational Goals and corporate governance: Tata Motors adheres to 'Tata Business Excellence Model' as a means to drive its governance practices. They adopt Balanced Scorecard methodology for tracking progress on long term strategic objectives as a result every employee of the organization is very clear with the objectives of organization and thereby they work in a common direction to achieve their results *(Tata Motors – 71st Annual Report 2015-16*[3]*).*

Chart: 3 Common Organizational Objectives – Planners & Implementers Opinion

Chart 3 shows that at planning stage the top officials feel that they are framing the code of conducts keeping in mind the objectives that are common throughout the organization/department as that there are no clashes in interest. While from the perspective of implementers common objectives are missing which can lead to further clashes. *Thus, effective planning like MBO can be done to have common objectives at all the levels of management/department so that there is great clarity of work and no clashes in terms of working patterns.*

Consideration for stakeholder's benefits: Tata Motors have specific 'Tata Code of Conduct', which articulates the values, ethics and business principles. These code of conducts serves as a guide to the Company, its directors and employees, they also supplement with an appropriate mechanism to report any concerns pertaining to non-adherence to the said Code. These code of conducts are made considering the benefits of all stakeholders and there is a large amount of clarity of these rules which makes them easy to adopt and practice *(Tata Motors – 71st Annual Report 2015-16*[4]*).* Corporate Governance Philosophy at Jubilant FoodWorks Ltd is driven by the interest of stakeholders and business needs of the organization. They have well-informed and independent Board to ensure high

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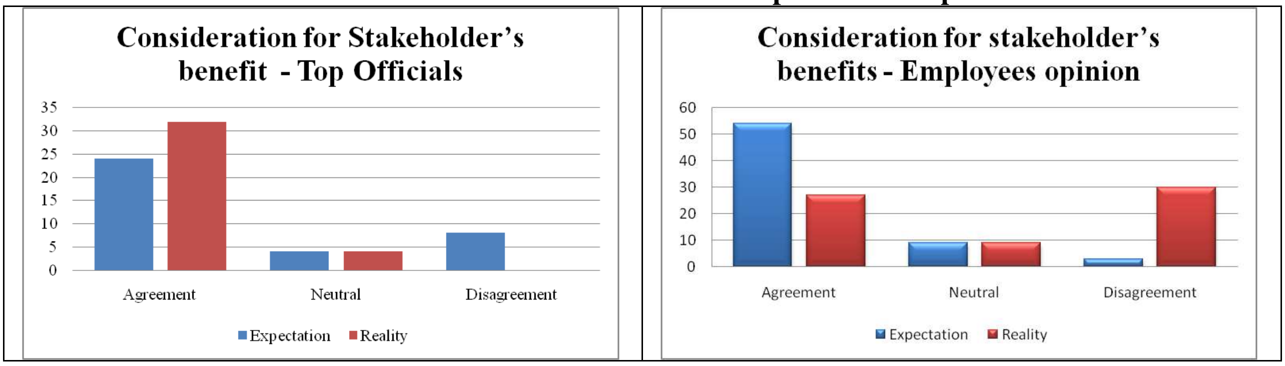
[2] Corporate Governance
https://www.panasonic.com/global/corporate/management/governance.html
[3] Report on Corporate Governance : http://www.tatamotors.com/investors/financials/71-ar-html/report-corp-gov7.html
[4] Report on Corporate Governance : http://www.tatamotors.com/investors/financials/71-ar-html/report-corp-gov7.html

standards of Corporate Governance, various committees have been formed to focus attention on corporate governance practices and proactive flow of information and they have formulated specific code of conduct for Directors and Senior Management, along with the Code of Conduct for Prevention of Insider Trading. A well established whistle blower mechanism is in place at JFW which acts as neutral and unbiased forum for all stakeholders. Stakeholders are supplied with necessary information on regular intervals via e-mailing, press releases, annual report etc. *(Corporate Governance - Jubilant FoodWorks Ltd - JFL)*[5]. Raymond Limited considers Corporate Governance as an integral part of good management for which the Company adopts a Code of Business Conduct & Ethics. They consider all stakeholders at par hence; the Company commits itself to open, transparent, impartial and timely information to its shareholders, employees and other stakeholders *(Code of Business Conduct & Ethics: Raymond*[6]*)*

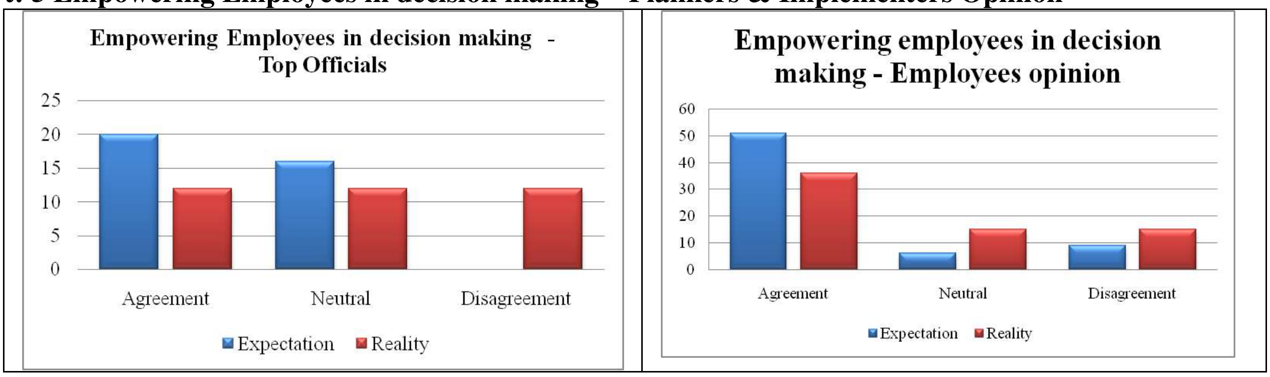
Chart: 4 Consideration for Stakeholder's benefit – Planners & Implementers Opinion



The above examples of various companies like Tata Motors, *Jubilant FoodWorks* & Raymond emphasis the vitality of considering all stakeholders while practicing corporate governance. Planners consider that they give due importance to all stakeholders while they devise strategies related to governance while the deviation in the results of chart 4 shows that employees feel that they are not considered much. Thus, ignorance of Human capital which many literatures point in case of corporate governance practices across India is visible in this research also. *Necessary documentation in terms of value additions that the strategies bring to the stakeholders can be made visible to the employees so reduce this gap.*

Empowering employees in decision making: At Tata Motors the Governance mechanism is such that the Board along with its Committees undertakes all its fiduciary responsibilities towards all stakeholders by ensuring transparency, fairplay and independence in its decision making. To undertake such activities they empower people at designated positions thereby making it easy and quick *(Tata Motors – 71st Annual Report 2015-16*[7]*)*. At Infosys, code forms the guidelines by which they work, codes help employees in taking the right decisions, especially during challenging or ambiguous times. In case of any violation of the code of conduct appropriate steps are taken by the top officials, thus code of conducts empower employees in making decisions in their everyday life *(Report: Code of Conduct & Ethics – Infosys*[8].

Chart: 5 Empowering Employees in decision making – Planners & Implementers Opinion

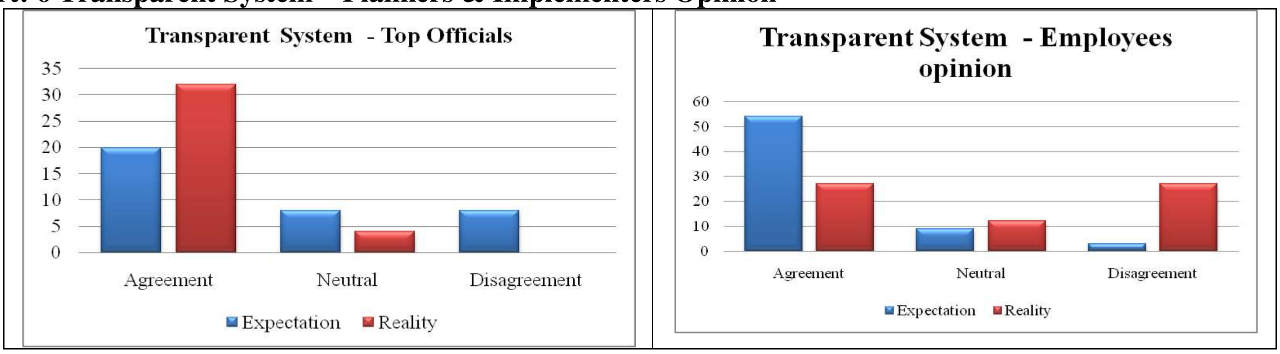


[5] Corporate Governance - Jubilant FoodWorks Ltd - JFL | Board of Directors http://www.jubilantfoodworks.com/investors/corporate-governance/
[6] Code of Business Conduct & Ethics: Raymond - http://www.raymond.in/ir_cg_ethic.asp#.Wm6wpjOYPIU
[7] Report on Corporate Governance : http://www.tatamotors.com/investors/financials/71-ar-html/report-corp-gov7.html
[8] https://www.infosys.com/investors/corporate-governance/Documents/CodeofConduct.pdf

Chart 5 shows the involvement of employees of all the levels in decision making regarding governance. A great amount of similarity is observed in the data that has been obtained through survey. Both planners and implementers feel that all employees are not given decision making rights nor are they considered in decision making process. While the paragraph above the chart shows that how various successful organizations are giving decision making to their employees for successful framing of strategy and its implementation. *Thus, companies should try to incorporate various participative management techniques in organization to gauge realistic preview of the company and make strategies accordingly*.

Transparent system: A study to understand the disclosure practices in the annual reports of 77 listed Indian companies for the year 2008-09 reveled that, private sector companies adhere to higher standards of corporate governance disclosure than public sector companies *(Senan Neeti (2011)). S*imilar results were observed by research undertaken to analyze the determinants of corporate governance disclosure. A considerable gap in the sphere of extent, quantum and quality of disclosure made by companies in their annual reports was observed. This study concluded that there is a substantial scope for improvements in the corporate governance disclosure practices *(Anurag Pahuja and B S Bhatia (2010)*[9]*).* A research was undertaken to measure the adherence of companies to the mandatory aspects of corporate governance i.e. clause 49. The research concluded that certain companies have not provided the due importance to the aspects provided in the Clause 49 *(Sulphey M.M and Janardhanan Rajesh (2010)*[10]*).* A transparent reporting system is very vital for successful corporate governance practice to be successful. A study analyzed the corporate governance reports of 30 companies listed in BSE for the year 2001-02 and 2002-03. Found that the reporting practices of the companies varied to great extend and they were also not found adhering to some mandatory requirements as per Clause 49*(Gupta et al (2003)*[11]*).* Tata Motors adopts to the best practices from within and outside the Tata Group of companies, while preparing Governance guidelines. They follow the guidelines prescribed by Companies Act, 2013 ("Act") and the SEBI Listing Regulations (*(Tata Motors – 71st Annual Report 2015-16*[12]).

Chart: 6 Transparent System – Planners & Implementers Opinion



Planners and Implements have a complete opposite preview of this statement. Planners are of the opinion that the systems in their organizations are very transparent more that what they expect, while implementers on the other hand consider that they systems are not transparent. Thus the companies should try to find the reason for this gap as now-a-days the systems are computer generated interface which are equal to all, in that case access of such software's should be given to essential people down the line so that there is a transparent culture in the company.

5. CONCLUSION:

This paper tried to measure influence of various levels of organizational behavior (internal stakeholders) on corporate governance w.r.t selected variables. Among internal stakeholders: employees & owners perspective, who fall in individual, group and organizational level respectively was examined to identify the gap. The research revealed that huge gap exists between what planners consider as vital for corporate governance and what implementers consider for the same. Hence before implementing any strategy for corporate governances it is needed that such gap should be removed. Necessary suggestions for the same have been highlighted against each gap in the above paragraphs.

[9] Anurag Pahuja. and B S Bhatia (2010) Determinants of Corporate Governance Disclosure: Evidence from Companies in Northern India. The IUP Journal of Corporate Governance, Vol IX, No.3, pp.69-88

[10] Sulphey MM. and Janardhanan Rajesh (2010) The Position of Indian Companies in the Quest for Corporate Governance: Contemporary management research, Vol. 4, No. 2, pp.1-8.

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[12] Report on Corporate Governance : http://www.tatamotors.com/investors/financials/71-ar-html/report-corp-gov7.html

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Ahmedabad, India.

Corporate Governance Score and Financial Performance of Pharmaceutical Companies in India

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Abstract: *Transparency and openness of a corporate is shaped by corporate Governance. It is useful for a company for its performance & long term significance of the company. This paper focus on corporate governance various practices followed by Pharmaceutical companies in India. The parameters like board constitution, board structure, different committees and independent directors would be considered. The objective of the study is to find the relation between corporate governance and firm's financial performance. In this research paper an attempt has been made to calculate corporate governance score of five pharmaceutical companies from NSE. It is found that CG practices have limited impact on financial performance on pharmaceutical companies.*

Key Words: Corporate Governance, Financial Performance, Pharmaceutical

Theme-8: Other Contemporary Issues of Corporate Governance in Indian Financial Service sector

1. INTRODUCTION & LITERATURE REVIEW:

Though corporate governance has its presence from a long time, but its actual implementation took place after many scams happed all over world like Enron, WorldCom, Adelphia and many more. Sarbanes Oxley act was implemented in 2002 in US to regulate the firm from malpractices. In UK Cadbury committee was formed by the London Stock exchange, the financial reporting council and the accountancy professionals in 1992.

Till then Asian countries did not have any legislation for corporate governance. The need arose after the South East Asian Financial Crisis. The reason for this crisis could be lack of transparency and independent management. Organizations like IMF stresses on having good corporate governance practices so that it can be prevented in future.

In India in 1999, SEBI formed Kumar Mangalam Birla Committee to recommend measure for corporate governance for Indian companies. The committee submitted the report in 2000, but the recommendation were found to be very strict and were not implemented immediately. In 2003 Narayan Murthy committee was formed to come up with concrete measure of corporate governance. The recommendation by this two committee finally gave birth to clause 49 which was implemented in 2006.

As the outsider director proportion increases board of director have become more independent (John & Senbet, 1998). But there are many researcher who found out that there is no association between the proportion of outside director (Hermalin & Weisback, 1991).

(Leora & Inessa, 2002) There are many things firm could do in order to improve investor protection rights like:

1) Should try to show more & more disclosure.
2) There should be proper disciplinary mechanisms to control shareholders & management from indulging into any wrong practices.
3) Proper selection & functioning of boards.

2. OBJECTIVE OF THE STUDY:

- To understand meaning and importance of corporate governance
- The primary objective of the study is to calculate corporate governance score of 10 sample Indian pharmaceutical companies.
- A second key objective is to determine stock performance of pharma company through return on assets and return on equity.

3. RESEARCH METHODOLOGY:

For the purpose of study, 10 pharmaceutical companies from NSE pharma Nifty were selected on1st November, 2017. Following is the list of pharmaceutical companies.

1. Sun Pharma
2. Lupin PHarma
3. Piramal Pharma
4. Glenmark
5. Glaxo
6. Dr Reddy’s Lab
7. Divis Lab
8. Aurbindo Pharma
9. Cadila Pharma
10. Cipla

Data was collected from the websites of the companies, published reports and annual reports of companies. All data were secondary in nature. Return on assets is calculated as Net Income / Total Assets. It is expressed in percentage. Similarly, return on equity is calculated as Net Income /Shareholder’s Equity. It is also expressed in percentage.

Parameters specific to Corporate Governance were considered and data was collected about them for all the ten companies for the period 1st November 2017 to 31st November 2017. Following were parameters chosen.

Board Structure –This parameters talks about the number of directors, number of executive, non-executive and independent directors. This shows the independence of the board in its functioning.

Committees and details –This parameters talks about the number of committees related to corporate governance that each company has and the constitution of these committees. This shows the commitment of companies towards fulfilling corporate governance norms.

Disclosure of Information – This parameter talks about how open the company is regarding disclosure such as board compensation, related party transaction, implementation of corporate governance principles, linking of senior management’s remuneration with profits of the company and an internationally recognized independent auditor.

A score of 1 was awarded if an item was reported; otherwise a score of 0 was awarded. A company can score a maximum of 77 points and minimum of 0 per annum. A disclosure index of 8 broad parameters has been prepared according to clause 49 of the SEBI. This process of allocating marks out of 77 will be carried out for financial year 2017. For measuring stock performance month end closing balance of November 2017 were considered.

4. DATA ANALYSIS AND INTERPRETATION

The purpose of the study is to analyze the corporate governance score on one side and the company’s stock market on other side. For this purpose 10 companies are selected from selected from pharmaceutical industry and corporate governance score is calculated which is as below.

Table 1 Corporate governance score of Pharma Company on 8 categories

Corporate governance score on 8 categories	Aurobindo Pharma	Cadila Healthcare	Cipla	Divis Laboratories	Dr. Reddy's Laboratories	GlaxoSmith Kline Pharmaceuticals	Glenmark Pharma	Lupin	Piramal Enterprises	Sun Pharma
Statement on company’s philosophy on code of governance	1	1	1	1	1	1	1	1	1	1
Board of directors	5	4	4	5	3	4	2	5	5	4
Board meeting	2	5	4	3	3	4	4	3	3	6

Board Committees	9	9	6	9	7	5	4	6	4	8
General Body meetings	1	2	2	1	2	2	2	2	2	2
Disclosure on materially significant related party transactions	0	1	1	1	1	1	1	1	1	1
Means of communication	4	5	6	4	10	5	4	5	8	6
Shareholder information	10	17	5	14	16	11	16	14	19	17
Total	**32**	**44**	**29**	**38**	**43**	**33**	**34**	**37**	**43**	**45**

From the above table, it is observed that none of the company has fulfilled corporate governance fully as none of the company scored 77. Among all Sun Pharma have achieved highest score of 45 and Cipla has least one score of 29. Cipla is not revealing shareholder's information as per requirement as per clause 49. Whereas Glaxo, Aurbindo and Divis lab is poor in means of communication compare to other companies

.

Table 2 Average financial performance

	Sun Pharma	Lupin	Piramal	Glenmark	Glaxo	Dr. Reddys	Divis lab	Aurobindo	Cadilla	Cipla
Return on net worth	19	18.94	8.41	24.68	16.78	10.53	19.79	24.5	21.37	8.03
Return on assets	152.71	298.9	863.21	159.21	236.93	739.83	201.81	159.96	69.51	155.69

The above table talks about the financial performance of Pharam companies. Return on net worth is high in Glenmark followed by Aurbindo pharma and cadila. The lease net work return is in Cipla. But return on assets are quiet different in this companies. Highest return on assets found on Piramal and Dr Reddy's lab. If we see Corporate Governance and compare this financial performance, there is not relationship found. Sun pharma which is having highest score is having average financial performance. Cipla is having least score is having lowest return on net worth. But return on assets is average and better than other companies.

Table 3 Stock market performance of pharma companies for November 2017

	Sun Pharma	Lupin	Piramal	Glenmark	Glaxo	Dr. Reddys	Divis lab	Aurobindo	Cadilla	Cipla
SD	14.75678	83.889731	69.03537	20.18565	75.552438	43.996328	29.072961	38.138587	25.986281	14.876714
Median	537.925	831.875	2641.125	590.95	2560.625	2338.825	1029.15	711.775	447.7	613.175
Mean	535.77727	870.21591	2663.564	593.73864	2565.0477	2337.6045	1026.5295	732.3909091	480.67273	614.525

To summaries the stock performance of above mentioned 10 pharma companies, the stastical summary has been taken for month of November 2017. The stastical summary comprises of the mean values, median and standard deviation of the November 2017. Mean value represent the average representative values of the stock for the study period. Standard deviation shows the variability in the prices over the one month and the extent to which the mean values differ from individual prices. Median shows the mid most value and will help in showing of the scattering of the prices.

It is observed that the company who is having the highest and the lowest score has having the lowest moving averages of the stock prices and company who is having the average score are having the highest moving in the prices of their stocks. Also there are different news from across the globe for the company which has affected the price of the stock. Lupin is having the highest standard deviation in terms of prices moving in the month of November because they have got warning notice from USFDA for their Goa and Pithampur, Indore plants for their manufacturing facilities. So the prices of the company has slashed down from the highest of the month to the lowest of the month. The highest price of the stock was 1061 approx. then has slashed down to 817 approx. after 7th Nov. 2017. After the news has got announced in the public the prices has down from 1034 to 859. So the std. deviation is much more in the stock prices of Lupin. Aurobindo Pharma having the average standard deviation amongst the all 10 pharma companies of 38.13. Aurobindo pharma’s quarterly results has grown up and that effect has been seen in the stock prices of the company. The moving average prices of the stock was 732.39 for the month of November. The prices was between 692 and 796 for the month of November. Sun pharma is having the lowest moving averages and the lowest standard deviation for the month of November. The contract of Sun pharma was on hold from USFDA. This contracts were on hold because they want to inspect one of the plant of Sun pharma which is being situated in Halol district of Gujarat. Due to this news the prices were not fluctuating much in the month of November.

5. CONCLUSION:

The Above results give us empirical evidence or clue to proceed with the study of whether Corporate Governance ratings are embedded in the investment decisions or not. With the sample of 10 companies selected and above analysis we can conclude that the pharmaceutical companies who’s Corporate Governance score have better or steady have increased stock prices and their mean is improving.

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Corporate Governance: Transition in Organisation through HR Initiatives

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Abstract: *There is constant increase in competition among business unit. Each and every organisation wants to survive and grow in the economy. Long lasting relationship with stakeholders of organisation is the way through which they can not only assure their survival, but also ensure growth of the business in the society. Corporate governance is a framework through which business organisations design various policies and procedure which aid in bringing accountability, fairness, and transparency in a company's relationship with stakeholders. An employee of the organisation plays a crucial role in designing and implementation of the policies in organisation. So, recruitment, training and retaining of such employees become important for the survival and growth of the organisation. It is responsibility of HR department in the organisation to see that, employees of the organisation shared common values and work in the direction of achievement of organisational objectives of corporate governance. Current research paper discusses varied role played by HR department of organisation for framing and implementation of good corporate governance principles in the organisation.*

Key Words: Corporate governance, human resource management, recruitment, training, retention

Theme - (6): Human Resource Dimensions and Corporate Governance

1.INTRODUCTION

Industrial revolution brought great changes in economies of countries of the world. Old method of working with small instrument was replaced by new method of working with big machineries. Factories develop in urban areas employed hundreds of people. Two new classes immerge in society that was industrialists and workers. With the passage of time, company form of organisation came into existence where owner of the company were different from persons running it. Organisations also use to take external debts from the market for smooth running and growth of the business. Thus, business was run with the help of ownership and debt capital both acquired from the market or general public. Organisation use to acquire ownership and debt capital in form of shares which were purchased by the public either by direct subscription to companies issue or through stock exchange. People invest in the ownership capital when they find that such investment will generate more capital for them. Thus, companies' top management makes efforts to increase the shareholders' value by application of different policies in the organisation. Management of organisation acts as shareholders' agents in deciding the heads of investments and ways to finance those investments. Board of Directors plays a curial role in advising and monitoring management of the organisation. They were responsible for hiring, dismissal, and compensating senior management team as a part of internal control systems (Jensen, 1993).

Principles of corporate governance were adopted by the management of organisations for bringing accountability, fairness, and transparency in a company's relationship with its stakeholders. Corporate governance employed in the organisation not only ensure executives respect the rights and interests of company stakeholders but also makes stakeholders accountable for acting responsibly with regard to the protection, generation, and distribution of wealth invested in the firm. Organisation adopts diverse corporate governance practices to be effective in different internal and external environment (Thompson 1967; Scott 2003). Though corporate governance arrangements are diverse, but they exhibit patterned variation across firms and their environments. In view of above, present study was undertaken to suggest diverse HR policies that can be adopted for effective implementation of corporate governance practices in organisation. For this purpose research paper is divided into five sections. First section is the current section of introduction followed by the second section of literature review. Third section explains objectives and methodology of the study while forth section suggests HR policies that can be adopted for effective corporate governance. Last fifth section concludes study with the conclusion.

2. LITERATURE REVIEW

Section discusses concept of corporate governance with the help of studies undertaken by the authors in different period of times. Authors over a period of times had described the concept of corporate governance which helps it to understand better for its implementation. Zingales (1998) view corporate governance as a complex set of constraints that shape the ex post bargaining over the quasi-rents generated by the firm. While Shleifer and Vishny (1997) view it as a ways through which investor assure themselves of getting a return on their investment. Gillan and Starks (1998) define corporate governance as the system of laws, rules, and factors that control operations at a company. Aoki (2001) interpret corporate governance as a structure of rights and responsibilities among the parties with a stake in the firm. Thus, corporate governance is view as a wide range of organizational outcomes which include financial performance measured through return on assets, book-to-market ratio etc., economic and social indicators like: innovation, sustainability, and employee satisfaction.

Due to difference in applicability of corporate governance in the organisation theories like: agency theory, stewardship theory, stakeholder theory, resource dependency theory, transaction cost theory, political theory emerges over a period of time.

- *Agency theory* was viewed as separation of ownership from control over the business (Bhimani, 2008). Theory was exposited by Alchian and Demsetz (1972) and was further developed by Jensen and Meckling (1976). This theory is based upon the relationship between the principles (shareholders) and agents (top executives and managers). Shareholders of the organisation hire agents and delegate operations of business with an intention that agents will take decision an act in favour of their interests.
- *Stewardship theory* is defined by Davis, Schoorman & Donaldson (1997) as “a steward protects and maximises shareholders wealth through firm performance, because by so doing, the steward’s utility functions are maximised.” Stewards are the companies executive and managers who are self-motivated and the trust worthy people who will always work in the interest of shareholders and tried to maximise companies performance rather than their personal interest.
- *Stakeholder theory* was developed with a view to incorporate corporate accountability to a broad range of stakeholders (Freeman, 1983). Theory suggests managers of the organisations to serve relationship with diverse network which include: suppliers, employees and other business partners. Clarkson (1995) suggested that the firm is a system, where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders.
- *Resource Dependency theory* concentrates on the role of board directors in providing access to resources required by the firm for its survival and growth. Hillman, Canella and Paetzold (2000) focused on the role of directors in providing or securing essential resources to an organization through their linkages to the external environment. While Johnson, Daily and Ellstrand (1996) emphasis on the role of director in appointing outside agency for supplying the required resources for the firm.
- *Transaction cost theory* view organisation as a very large unit, where changes are required for its survival and growth. It observes difference in the views and objectives of the people working in the organisation and thus treats managers as an opportunist who arranges firms’ transactions to their interests (Williamson, 1996).
- *Political theory* discusses on the political influence in corporate governance directing corporate governance within the organization. Government many a time participate in corporate decision making for the interest of public at large. Participation of government effect the allocation of corporate power, profits and privileges offered and earn by the corporates. Thus managers of the organisation try to influence the decision of government by developing support of the voters in the meeting.

Theories mention above give an idea about the different role to be played by the managers and employees of the organisation for achievement of objectives of corporate governance. In the end of this section it was observe that corporate governance involves a set of relationships amongst the company’s management, its board of directors, shareholders, auditors and other stakeholders. It not only helps in framing rules and incentives but also provide a structure through which objectives of the company are set, and the means of attaining these objectives. It also aid in setting the procedure which monitor performance of the organisation as determined. Which this, key aspects of good corporate governance include transparency of corporate structures and operations; accountability of managers and boards to shareholders; and corporate responsibility towards stakeholders.

Organisation can realise better corporate governance by adding considerable value to their operational performance. Strategic thinking at the top, rationalising the management and monitoring of risk that a firm faces globally, limits liability of top management and directors by carefully articulating decision making process, integrating financial reports and by long term reputational effects among key stakeholders, are some of the policies which aid in enhancing operational performance. Framing and implementation of diverse operational policies requires employees with a vision and dedication for the setting and attainment of the objectives of organisation. It is the HR practices which help in securing, motivating and maintaining such employees in the organisation. Section below discusses objectives and methodology adopted for the research study.

3. OBJECTIVE AND METHODLOGY OF THE STUDY

Current research study is explorative and descriptive in nature. Literatures relating to corporate governance and HR policies were reviewed by the author to suggest the HR policies that can be adopted by the organisation which helps in attainment of corporate governance objective of the organisations. Suggesting the HR policies for effective corporate governance in the organisation is a prime objective of the paper. Section below gives suggestion about the different policies of HR that can be adopted by the organisation.

4. HR POLICIES

With changes in internal and external environment of corporates, changes are essential to be brought in governance practices of the organisations. Constant change in attitude and adaptability for changing conditions are required in the corporate board over the life of the companies (Hillman and Dalziel, 2003; Lynall *et al.* 2003). For this, different policy approaches regulating managerial power are design by the corporates with an aim to improve their effectiveness (Parkinson, 1993; Davis, 2005). In turn, effectiveness of corporate governance practices depends on threats and opportunities within a particular organizational environment and option adopted by stakeholders for dealing with it (Child, 1997). HR policies of the organisation play strategic role in formation and implementation of the governance policies. HR practices aid in improving operating performance by increasing the creativity, productivity and discretionary effort of the employees of organisation. It is due to the HR initiatives that employees at all the level of organisation are satisfied, motivated and committed for the work allotted to them. Becker and Huselid (1998) suggested to follow HR practices for improvement on employee skills, motivation, job design and work structures of organisation. Their research had shown the direct impact of HR practices in the above mention variables which in turn had affected profitability, growth and market valuation of the firms. HR policies generally include practices relating to hiring, training, development, career growth, job satisfaction, communication, succession planning, grievance handling and exit policies followed in the organisation.

- **Hiring:** Before hiring employees in the organisation HR department should have a clear vision and accurate knowledge about objectives of the organisation. They should know what type of skills, attitude and behaviour will be essential for a person to perform the job task allocated to them. Clarity on the above subject will help them to approach a right audience through the appropriate media. Approaching the right audience will aid them to select the most appropriate person for the job. But, before following the selection procedure HR department should be through with the requirement in the concern department by consulting the line managers. Thus, carefully designed hiring procedure of the employee ensures the right entry in the organisation which assists in the effective governance of organisation.
- **Training:** Each and every organisation has their particular working pattern. Same designation in different organisation required to perform dissimilar job task. Method and standard of performance also differ from organisation to organisation. Each organisation wants maximum output from the work performed by their employees. Training procedure, adopted by organisation ensure impartment of required skill and values in the employees. Employees with the values similar to the organisational values better understand the governance adopted by the organisation and thus play an important role in strengthening and implementation of such values throughout the organisation.
- **Development:** Development activity undertaken by the organisation is with a purpose of imparting skills and values in employees which will aid in meeting the future requirement of it. With the passage of time same job become more complicated either due to the addition of job task or change in pattern of doing same task. Employees are also promoted to the higher designation based upon the performance of current job. Development activity prepared the employees for this future changes and provide ease to do their new task with same efficiency.
- **Career growth:** People join the organisation with an aim to fulfil their diverse needs. Career growth is one of such need of employees working in the organisation. Employees working in the organisation have a want to see them-self at a particular level after having a required work experience. Organisation who are planning for the career development of their employee’s trend to fulfil this requirement of the employees. With the satisfaction of the need, employees become more satisfy with the job they are doing and the organisation with whom they are associated. Satisfied employees are assets of the organisation which can be effectively used for the achievement of diverse objectives of the organisation.

- **Job Satisfaction:** Job satisfaction is another very important content of HR policies. Different policies regarding work environment, remuneration, benefits, training, development etc. are constantly frame and implemented by the department to see the maximum employees are satisfy by their job in the organisation. Every employee has their particular need and priority in their job. HR department through its diverse policies try to meet the maximum requirement of the employees. Finding work enjoyable, developing liking towards organisation, willingness to follow procedure adopted by organisation, accepting value of organisation are some of the benefits from job satisfaction of employees.
- **Communication:** Management get work done through its employees. Employees will perform up to the mark only when they are communicated about the standards required and the value to be delivered by performance of task. Clear top-down and bottom-up communication help in proper planning, organisation, directing and controlling the activities within and outside the organisation. Communication plays a crucial role in framing and implementation of policies and procedure in the organisation.
- **Succession Planning:** Due to promotion, transfer, retirement there is a vacancy in the organisation. Person who was doing the job at certain level would not be in a position to continue with the same due to above mention circumstances. Sound HR practices do all the calculation before such things happen and start preparing other employees with a calibre for position which is going to be vacant in near future. Undertaking such activity by HR department is known as succession planning. Succession planning confirms generation of required skills and values in the prospective candidate for the job and thus helps in smooth governance of corporates.
- **Grievance Handling:** Grievance in the organisation cause disturbance, whether it is between two employees, two groups or employees and the management. Grievance generally occurs when there is difference between the expectation of people and actual things that they get. HR practices of the organisation should ensure that there is no such difference in organisation. All of the employees are clear about the procedure and practices followed in the organisation and the reason for the same. Difference in opinion among members of the organisation should be handled with a great care. HR practices should be frame in such a way that none of the party to the dispute is dis-satisfied by the wording given to resolve the dispute.
- **Exit Policies:** Exit policies though discussed at the end of HR policies to be taken care by the corporates. It plays an important role in application of the governance policies in the organisation. Employees of the organisation should have knowledge of time and situation in which they have to leave it. Exit interview are also recommended by many authors to have an idea about the reason of leaving the organisation. Employees who are leaving the organisation have adopted some working pattern or values of the organisation and might continue the same in future. This affects the society at large and thus exit policies play a crucial role in governance.

5. CONCLUSION

Businesses are done to earn profit out of it. Corporates use this profit according the principles which assured their growth and survival. For the better future, business organisation tended to retain earned money and the employees. Retained earn money are used by the organisation in purchasing physical capital and employees are their complementary human resources which help in better utilization of organisational other resources. HR policies and practices of the organisation plays an important role in getting right kind if employees and retaining them in the organisation. Having committed and motivated employees in the organisation gives an edge to the organisations in the market and ensures its survival and growth.

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Indian Financial Markets and Corporate Governance

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Abstract: *Corporate governance refers to the way a corporation is governed, means that system by which an company directing and controlling whole process. It means carrying the business according to the interaction between various participants as per stakeholder's benefits or desires. Now when we talk about Financial Market we know that money always flows from surplus sector to deficit sector that means persons having excess of money lend it to those who need money to fulfill their requirement. Now as fund is concerned for a company it become very important to manage that fund and utilized it in a proper manner as right time right place, right person. As far this paper is concerned here we study the relationship between financial market and corporate governance as it encapsulates the role of technological innovation, market restructuring and capitalization, e-banking, cashless economy in the market, corporate governance is intended to increase the accountability of any company and to avoid massive disaster before they occur. It helps to prevent corporate scandal, fraud and potential civil and criminal liability of the organization and enhances the reputation of the organization and makes it more attractive to customers, investors, suppliers, and in case of non-profit organization, contributors. Private companies that intend to seek capital from financial institutions and institutional investors should also be sensitive to their corporate governance image, since this image is an important factor in the ultimate decision to provide capital to the organization. A recent study by the Organization for Economic Co-operation and Development (OECD) reveals that there lies a link between equity prices and corporate governance. The relevance of Corporate Governance identified by those corporations that have good governance, attracts more investors dollars and on the long term drives up the equity price and increase shareholder values. In the financial system, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the financial system much depends on the underlying soundness of its individual components and the connections between them such as banks, non-bank financial institutions and the payment system. In turn, their soundness largely depends on their capacity to identify, measure, monitor and control their risks.*

Key Words: Corporate Governance, Organisation, Stakeholders and Business

1. INTRODUCTION

In general words Corporate Governance means set of rules and regulations by which an organization is governed controlled and directed. It is conducted by the Board of Directors or the concerned committee for the benefit of the company's stakeholders. Corporate Governance affects the operational risk and hence, sustainability of a corporation.

The financial system in an economy plays a considerable role in stimulating economic development. It channels funds (like credit, loan) to the various economic growth because it creates and makes contractual arrangements that link borrowers and lenders more efficiently than if they had to trade directly. This aspect is taken care by the Financial Markets which provide a place where or a system through which, the transfer of funds by investors/lenders to the business units is adequately facilitated. Financial Market act as link between two different groups (one who invest money or lend money and other who borrow or use money). It facilitate this function by acting as an intermediary between the borrower and the lender of the money.

It becomes important to know the relevancy of Corporate Governance in Financial Market, we all aware of Satyam scam which is the India's biggest corporate scam. The scam is all about corporate governance and it is regarded as 'Debacle of the Indian Financial System'. Ever since this scam the concern of good corporate governance has increased phenomenally. The Cadbury Committee defined corporate governance as the " the system by which companies are directed and controlled" in its report called Financial Aspects of Corporate Governance published in the year 1992. Good corporate governance helps to prevent corporate scandals, fraud and potential civil and criminal liability of the organization. A effective corporate governance image is an important factor in ultimate decision to provide capital to the organization.

For promoting sound corporate governance in the financial sector is by the encouragement of corporate governance culture through codes of conduct and principles of good practice. The development of corporate governance principles or guidelines can play a significant role in promoting greater awareness and adoption of sound corporate governance arrangements.

Corporate governance principles may be developed by industry associations, institutes of directors, government authorities or other bodies such as stock exchange.

The corporate governance principles developed by the OECD and the Basel Committee on Banking Supervision. OECD (Organization for Economic Corporation Development) it's an intergovernmental economic organization with 35 member countries, founded in 1960 to stimulate economic progress and world trade.

2. CORPORATE GOVERNANCE

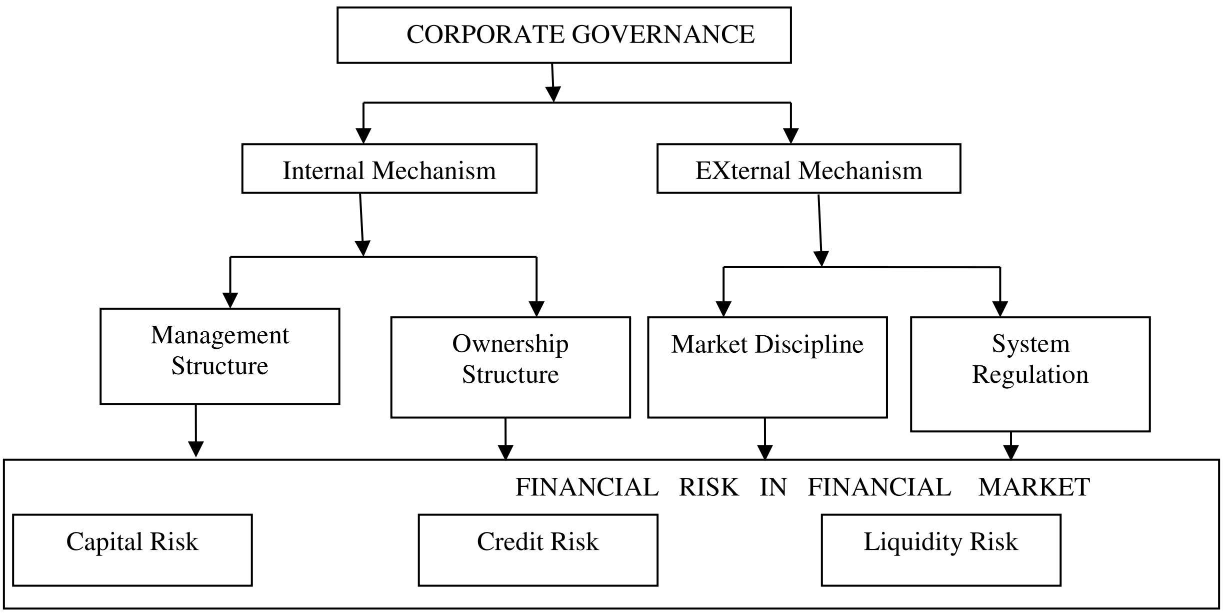
Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owner must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

Corporate governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the board of directors. In today's market-oriented economy, the need for corporate governance arises. Also efficiency as well as globalization are significant factors urging corporate governance.

3. OBJECTIVES

(I) Economic growth and financial stability.
(II) Supervision.
(III) Corporate governance ensure that board plays a central role in strategic guidance of the company, effective monitoring of management and that the board is accountable to the company and shareholder's.

Figure-01



An essential complement to sound Corporate Governance is the implementation of robust financial disclosure requirements' for corporate and financial institutions. Financial disclosure is essential as a mean of strengthen the accountability of directors and senior management and enhancing the incentive for risk management. It is also essentially market participants and observers-particularly the larger creditors of banks, financial news media, financial analyst and rating agencies-are to effectively monitor the performance and soundness of financial institutions z and exercise appropriate disciplines on those institutions which do not perform well or fail to meet acceptable prudential standards. Financial disclosure is also essential if smaller creditors, including depositors of banks, are to have any chance of protecting their own interests, particularly in the absence of deposit insurance.

(I) Good financial systems are at the heart of sound development policies according to academic research, which makes their evolution in the Gulf all the more important. The relationship between financial system and economic growth has been well recognized and emphasized in the field of economic development. And the numerous theoretical and empirical writings on the subject in the last 40 years acknowledge that financial development is important and leads to economic growth.

In the financial system, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the financial markets much depends on the underlying soundness of its individual components and the connection between them- such as banks, the non-bank financial institutions and the payment systems. In turn their soundness largely depends on their capacity to identify measure, monitor and control risk.

I.I) Financial market classified into two parts mainly
Money Market.
Capital Market.

Money market is a market for short-term funds, which deals in financial assets whose period of maturity is up to one year. It should be noted that money market does not deal in cash or money as such but simply provides a market for credit instruments such as bills of exchange, promissory notes, commercial paper, treasury bills, etc. these financial instruments are close substitute of money. These instruments help the business units, other organizations and the government to borrow the funds to meet their short term requirement.

The Capital market is a place where people buy and sell securities. Securities in this sense is simply a bundle of rights sold to the public by companies, authorities or institutions on which people then trade in the capital market. There are different types of securities or bundle of rights. These includes shares, debentures, bonds, etc. there are two levels of the market. The Primary market is the market where those wishing to raise funds from the stock market sell their securities to the public. The secondary market is where those who bought the securities in the Initial Public Offer (IPO) can sell them any time they wish.

The reason why people buy securities from the primary market is because they have the assurance that there is a secondary market where they can sell those shares possibly at a profit. The supply in this market comes from savings from different sectors of the economy. These savings accrue from the following sources.

- Individuals
- Corporate
- Governments
- Foreign countries
- Banks
- Provident fund
- Financial institutions

Capital market plays an extremely important role in promoting and sustaining the growth of an economy. It is an important and efficient conduit to channel and mobilize funds to enterprises and provide an effective source of investment in the economy it plays a critical role in mobilizing savings for investment in productive assets with a view to enhancing a country' long-term growth prospects. It thus act as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace within the global area.

Economic growth is achieved through a variety of mechanisms, including mobilizing savings, collecting and analyzing information, screening potential entrepreneurs, allocating investment to highest-return projects exerting corporate control, sharing risk, providing liquidity as well as overcoming asymmetric information problems that typically exist in financial markets.

In developing and emerging economies, a lack of relevant skills and experience can seriously impede the implementation and maintenance of sound corporate governance. This is true of various participants in the corporate governance matrix, including directors, senior management, lower levels management, risk managers and regulators. Therefore developing structure, it is also necessary to achieve through a number of mechanisms including:

- Training programmes for directors, managers, staff and regulators.
- Technical assistance programmes .

II) Corporate Governance is not just a business matter. It concerns the well-being of whole economies and populations too, and is a partnership question par excellence. Governance is more than just board process and processes. It involves the full set of relationships between company's management, its board, its shareholders and its other stakeholders, such as its employees and the community in which it is located. The quality of governance is directly linked to the policy framework.

Supervision has a number of important functions. In addition to the consistent implementation of regulation, supervision can complement regulation in dealing with the financial sector's continuous innovation and adaption, thereby reducing the needs for frequent rule changes and promoting regulatory stability. Moreover, supervision can go beyond the quantitative requirements to address qualitative matters such as corporate governance, influencing banks to change their risk culture for the better.

The success of any regulatory standard such as financial market also depends on the supervision of that standard. Consistent implementation of the rules is one of the important roles of supervision, possibly the most important. It is a way to ensure sound balance sheets and a resilient financial system.

There is another role of supervision by corporate governance in dealing with complexity , innovation , and continuous change. In highly dynamic, changing and complex world, regulations are permanently playing catch-up with the continuously adapting financial sector. Supervision can complement regulations in dealing with this challenge.

The nature of supervisory arrangements will vary depending on a range of factors, including a country's institutional arrangements, the structure of system, the nature of risk and the strength of market disciplines. Depending on these factors supervision of finance system through corporate governances it generally includes:

- Imposing minimum prudential requirements .
- Establishing financial and prudential reporting requirements.
- Monitoring the financial and prudential condition.
- Consulting with system or financial institutions for their business operations and risk management practices.
- Detecting signs of incipient financial distress.
- Maintaining a capacity to intervene in the system where there is an indication of emerging financial distress, and taking steps to minimize systemic disruption

III) The board should play a central role in the governance of the company. It performance the following functions:

- Guiding corporate strategy
- Monitoring managerial performance and replacing managers if necessary
- Ensuring that the corporation obeys the applicable laws.
- Establishing a code of corporate ethics.
- Overseeing systems to achieve an adequate return for shareholders.
- Monitoring and managing potential conflict of interest of management, board members and shareholders.

Corporate governance, describes the objectives and core attributes of an effective system, and evaluate whether a company has those attributes or not. Core attributes we mean: Delineation of the rights of shareholders and other core stakeholders.
Clearly defined the manager and director governance responsibilities to stakeholders.
Identifiable and measureable accountabilities for the performance of the responsibilities.
Fairness and equitable treatment in al dealings between managers, directors and shareholders.
Complete transparency and accuracy in disclosures regarding operations, performance, risk and financial position.
Corporate governance group has some following areas:

1. Developing the legal and regulatory foundation .
2. Improving the governance of institutions or sector.
3. Strengthen the capacity of regulators and supervisors to implement and enforce reforms.

In each areas the group works closely with clients to carryout diagnostics ad roadmaps for reform, and support implementation through strengthening of legal and regulatory frameworks, building capacity of regulators and supervisors and providing advisory services, training, and knowledge sharing. Increased emphasizes on governance mechanisms with broad enterprise-wide oversight of financial holding companies (FHCs) operating as "conglomerates"- namely, board of directors.

The financial market Integrity (FMI) group is located in the finance and market global practice in the World Bank Group. Corporate Governance (CG) is part of the FMI group's mandate. The CG group within FMI focuses on improving corporate governance in emerging market. It does so by providing technical assistance, though leadership, and support to the world Bank Group's advisory service programs and lending/investment operations and through global engagements with standard setting bodies such as OECD-Organization for Economic Cooperation and Development, FSB Financial Stability Board, and the BASEL committee on Banking Supervision.

Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate governance encourages a trustworthy, moral, as well as ethical environment. Let's take some example of companies which believes corporate governance relevance to establish themselves permanently in finance market.

INFOSYS—CORPORATE GOVERNANCE:

Corporate governance is about maximizing shareholder value legally, ethically and on a sustainable basis. At Infosys, the goal of corporate governance is to ensure fairness for every stakeholder- our customers, investors, vendor-partners, the community, and the governments of the countries in which we operate. They (Infosys) believe that sound corporate governance is critical in enhancing and retaining investor trust. They always seek to ensure that our performance is driven by integrity. There Board exercises its fiduciary responsibilities in the widest sense of the term. They also endeavor to enhance long-term shareholder value and respect minority in all our business decisions.
Infosys continue be a pioneer benchmarking there corporate governance policies with the best in the world. There effort are widely recognized by investors in India and abroad.

Some philosophy of corporate governance followed by Infosys:

1. Satisfying the spirit of the law and not just the letter of the law.
2. Going beyond the law upholding corporate governance standards.
3. Maintain transparency and a high degree of disclosure levels.
4. Making a clear distinction between personal convenience and corporate resources.
5. Communicating externally in a truthful manner about how the company is run internally.
6. Complying with the laws in all the countries in which the company operates.
7. Having a simple and transparent corporate structure driven solely by business needs.
8. Embracing a trusteeship model in which the management is the trustee of the shareholder's capital and not the owner.
9. Driving the business on the basis of the belief, 'when doubt, disclose'.

Infosys also in compliance with the recommendations of the Naryana Murthy Committee on Corporate Governance, constituted by the SEBI (Securities and Exchange Board of India).

With the belief that the efforts to improve Corporate Governance standards in India must continue because these standards themselves were evolving in keeping with the market dynamics.
According to 2003 report of Naryan Murthy Corporate Governance report—The SEBI Committee on corporate governance was constituted under the chairmanship of Shri N.R.Narayan Murthy, the chairman of and chief mentor of Infosys Technologies Limited. In its meeting the issue related to corporate governance and finalize its recommendations to SEBI. They talked about-

a) Audit Committees
b) Audit reports and Audit qualifications.
c) Related to Party Transaction.
d) Risk Management.
e) Proceeds from Initial Public Offerings ("IPO").
f) Code of Conduct.
g) Non-Executive Director Compensation.
h) Independent Directors.
i) Real time Disclosures.
j) Analyst Reports.

The need of for good corporate Governance has intensified due to growing competition amongst businesses in all economic sectors at the national, as well as international. why corporate governance is relevant for an system it could be better understood by knowing corporate governance benefits, some of it are as follows.

Benefits of Corporate Governance

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investor's confidence, as a result of which company can raise capital efficiently and effectively.
3. It lower the capital cost.
4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
6. Good corporate governance also minimizes wastages, corruption, risk and mismanagement.
7. It helps in brand formation and development.
8. It ensures organization in managed in a manner that it fits the best interest of all.

4. CONCLUSION

The real mechanism for corporate governance is the active involvement of the owner. Good corporate governance to get the heart of the matter, it is based on four main principles in terms of values: fairness or equitable treatment, transparency, accountability and responsibility. Effective corporate governance is essential then to achieving and maintaining public trust and confidence. By this paper we identified number of ways to encouraged corporate governance:

- The development of effective corporate law and legal infrastructure to enforce it.
- Promoting high quality accounting and auditing standards.
- Policies to strengthen the market disciplines in system.
- Effective supervisory techniques to encourage the adoption and maintenance of sound corporate governance.

Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholder.

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SMEs and Corporate Governance in India - A Step towards Improvising Competitiveness

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Abstract: *Corporate governance has always been part of one of the pillars of global competitiveness for large enterprises. The smooth availability of credit to Small and medium enterprises (SMEs) continues to remain a major issue in the development of the sector in the country. Implementation of corporate governance framework by SMEs in India is vital for taking SME sector to a higher growth and improved competitiveness. This conceptual paper reflects how corporate governance can help Small and Medium Enterprises (SME) to achieve global competitiveness. Weak corporate governance of small firms leads to poor availability of funds and credits which has made these firms at risk. Looking into the contribution of SMEs to the economic and social development there is high need of organized corporate governance in the SMEs. The idea of this paper is to make out the scope to which the corporate governance framework can be useful to small and medium enterprises (SMEs), and discuss the related issues within the Indian context. Study also addresses the financial institutions' contribution towards encouraging CORPORATE GOVERNANCE in SMES and also highlights the advantages of CORPORATE GOVERNANCE to SMEs.*

Key Words: Corporate governance, SMEs, India, Competitiveness

Theme – 4 Regulatory Landscape for Corporate governance (Scope of Corporate governance in SMEs)

1. INTRODUCTION

Developing countries are now increasingly focusing on the concept of good corporate governance, because of its ability to impact positively on sustainable growth. It is believed that, good governance generates investor goodwill and confidence. Corporate governance is not just a process but it is a whole structure which directs and manages the business activities towards achieving business wealth and corporate accountability with the intention of realizing long-term shareholder value, also taking into account the interest of other stakeholders. Better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. [10]

The concern of corporate governance has been an emerging research area of management field. The limited studies in the area with respect to SMEs have focused mainly on developed economies [15]. It has become important to study the corporate governance practices in SME sector in the context of developing country. SMEs have their own challenges regarding governance and in recent years, corporate governance research has extended from large firms to SMEs [17]. It is crucial to examine corporate governance in the SME sector from the context of a developing economy.

In this paper, effort has been made to theoretically observe the importance of corporate governance in the Indian SME sector, the implications of corporate governance principles to SMEs and the impact this will have in improvising global competitiveness of Indian SMES. SMEs in India play a crucial role of a contributor in economic growth as well as employment. Poor governance systems and unorganized management system often hinders the growth of these SMEs and not making them globally competitive.

In all over the world, having compliance with corporate governance is mandatory for all the listed companies, but such code of corporate governance compliance lacks in SMEs, though researchers in a respective sector argue to have a strict code of corporate governance for SMEs. Bringing this code of corporate governance into SMEs may result into incredible growth and global competitiveness. This paper tries to highlight the implications and issues related to corporate governance in relevance to Indian SMEs.

1.1 Indian Small and Medium Enterprises

Small and Medium Enterprises have always played a vital role in the growth of Indian economy. With around 3 crores 61 lacs units throughout the country, SMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities as well as 33.4% of India's manufacturing output. SMEs have been able to provide employment to around 120 million persons and contribute around 45% of the overall exports from India. The sector has consistently maintained a growth rate of over 10%. About 20% of the SMEs are based out of rural areas, which indicate the deployment of significant rural workforce in the SME sector and is an exhibit to the importance of these enterprises in promoting sustainable and inclusive development as well as generating large scale employment, especially in the rural areas. Thus, accelerated SME growth is fundamental to India achieving and sustaining a high GDP growth.

1.2 Corporate governance in India

The concept of corporate governance is not new in India. In ancient time of third century B.C., Chanakya, who was a well-known teacher, philosopher and a royal advisor hadreferred to four key duties of a king,which includes, Yogakshema (Safeguard), Palana (Maintenance), Vriddhi (Enhancement) and Raksha (Protection). On analyzing these four duties in the present context with the duties of top executives in companies, then it can be notice that all are similar. Here Yogakshema‟ means safeguarding the interests of the shareholders, „Vridhi‟ means enhancing the wealth by properly utilizing assets, „Palana‟ refers to maintenance of wealth through profitable affair and „Raksha‟ is referred with protection of shareholder‟s wealth.If we move further then in existing scenario, corporate governance was not in the agenda of Indian companies until early 90s and therefore was also not referred much. However, experiencing some major lapses and flaws in existing legal framework, including, boards of directors without adequate fiduciary responsibilities, poor disclosure practices, undesirable stock market practices, chronic capitalism and lack of transparency, it was felt to improve in governance through rigorous reforms.

The regulations and guidelines issued by the SEBI from time to time are aimed at achieving better governance of companies and in developing an efficient capital market. The key measures instituted by SEBI include: strict disclosure norms for public issues; strict entry criteria for public offers; automation of stock exchanges; strengthening regulations for mergers and takeovers; curbing insider trading and regulations for investments by foreign institutional investors (FIIs). The regulations enforced by the SEBI have important inferences for the governance of companies operating in India.

Most of the recommendations in corporate governance system in India are of the three committees on corporate governance - the Kumar Mangalam Birla Committee (1999), Narayan Murthy Committee(2003) both set up by SEBI, and Govt. of India's Naresh Chandra Committee (2002) are remarkably similar to and have drawn inspiration from U.K's Cadbury Committee of the U.K.(1992) and Sarbanes-Oxley Act (2002) of the U.S.A.. The reforms suggested by these committees and the subsequent legislative actions taken (amendment to the Companies Act, Clause 49, revised Clause 49) have driven the Indian corporate system towards the Anglo-American model. For strengthening the board of directors (reforms are centred on Anglo-American practice of a greater role of non-executive directors and the curtailment of multiple directorships (reduced from 20 to 15 by the Companies Amendment Act, 2000). The corporate law in India provides a legal framework for regulation, governance and administration of companies. It has provisions regarding shareholders rights, disclosure and transparency requirements and Board’s responsibilities towards the stakeholders. The act is administered by the Ministry of Corporate Affairs and enforced by the Company Law Board and the courts. Listed companies need to comply with the guidelines of Securities and Exchange Board of India (SEBI). They are also governed by the rules of The Institute of Chartered Accountants of India, Stock Exchanges and Income Tax department. (Kumar, Anil and Jyotsna Rajan (2014)

2. OBJECTIVES AND METHODOLOGY

This conceptual paper aims to contribute the insights of relationship between corporate governance and SMEs, and how CORPORATE GOVERNANCE can help to achieve global competitiveness in Indian literature. Primary objective of this research is to study the need of corporate governance in SMEs as a step of achieving global competitiveness especially in the context of financial systems and what are the advantages of having CORPORATE GOVERNANCE in SMEs; and for that this paper aim to study issues and challenges faced by SMEs. Secondary, another objective is to find out why CORPORATE GOVERNANCE is necessary and how it can help SMEs to raise finance and overcome the issues which Indian SMEs are currently facing. Thirdly, this paper reflects the ways through which SMEs can incorporate CORPORATE GOVERNANCE. Additionally paper also highlights the Indian financial institutes which are constantly working together to uplift the global competitiveness of SMEs with the aid of CORPORATE GOVERNANCE.

The methodology used to study the relationship between CORPORATE GOVERNANCE and GC in SMEs is purely qualitative which comprises of findings from various important reports of various institutions who are engaged in increasing competitiveness of SMEs in India. Also, thorough literature review has been done to identify key issues, challenges and advantages of corporate governance into SMEs. Discussion with industry experts have been also taken into consideration why drafting the conclusion. The paper follows the qualitative research approach to draw the conceptual paper.

3. LITERATURE REVIEW

There is very limited literature available which emphasis on the relationship between corporate governance in SMEs and global competitiveness. There is a wide range of literature available in corporate governance practices in large corporations and its impact on competitiveness. In this paper, attempt has been made to do extensive research which highlights corporate governance as a step to achieve global competitiveness specifically in SMEs.

Parthasarathi Banerjee, 2005 suggested that proper corporate governance clusters can immensely increases the competitiveness of small firms and poor managerial know-how and governance result in decreased competitiveness [21]. Chi-Kun Ho, 2005 provided strong evidence from his survey that higher the corporate governance practice, the stronger is the firm competitiveness [08]. Kester , 2012 has found that companies domiciled in different parts of the world have evolved different but often equally effective techniques for controlling problems that arise from informational asymmetries and from markedly different roles in the corporate governance process for large institutional investors and other stakeholders [26]. Kester suggests that these differences have contributed to discrepancies in national investment patterns, which have, in turn, influenced national competitiveness. Aleksandra Gregoric et al., 2005 found that there is a positive effect of board diversity in corporate governance on company's performance and competitiveness. Also to increase competitiveness key issues with SMEs must be highlighted to study the relationship between corporate governance and competitiveness [02].

Financing is the biggest challenge and the lack of it is the main reason for an SME going out of business in India [16]. In developed world, especially after the economic crisis, banks cut their lending to the SMEs and SMEs too curtailed their demand for credit during recession [25]. SMEs in many developing countries have already been strongly restricted in accessing the capital, for example, only 20 per cent of African SMEs have a line of credit from a financial institution [12]. When RBI recommends that there is a need to implement a CORPORATE GOVERNANCE code for the SME sector [07] it posits lack of governance as an impediment to the flow of credit to this sector.

Corporate governance relates to the 'structure of rights and responsibilities among the parties with a stake in the firm [04]. Effective CORPORATE GOVERNANCE implies mechanisms to ensure that the executives respect the rights and interests of company stakeholders, as well as guarantee that stakeholders act responsibly with regard to the protection, generation and distribution of wealth invested in the firm [01]. Mang' Unyi (2011) also examined empirically the ownership structure, corporate governance and its effects on performance of firms in Kenya with reference to banks [20]. Pandya (2011) opines that there is a significant relationship between governance structures and firm performance [22].

4. OBSERVATIONS AND FINDINGS

4.1 Potential of Indian SMEs in Global Competitiveness

Figure 5.1 Source: 14th CII Global MSME Business

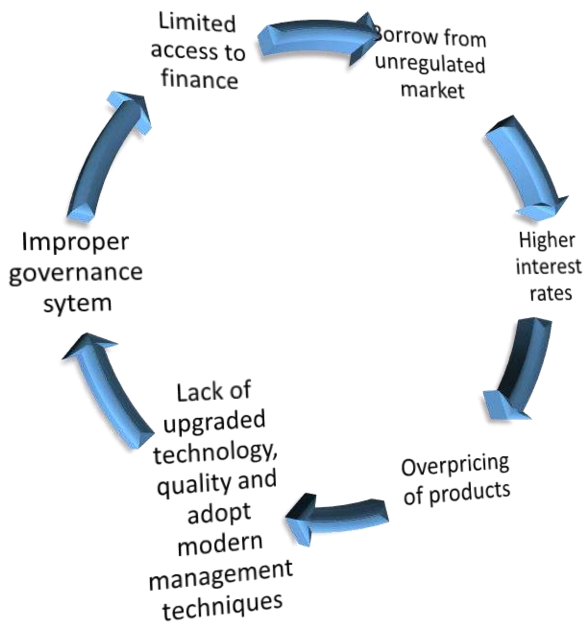
SMEs have a critical role in boosting industrial growth and ensuring the prosperity of Indian SMEs. India is rapidly emerging as one of the top economic powers in the world due to factors such as its rapidly growing consumer market, and it's large, skilled and cost competitive labour force, an industrial sector which is one of the largest in the world, a large manpower of scientists, engineers and technicians, besides rich agricultural and mineral resources. With features such as a large and rapidly multiplying stock of human resource, strong footprint in entrepreneurship and rising disposable income and living standards driving up domestic demand, India is well poised to become a key player in the global economy. SMEs are the very fuel that will drive the growth engine of the Indian economy.

The launch of catalytic initiatives such as Make in India, Skill India, Digital India and Start-Up India have generated significant global interest in the Indian economy and have led to the emergence of India as the fastest growing economy in the world today. To complement these initiatives, a surplus of lucrative incentives has been launched by the Indian government in order to enhance the global competitiveness of Indian businesses and improve the ease of doing business in India.

Many global companies are increasingly looking to Indian SMEs for strategic partnerships of mutual benefit due to the innovative capabilities in niche manufacturing, comparative advantages of advanced engineering, low-cost manufacturing and overheads, ability to speedily absorb new technologies and local skills and capabilities. Indian SMEs have the capability to provide high quality final and intermediate products equipped with latest technology and innovative features while minimizing costs of production. In the area of global supply chains too, Indian manufacturers have been successful in their pursuit to meet global manufacturing and quality standards. Many prominent global OEMs are increasingly looking at India for establishing strategic sourcing units and International Purchase Offices.

Looking into the above potential of Indian SMEs, the question arise is, Do we really need to have a proper governance system for Indian SMEs? Will incorporating corporate governance system into Indian SMEs increase the growth of SMEs in economy?

4.2 Issues and Challenges to Indian SMEs



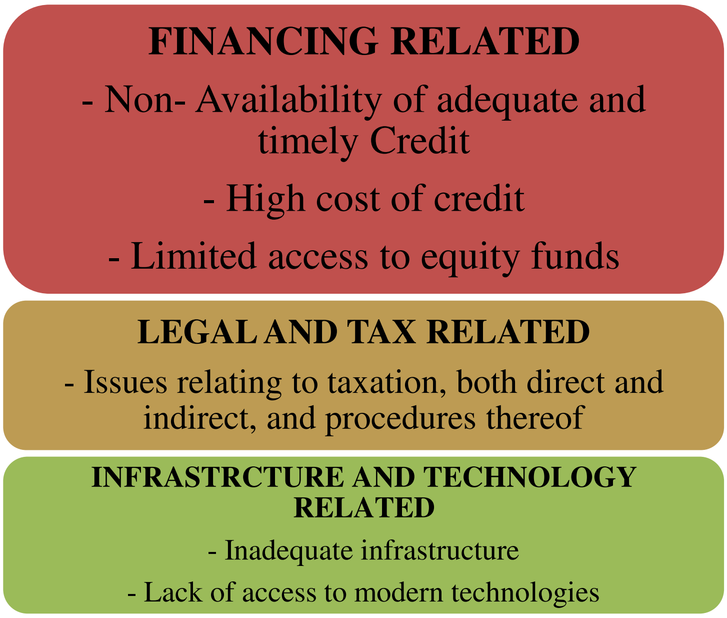
Despite of showing an incredible growth of 10 % in last decade, The SME sector is still facing many issues and challenges. MSME sector is still facing problems viz unorganized management, credit issues, and technology related issues. The key issues taken up by planning commission in 12th plan are majorly, financing related, legal and tax related, infrastructure and technology related and operations related. Though various action points were included to face these challenges, financing problem still persist in MSME sector.

As SME owners have limited access to credit which forces them to borrow from unregulated lending markets and they end up paying much higher interests, which ultimately leads to overpricing of products and limits the upgradation of technology and quality, this leads to improper management system. Below para discuss the traditional and emerging options for financing SMEs.

Financial Support from public sector banks, retain earnings, various financing government schemes, NABARD schemes and support from venture capital funds/seed funds have been the core mediums for financing to SMEs, but with the emerging economy and global competitiveness it becomes very essential for SMEs to adopt the new channels for financial aid to resolve the biggest issue of credit and funding. Below section of this paper explain the new channels for financing in details which are directly connected to adopt the corporate governance system in SMEs:

A) **Access to equity capital through SME exchanges**
There is a general lack of awareness among SMEs about equity capital, stock markets and funding options, other than banks. So far, there have been only debt-financing options, without any access to alternative equity options. The small and medium exchanges for SMEs listing norms unlike the regular listing on a SME platform through an IPO are a major introduction. Meant for SMEs with a paid-up capital of less than 25 crore INR, it empowers them to tap into the capital markets by getting listed on the exchange without having to make any initial public offering. The SME sector is highly unorganised and fragmented but SME exchange can facilitate the creation of a financial ecosystem for SMEs in India. SME exchange plays a major role to enable SMEs to get over the liquidity crisis and bring the transparency through corporate governance in the listed firms and ensure better visibility among investors. Also, a company must need a corporate governance certificate to get listed on SME exchange. Getting listed in SME exchange will give great relief of exemption from long-term capital gain tax on the sale of shares; this tax is 15 % to the unlisted SME. SME World article dated April 2012 [32] . The SMEs listed on the SME exchange can migrate to the BSE main board without bringing a fresh IPO; if the paid-up capital of the listed SME is above 10 crore INR and the non-promoter shareholders approve the migration by a two-third majority. This is a bonus for the listed SMEs [29]. The enlistment also comes with a market making support for three years in the secondary market which will ideally help create the desired liquidity for SMEs. Considering the fact that there are 15 million to 20 million investors in the capital market who can invest in these companies through any of the branches and franchisees of more than 1600 BSE members, the influence on the investor base for these SMEs will be manifold, thus improving their valuation and promoting wealth creation.

B) **Securitisation of SME credit**
SME credit could be converted into loan pools or securitised assets and sold to investors interested in investing in such asset classes. The RBI had issued new guidelines for the securitisation of standard assets in order to enable creation of a true securitisation market in India. These guidelines have numerous safeguards embedded in them to enhance the quality of the pass-through certificates (PTCs) issued in any securitisation transaction. PTCs are sold to SPV (Special Purpose Vehicle) for further sale to investors in the form of new instrument. In order to have effective supervision of companies and to make them bankruptcy proof, Section 3 of the Company's Act has prescribed registration, net worth and corporate governance requirements for them. [27]



C) **Role of credit rating in financing**
One of the most important measures taken by financial institutes which offer finance to MSMEs is to inspect their credit rating status to get a clear picture of the creditworthiness of the companiess. The government of India operates a dedicated rating agency, the SME Rating Agency of India Limited (SMERA), that is a third-party rating agency exclusively made for micro, small and medium enterprises in India for ratings on creditworthiness. It provides ratings which enable only SME units to get bank loans at reasonable rates of interest. Credit praiseworthiness may be further improved by increasing the level of transparency and process rigidity in record keeping and financial reporting [09]. Most SMEs are weak in this aspect and this can be improved through rating system. Rating involves study for which the starting point is the financial statement

of the firm. Hence, this process also increases the level of discipline and record keeping standards in SMEs. This could be brought through proper corporate governance. Maintaining transparency is of utmost importance in building credit worthiness. The other advantage is of having well-organized processes and holding on to them tcan ensure quality of product and organized management system. Credit rating also helps an SME to get more financial support as banks may increase their credit limits due to higher transparency and credit in transacting with a well rated SME. The rating also let the SMEs expand their market base and get new agreements from export markets. [09]

D) Cluster-market governance
This is the approach of governance where firms can access not expensive and reliable information on market and corporate governance. The pros that firms enjoy through sharing knowledge about resources and governance are that all the firms in a zone can raise their competences together at a very low cost. Germany, France, China and the Netherlands for example have opened cluster market based stock exchanges. Transactions in such an exchange are low-cost. Because transactions are open and transparent, such an exchange would set up incentives to increasing competitiveness. In other words, cluster-based small exchanges can enhance corporate governance among small and medium firms. [11]

5.2 Role of Indian Financial Institutes in promoting corporate governance in SMEs

A) *CII*- For over a decade, the Confederation of Indian Industry (CII) has been at the forefront of the corporate governance movement in India. In April 1998, it released a Task Force report entitled “Desirable Corporate governance: A Code”, which outlined a series of voluntary recommendations regarding best-inclass practices of corporate governance for listed companies. It is worth noting that most of the CII Code was subsequently incorporated in SEBI’s Kumar Mangalam Birla Committee Report and thereafter in Clause 49 of the Listing Agreement. Moreover, the CII Code was the first and probably a unique instance where an industry association took the lead in prescribing corporate governance standards for listed companies. CII is at the forefront of industry initiatives to formulate and implement ethical business practices in the country. Toward this, CII set up a ‘Task Force on Integrity & Transparency in Governance’ under the Chairmanship of Mr Adi Godrej. The Task Force has developed a Code of Business Ethics which is recommended to members to follow on a voluntary basis. The Code is of key essence to SME members and the sector at large.

B) *SEBI and Stock Exchanges* - SEBI has initiated various policy measures to enhance fund raising by corporates. Pursuant to the Finance Minister's announcement that start-ups will be permitted to list on SME exchanges without being required to make an initial public offer, SEBI has also laid down regulations for the governance of SME Platform. With a view to increase market efficiency by monitoring unregulated funds, encourage formation of new capital and consumer protection. (U K sinha) SEBI has Clause 49 of listing provisions on SME exchange specifically for the corporate governance requirement. The SME shall be required to comply with the requirement of the clause 49 to get listed on SME exchange. SME shall be acquire a certificate from the statutory auditor/practicing chartered accountant certifying compliance of conditions of Corporate governance as stipulated in Regulation 17 to 27 of the SEBI Regulations and circulars issued by SEBI there under. Bombay Stock Exchange and National Stock exchange has also contributed to resolve the SME financing problem through providing SME exchange platform. Both stock exchanges have their own SME exchange. And by getting listed on these exchange SME can raise money from public investments and also there are numerous benefits viz easy access to capital, enhanced visibility and prestige, ensured tax benefits, equity financing through venture capital etc.

C) *National Foundation for Corporate governance (NFCORPORATE GOVERNANCE)* - With the goal of promoting better corporate governance practices in India, the Ministry of Corporate Affairs, Government of India, has set up National Foundation for Corporate governance (NFCORPORATE GOVERNANCE) in partnership with Confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI). The foundation is doing extensive research and development work for Corporate governance Norms for SMEs. As a result, they have published articles and research reports to set a code of corporate governance into SMEs. [28]

D) *SMERA*- SME Rating Agency of India Limited (SMERA) is a joint initiative by SIDBI , Dun & Bradstreet Information Services India Private Limited (D&B), Credit Information Bureau (India) Limited (CIBIL) and several leading banks in the country. SMERA is the country"s first rating agency that focuses primarily on the Indian SME segment. SMERA"s primary objective is to provide ratings that are comprehensive, transparent and reliable. This would facilitate greater and easier flow of credit from the banking sector to SMEs. This also facilitates Indian SMEs to incorporate better CORPORATE GOVERNANCE practices. [31]

5. CONCLUSION

A two-sided approach involving innovative lending from the financial sector and better corporate governance systems in the SME sector can lead to a growing flow of finances to SMEs. To make these enterprises competitive, a number of countries have developed capital market specifically catering to SME sector. Good governance practices in SMEs will help them grow or attract additional investors [18]. The absence of good corporate governance practices makes it difficult for them to access finance from banks or investors. Adoption of sound corporate governance by SMEs is indispensable for taking this sector to a higher growth trajectory. The lack of corporate governance is attributable to lack of awareness about corporate governance practices and its impact on corporate performance. There is a need to educate SMEs about benefits of adopting sound corporate governance practices and industry associations have a key role to play in it. [32]

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A Study on Examining Impact of Corporate Governance Failure on Indian Stock Market

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Abstract: *Corporate Governance system is a systematic integration of regulatory governance, market governance, stakeholders' governance with company internal governance. Strong corporate governance is needed to protect all stakeholders and to attract foreign direct investment. However, many events have occurred where corporate governance has failed in company which has impacted whole society. The study has identified this problem and focused on examining how corporate governance failure impacts Indian stock market. The study is descriptive in nature and it is based on secondary data. The study has selected five companies namely Biocon, Dhanlakshmi bank, Educomp, Kingfisher and Sahara. The study examines how these big corporate giants have faced problems related to corporate governance practices and how their failures have impacted Indian stock market. The study has selected Sensex which is the oldest stock exchange of India to represent Indian stock market. The study takes examines the impact on Indian stock market by collecting stock prices of selected companies using E-views.*

Key Words: Corporate governance failures, selected companies, Impact on Sensex

1.INTRODUCTION:

Corporate governance is the process carried out by board of directors and committee members to provide direction and authority to management for the benefit of company's shareholders and other stakeholders. It focuses on how to make balance between the board members benefits and stakeholder's benefits. It makes sure that business environment is fair and transparent. Good corporate governance ensures that all stakeholders are sufficiently informed regarding company's operations. There are many examples of failures and scams in corporate sector due to collusion with accounting firm, ineffective internal audits, lack of skills required by managers, lack of proper disclosures, non-compliance with standards etc. Such corporate governance failures also influence stock market which is the depiction of health of the country in short term. Present research has identified this problem and focused on examining the impact of corporate governance failures on Sensex which is the oldest stock exchange of India. The study has selected following five companies randomly which scores low in corporate governance.

1.1. BIOCON:

Biocon Limited is a biopharmaceutical company of India which brought bio-revolution. It was established in 1978 by Kiran Mazumdar Shaw. Biocon limited produces generic active ingredients and sells them in developed European market. The business segments of Biocon include electrical and electronic components, healthcare products, and security services. The company has done many small acquisitions and managed to become a big giant. The company has made 20 acquisitions in 2 year time period. However, they have never disclosed these acquisitions to public. Here, company didn't follow full disclosure norm of corporate governance. Then Accountants of company had underreported pre-acquisition earnings of newly acquired companies so that they can show increase in earnings after acquisitions. It is reported that company has consistently used inflated accounting from 2010 to 2015 and as a result of that its EPS has increased for this duration. A leading investment bank Espirito Santo has downgraded Biocon and advised investors to "sell". The founder of company Kiran Mazumdar-Shaw stated in Feb 2017 that there was no any breakdown in the governance of the company and the case raised because of perception of parties involved.

1.2. DHANLAKSHMI BANK:

Two independent directors B. Ravindran Pillai and K.Jayakumar submitted their resignation from board of Dhanlakshmi Bank. The resignation letter (which acted as Whistleblower) from K. Jayakumar as a Board of Director in Dhanlakshmi bank has exposed lack of proper management at bank and it has also questioned the role of banking regulator (RBI). Employees were unhappy because of abrupt termination of PV Mohanan, General Secretary of bank without specific reason. The employees even stop work for 33 days and hence government needed to look in the matter. K.Jayakumar revealed various improper HR policies of bank such as arbitrary transfers, termination, selective rewarding etc. He also stated that directors would be sidelined from decisions if they had any different opinion from bank. All India Bank Officers confederations too stated misuse of power from top management. It was revealed that Managing Directors and Chief General Managers were selecting Directors and Chairman of the bank. And by selecting directors by this mode, there was a big erosion of "Independent Directors" concept in Dhanlakshmi Bank.

1.3. EDUCOMP:

Educomp solution was considered blue-chip stocks of education sector; it is the largest education company in India which has empowered 30 million learners. Educomp came under IT department scrutiny. It was revealed that company was involved in accounts window dressing. It was creating special purpose vehicles (EduSmart) to transfer its receivables show more cash. As a result their balance sheet was shown more attractive. According to an equity research firm, the address for EduSmart's auditors and Educomp's auditors was same. EduComp sells software and hardware to schools and EduSmart sells solutions to schools on behalf of Educomp. And any excessive closeness between company and auditor would be a concern for investors. However, Educomp's director Shantanu Prakash stated that EduSmart is a completely third party company .The company was also questioned for its change in revenue recognition policy and it was observed as an example of poor disclosure.

1.4. KINGFISHER:

Kingfisher Airlines popularly known as "King of good times" was recognized as one of the most innovative and customer oriented company since its inception in 2003. It was having huge debt, lower fixed assets and negative net working capital. The share price of kingfisher was continuously declining from November 2010 to September 2011. It came with a new brand Kingfisher Red for premium customers. However, there was not any difference between the services of both parent and subsidiary company. Corporate affair minister in 2013 blamed bad governance and unprofessional management as a reason for failure of Kingfisher. The auditors had raised several questions about its accounting practices in annual report. They also highlighted that Kingfisher was working as a "One Man Army", stating few in active directors. Corporate governance regarding active directors, number of meetings etc was not followed by company.

1.5. SAHARA:

RBI received complaints from individual investors that the Sahara group was mobilizing money from public under the name of Sahara Pariwar and Sahara India Pariwar which were not registered under RBI. SEBI found that Sahara India Real Estate Corp Ltd and Sahara Housing Investment Corp Ltd, issued optional fully convertible debentures and collected illegal money from investors. In 2009 Sahara Group activist came in to radar of SEBI which lead to arrest of Sahara Pariwar founder Subrata Roy in 2014. SEBI and Supreme Court ordered Sahara to refund investors money by depositing with investors. Sahara declared that they had already replaid most of amount to investors. However, SEBI stated that details of investors who were refunded had not been provided by company.

2. LITERATURE REVIEW:

(Ajide, 2014) examined quality of Governance and Stock market performance (Nigerian Market Experience) . The study shows that there is a slight difference which occurs on stock market because of quality of corporate governance. The study states that the companies which follows the code of conduct will only be allowed to trade on market. The study stated that accountability, political stability, government effectiveness, regulatory quality, laws etc are the components of corporate governance.

(May M. Elewa, 2016) examined the impact of corporate governance on stock price and trade volume for 62 publically listed firms. The impact is examined on Egyptian Stock market during 2007-2014. The study has used regression analysis for examining the impact. The result shows that quality of corporate governance has affected stock price. However, there is no influence of good corporate governance on trading volume.

(Palaniappan G1, 2016) examined the relationship betweeen corporate governance practices and firms performance of Indian Context. The study has focused on ten manufacturing companies listed on BSE Stock exchange. The study has identified positive relationship between the corporate governance disclosure and firms performance. The study concluded that a firm with good corporate governance policies and practicies has greater transperancy and disclosere as compared to the firms with poor corporate governance pracitces which affects profitability.

(Raghu Katragadda, 2017) examined the impact of corporate governance parameters on the performance of Nifty - 50 firms. The study reveals that corporate governance variables such as board of directors, audit committee, subsidiary companies, corporate governance, remuneration committee, nomination committee, board independence, CEO duality etc have positive relation with the firm performance. The corporate governance score of companies was having positive correlation with firm's performance.

3. RESEARCH METHODOLOGY:

3.1. Objective of the Study:

- To study the corporate governance issues linked with selected companies.
- To examine the fluctuation in the return of selected company for selected duration
- To examine the influence of returns of selected companies on Sensex.

3.2. Research design: Present research is descriptive in nature. It attempts to examine the behaviour of stock prices of selected companies for selected duration.

3.3. Data collection tool: The data has been taken from secondary sources. The duration of the study is the year in which corporate governance failure of selected company has been identified. The study has collected 243 observations in terms of daily returns for each company.

3.4. List of selected company:

Name of company	Year in which corporate governance failure was identifies (Year of study)
Biocon	2015
Dhanlakshmi Bank	2015
Educomp	2012
Kingfisher	2012
Sahara	2014

3.5. Techniques of analysis: The data has been analysed using Descriptive statistics, Line chart, ADF unit root test and Regression analysis.

4. ANALYSIS:

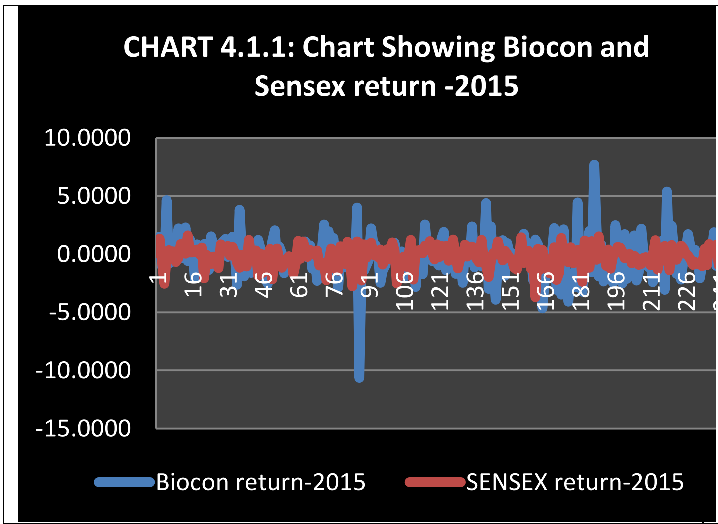
TABLE 4.1: TABLE SHOWING DESCRIPTIVE STATISTICS OF SELECTED DATA

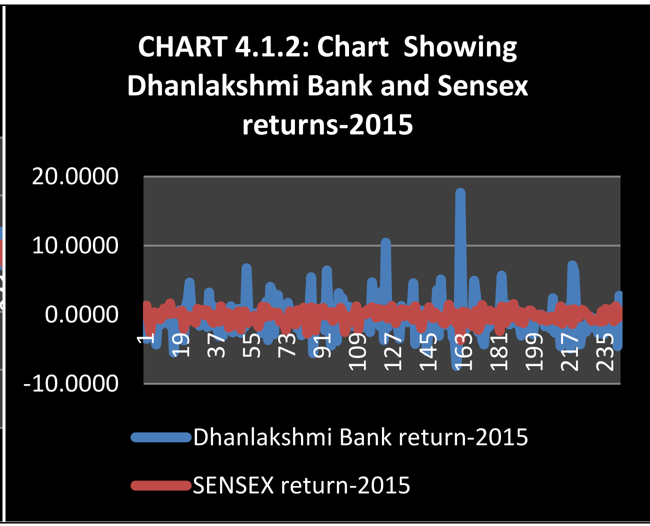
	BIOCON_2015	DHANLAKSHMI_2015	EDUCOMP_2012	KINGFISHER_2012	SAHARA_2014
Mean	-0.2228	-0.5115	-0.3657	-0.5386	0.8362
Median	-0.2668	-0.8000	-0.3800	-1.0830	0.1565
Maximum	7.6835	17.6471	9.9639	20.7692	26.7073
Minimum	-10.6318	-7.4481	-8.6053	-15.7143	-16.4038
Std. Dev.	1.7953	2.6088	2.5692	4.6523	5.6500
Skewness	-0.2012	2.0478	0.0119	1.0925	0.8495
Kurtosis	8.5604	13.4726	4.7453	6.4545	5.5622
Jerque-Bera	314.6801	1280.3110	30.8475	169.1697	95.6909
Probability	0.0000	0.0000	0.0000	0.0000	0.0000

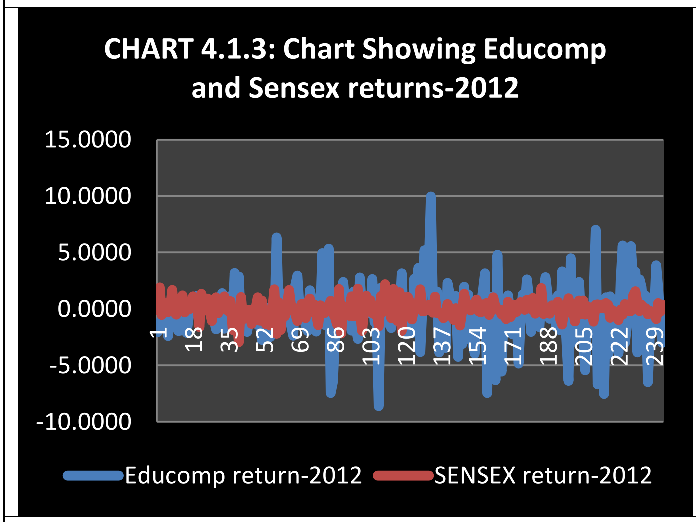
Sum	-54.1306	-124.2941	-88.8566	-130.8841	203.1983
Sum Sq. Dev.	780.0026	1646.9670	1597.3800	5237.8140	7725.3550
Observations	243	243	243	243	243

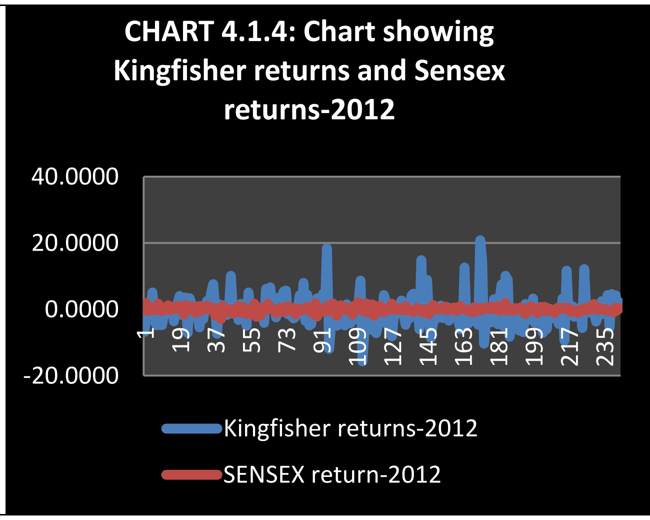
Table 4.1 represents descriptive statistics of daily return of selected companies. It can be seen that the average return is negative for all selected companies except Sahara in selected duration. Sahara was giving maximum return while caught up in corporate governance failure. The maximum volatility was also found in Sahara. The value of Skewness is not equal to zero for any selected company which means that the data is skewed. The value of Kurtosis is greater than zero which indicates that return of selected companies follow Leptokurtosis. Leptokurtosis situation arises when high volatility period of financial markets are followed by relatively stable period. The result of Jerque-Bera test exceeds critical values of any reasonable significance level. It means that returns of selected companies do not follow a normal distribution.

CHART 4.1: CHARTS SHOWING FLUCTUATION IN SELECTED COMPANY RETURN AND MARKET RETURN:









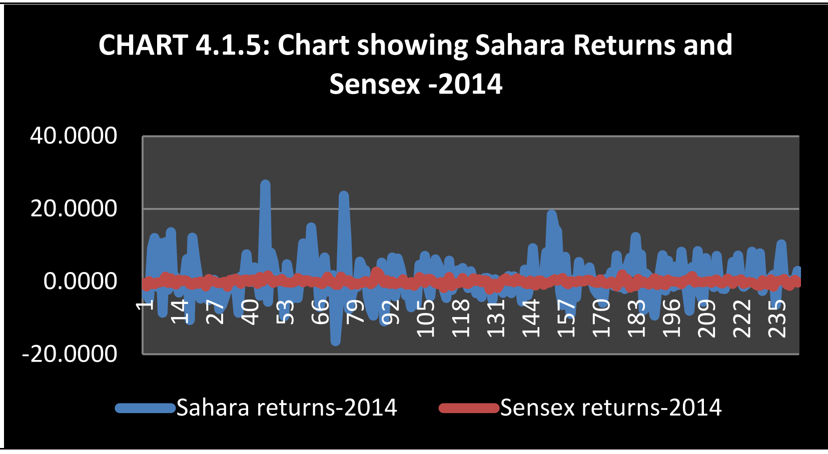


Chart 4.1 depicts return of selected company and SENSEX return for selected time period. The year in which the corporate governance failure has been identified has been selected as duration. X-Axis represents number of days and Y-Axis represents returns of selected company and SENSEX. It can be observed in all above charts that there is a fluctuation in selected companies return. Kingfisher and Sahara are facing maximum volatility from market return which is also confirmed with standard deviation found while performing descriptive statistics. However, it can be seen that the movement in returns of all selected companies are not having much impact on the movement of SENSEX. Regression test has been conducted to confirm this behaviour in market.

TABLE 4.2: AUGMENTED DICKEY-FULLER UNIT ROOTS TEST RESULTS:

Augmented Dickey-Fuller test statistic								
Test critical values:								
	Biocon	Dhanlakshmi Bank	Educomp	Kingfisher	Sahara	SENSEX 2012	SENSEX 2014	SENSEX 2015
t-Statistic	-17.34	-16.23	-15.45	-16.02	-14.47	-17.68	-13.88	-15.63
1% level	-4.00	-4.00	-4.00	-4.00	-4.00	-4.00	-4.00	-4.00
5% level	-3.43	-3.43	-3.43	-3.43	-3.43	-3.43	-3.43	-3.43
10% level	-3.14	-3.14	-3.14	-3.14	-3.14	-3.14	-3.14	-3.14

Augmented Dickey-Fuller Unit Root Test has been performed with an objective to examine whether data series is stationary or not. (Ho: Data series contains a unit root). Data series will be considered as stationary if there are not unit roots. It can be seen in Table 4.2 that t-statistics for all selected companies and market is less than values at 1% level, 5% level and 10% level. It means selected companies and market returns for selected duration do not contain a unit root and data series are stationery. Most of the statistical forecasting methods are based on the assumption that data series are approximately stationary. The statistical properties of stationery data series remains same in future as they have been in past.

EXAMINING INFLUENCE OF SELECTED COMPANIES RETURN ON SENSEX:

Ho: There is no statistical significant influence of selected companies return on SENSEX.
H1: There is a statistical significant influence of selected companies return on SENSEX.

TABLE 4.3: TABLE SHOWING RESULTS OF REGRESSION ANALYSIS:

TABLE 4.3.1: INFLUENCE OF BIOCON RETURN ON SENSEX -2015				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.188928	0.057283	-3.29817	0.0011
BIOCON_RETURN_2015	0.017816	0.031728	0.561529	0.575
TABLE 4.3.2: INFLUENCE OF DHANLAKSHMI BANK ON SENSEX-2015				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.212243	0.057608	-3.68426	0.0003

DHANLAKSHMI_BANK_RETURN-2015	-0.037823	0.021713	-1.741954	0.0828
TABLE 4.3.3: INFLUENCE OF EDUCOMP ON SENSEX-2012				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.020788	0.052512	-0.395876	0.6925
EDUCOMP_RETURN_2012	-0.01485	0.020276	-0.732381	0.4646
TABLE 4.3.4: INFLUENCE OF KINGFISHER ON SENSEX-2012				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.013576	0.052384	-0.259174	0.7957
KINGFISHER_RETURNS_2012	0.003308	0.011208	0.295156	0.7681
TABLE 4.3.5: INFLUENCE OF SAHARA ON SENSEX-2014				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.049711	0.045831	-1.084646	0.2792
SAHARA_RETURNS_2014	0.006636	0.00804	0.825366	0.41

Table 4.3.1 shows the coefficient for Biocon is 0.017816 which means if Biocon return increase by 1 unit then Sensex return increases by 0.017816. The coefficient is positive which means that Biocon return has positive influence on Sensex. However, the P-Value is 0.575 (more than 0.05) which means that the influence of Biocon returns on market is not significant. Table 4.3.2 shows that coefficient of Dhanlakshmi bank is -0.0378 which means if Dhanlakshmi Bank return increase by 1 unit then Sensex return decreases by 0.0378. P-value is 0.0828 (More than 0.05) which means influence of Dhanlakshmi bank on market is not significant. Table 4.3.3, 4.3.4 and 4.3.5 also confirms that there is no statistically significant influence of selected companies return on market return as P-values are more than 0.05 (H1 will be accepted).

5. CONCLUSION AND IMPLICATIONS:

Present study has identified five companies namely Biocon, Dhanlakshmi bank, Educomp, Kingfisher and Sahara who have failed in corporate governance. Biocon was using inflated accounting and it was also held responsible for lack of disclosures. Dhanlakshmi Bank was involved in failure of independent directors as per corporate governance norms. Educomp was questioned for change in revenue recognition policy and poor disclosure. Kingfisher was questioned for its bad governance and unprofessional management. Sahara was involved in collection of illegal money from investors and not refunding investors' money.

Study has collected daily observations of selected company for one year in which their corporate governance failure has been known to public. Then study attempts to know the impact of such failures on Indian stock market considering Sensex as a representative of market. Descriptive results show that Sahara was giving maximum return while caught up in corporate governance failure. Kingfisher and Sahara are facing maximum volatility from market return. The results of regression analysis show that the return of selected company has minor influence on Sensex in short term. However, the influence is not statistically significant as P-values are more than 0.05 for all selected companies. The market gets affected due to such corporate governance failures in short term, however in long term due to the strong fundamentals of market, it revives and performs better.

Although the impact is for short term still many investors looses their money. So it is advisable for companies to maintain practice of separate roles of chairman and Board of directors. The company should allow auditors to work independently. Good governance should also allow disclose all sufficient information to concerned person. Rights of shareholders, equal treatment of shareholders, disclosure and transparency should be encouraged. Investors should also not buy stocks only on the basis of fundamental and technical analysis but also should consider corporate governance adoption by companies.

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Gender Diversity at Board Level with Respect to Banking Sector

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Abstract: *Companies Act, 2013 vide section 149 (1) and SEBI guidelines made it mandatory for all the listed companies to have at least one woman director on their boards. Various reports, however, have shown that the mandate has found few takers as we witnessed that few companies either did not appoint women directors or appointed woman having familial relations with the controlling shareowners. Few women at corporate boards is an evidence of gender bias in patriarchal Indian society. Contrary to this the picture in banking sector seems quite pleasant as few women have reached to top positions irrespective of public or private sector. In a complex corporate governance structure, as compared to other companies, it was tried to explore the position of women directors in corporate governance structure of banks. We studied gender diversity in corporate governance structure of NSE listed private and public sector banks. The secondary data from the annual reports of the banks, business magazines and economic dailies was referred to conduct this study to highlight that though the banking sector never sighed away to appoint women directors on their boards, post Companies Act, 2013 there was increase in the number of women directors on the boards of banks*

Key Words: Corporate Governance, Board of Directors, Gender diversity

Theme 6: Human Resource Dimensions and Corporate Governance

1.INTRODUCTION

Women as a director has found place in the board rooms of Indian companies either due to their familial relationships with the promoters or as nominee director from the Investor banks (Sharma, 2009). It is due to this prejudice, there were only 2.9% of women directors in India at the starting of new millennium (Sharma, 2009). However after one and half decade of new century this percentage of women directors has increased to 13% as on March, 2017 (Prime Database). Thanks to the new Companies Act, 2013 that India Inc. looks progressive in appointing women directors on boards. Diversity is vital for the long term success of any business. Similarly boardroom diversity is important, as it is the place where strategic decisions are made and governance applied (The Institute of Company Secretaries of India, 2014).

The banking sector however has been quite inclined to embrace women as top leader on their boards and they did not repent in doing so as woman leaders have shown their leadership prowess by successful implementation of new policies that took the banks to new heights. In current scenario when there is a discussion on to appoint or not to appoint a woman director as per mandatory requirement of Companies Act 2013 section 149, banking sector is looked upon as an opportunity provider to women as directors. Therefore, this study attempts to explore women directors' status in corporate governance structure in banking sector either independently or vis-à-vis their male counter parts.

2. OBJECTIVES OF STUDY

The present study attempts to explore status of women directors in NSE listed banks in India. The objectives of the research are as follows:

- To do comparative analysis about the biographical and non-biographical attributes of women directors vis-a-vis their male counterparts in best 20 NSE listed banks as per market capitalization.
- To find out position of women directors in board and association of their biographical and non-biographical attributes with their position at the board and board committees.

3. RESEARCH METHODOLOGY

3.1 Samples

To conduct the study, purposive sampling method was adopted to select 20 banks based on their Market Capitalization out of 40 NSE listed banks. The sample was further categorized into 10 Public Sector Banks & 10 Private Sector Banks. The individual samples of male and female directors of the selected sample banks were 206.

Sr. No.	Public Sector Banks	Market Capitalization (₹ in crs)	Sr. No.	Private Sector Banks	Market Capitalization (₹ in crs)
1.	SBI	274067.6	**1.**	HDFC Bank	483489.2
2.	Bank of Baroda	38503.65	**2.**	ICICI Bank	202791.7
3.	PNB	37253.25	**3.**	Kotak Mahindra	192860.2
4.	Canara Bank	21830.96	**4.**	Axis Bank	132999.6
5.	Bank of India	20622.95	**5.**	IndusInd Bank	99548.97
6.	Indian Bank	18839.44	**6.**	Yes Bank	71651.12
7.	IDBI Bank	15564.27	**7.**	RBL Bank	21528.2
8.	Central Bank	14915.54	**8.**	Federal Bank	21315.3
9.	Union Bank	12673.71	**9.**	IDFC Bank	18272.37
10.	Vijaya Bank	7780.18	**10.**	City Union Bank	11514.59

(Source: www.moneycontrol.com)

3.2 Data: Data has been collected from secondary sources like annual reports of the sample banks, journals, newspapers, business weekly magazines and websites (viz. Linked in, Bloomberg, Reuters etc.).

3.3 Data Analysis: Quantitative analysis of data has been carried out by descriptive analysis of the data. Statistical tool such as Test of proportion for significance difference and Chi-square test for association between dependent and independent variables were used.

Following were the hypothesis drawn for the study where H_0 is null hypothesis and H_1 is alternate hypothesis:

1. H_0: There is no difference between proportion of female and male board members in banks.
   H_1: The proportion of female board members is less than male board members in banks.
2. H_0: There is no association of designation of directors on board with gender of directors.
   $H_{1:}$ There is significant association of designation of directors on board with gender of directors.

4. LITERATURE REVIEW

4.1 Gender Diversity at Company Boards in Various Countries:

Catalyst Census 2016 evinced that in S&P 500 companies women had around 21.2% representation on board. Gender diversity on board has become an important agenda for all the countries across the world. Most of the countries have realized that it is important to have gender diversity on board in order to have different perspective of thoughts, creativity and expertise (Erhardt, Werbel, & Shrader, 2003).

Gender diversity on board is economically and socially advantageous, therefore there is pressure from investors and society to appoint more number of women directors on board (Bushra & Mishra, 2016). It also reported that Fortune 500 companies with higher representation of women on board of directors attained significantly higher financial performance compared to those companies which have lowest representation of women directors on board. Gradually countries across the world have realized the importance of gender diversity and therefore many countries introduced quota system to appoint more women directors on board (KPMG, 2017). Norway is one of the best examples till date which passed the law in 2003 to have 40% women directors on board and has achieved the same to bring in gender equality and to tap the undiscovered talent to contribute towards economic growth of the country. Other countries that followed the suit were Sweden (2008), Italy (2009), France (2010), Finland (2010), Iceland (2010), and Germany (2016) to appoint women directors mandatorily. India also showed a progressive approach and mandated atleast one woman representation on company boards vide section 149 of the newly enacted Companies Act, 2013 and compliance made compulsory by 31st March, 2015.

4.2 Importance of Gender Diversity:

Gender diversity on board is essential as it helps in solving the problem of groupthink and contributes more towards new ideas and critical thinking (Douglas, 2012; Bart & McQueen, 2013)). Women tend to raise questions related to issues affecting multiple stakeholders (Kramer & Konrad, 2006). There have been various research studies with respect to gender diversity on corporate boards (showing positive relationship between gender diversity and financial performance of the companies (Burgess & Tharenou, 2002; Bushra & Mishra, 2016; Rovers, 2011). Some research studies concluded that gender diversity on boards boost the confidence among investors as they feel that more women directors on board will safeguard their investment and directors will be more accountable for their decisions (Prete & Stefani, n.d.). Gender diversity on boards conveys an important message to the stakeholders about their focus towards good corporate governance and stronger execution of ethical conduct (Flynn & Adams, 2004; Galbreath, 2011). A research study by MSCI ESG Research (Linda-Eling Lee et al., 2015) shows that Companies in MSCI World Index with strong representation of women leaders have return on equity of 10.1% per year as against 7.4% for those without women leaders. Moreover, having women CEO in private banks showed positive impact on the financial performance of the banks (Chandani, Mehta & Neeraja, 2014).

4.3 Limitations of Gender Bias at Company Boards:

Companies that lacked gender diversity on board were more involved in corporate governance related controversies compared to those companies which had higher women representation on board.

4.4 Women Directors at Boards of Banks:

Banks in India have given many women leaders who have made their mark in the society through their sheer hard work and knowledge. Arundhati Bhattacharya (former CEO of SBI), Chanda Kochhar (MD & CEO, ICICI Bank), Naina Lal Kidwai (CEO & Country head (India) HSBC), Sikha Sharma (CEO & MD, Axis Bank) and few others have become role model and motivational leaders for other women in India (Terjesen, Sealy, & Singh, 2009). Moreover, banks have always been one of important service sector that provides more employment opportunities to women. Women representation on board becomes essential when it comes to correct and make more stringent credit policies as women have that risk averse attitude which helps them to have better control on the risk averse activities, which further have positive impact on the quality of credit and profitability of bank (Prete & Stefani, n.d). However, certain studies have different view, concluded negative effect or insignificant effect on financial performance of the company of gender diversity on board (Adams & Ferreira, 2008) whereas (Ramly, Sok-Gee, Mustapha, & Sapiei, 2015) concluded in a study of ASEAN-5 listed commercial banks that women directors have negative effect on bank's cost and profit efficiency.

5. ANALYSIS

5.1 Male & Female Directors in Private Sector Banks and Public Sector Banks in India

Table 1: Comparison of private and public sector banks showing board composition on the basis of gender of directors.

Types	Private sector bank		Public sector bank		Grand Total	
Male	88	(Money Control)84.62%	93	91.18%	181	87.86%
Female	16	15.38%	9	8.82%	25	12.14%
Grand Total	**104**	**100%**	**102**	**100%**	**206**	**100%**

(Source: Table was drawn based on collected data)

Out of 206 directors in 20 NSE listed banks 25 were women directors i.e. 12.14% of total directors as on November 2017. However the Private Sector banks had 15.38% women directors whereas public sector banks had 8.82% women directors on their boards. Hence, it was observed that the private sector banks had more women directors in comparison to public sectors banks.

To test the significance difference between the proportion of male and female directors, test of proportion for significance difference was conducted on null hypothesis-

H_0: There is no difference between proportion of female and male board members on the board of banks.

The alternate hypothesis was -

H_1: The proportion of female board members is less than male board members.

Value of Z was found as 1.33 which was less than the critical value of Z i.e. 1.655 hence null hypothesis was rejected to accept the alternate hypothesis i.e. the proportion of female board members is less than male board members.

5.2 No. of Female Directors on Each Bank Boards

Table 2: No. of Female directors on each bank board

No. of Female Directors	PSU Banks with Female Directors		Private Sector Banks with Female Directors		Grand Total	
	No. of Banks	%age of Banks	No. of Banks	%age of banks	Total	%age of banks
0	4	40.0	0	-	4	20
1	3	30.0	5	50.0	8	40
2	3	30.0	4	40.0	7	35
3	0	0	1	10.0	1	5
TOTAL	**10**	**100.00**	**10**	**100.00**	**20**	**100**

(Source: Table was drawn based on collected data)

It was noticed at table 2 that still 20% of banks did not have women directors on board. While 40% banks have 1 woman director which is the mandatory requirement of Companies Act 2013 vide Section 149(1) & SEBI's guidelines. Around 35% banks had 2 women directors and only 5% banks had 3 women director. On the basis of the data obtained it was further observed that 40% PSU banks did not have even a single woman director on their board. 30% PSU banks had 1 director and 30% had two directors. As against this private sector banks looked quite progressive as 100% of them complied with the mandatory requirement for appointing female directors. 50% private sector banks appointed one woman director while 40% appointed two and 10% of them appointed 3 women directors.

5.3 Age of Women Directors vis-à-vis their Male counter parts:

The minimum age of woman director was found as 42 years which is 6 years older than the minimum age of male director irrespective of sector of bank. The maximum age of woman director was observed as 68 years which 5 years younger than maximum age of male director. This shows that male directors have longer time span of 11 years than the women directors. Minimum age of male directors was observed as less than female directors. However, age gap at maximum age of female and male directors in private sector banks were observed as 5 years and 9 years in case of public sector banks.

Table 3: Average Age of directors in Public & Private Sector Banks

	Private Sector Bank			Public Sector Bank			Total		
	Min.	**Max.**	**Average**	**Min.**	**Max.**	**Average**	**Min.**	**Max.**	**Average**
Male Directors	36	73	59.77	39	71	57.66	36	73	58.72
Female Directors	42	68	59.88	45	62	56.39	42	68	58.53

(Source: Table was drawn based on collected data)

The minimum age of woman director in private sector bank was found as 42 years and in public sector banks it was observed as 45. The maximum age of woman director in private sector bank was observed as 68 years and in public sector banks it was observed as 62. This shows that woman directors in private sector banks have longer time span of 9 years than the women directors in public sector banks.

In private sector banks the average age of male and female directors is higher than the average age of male and female directors in public sector banks. Also interestingly the average age of woman director in private sector is slightly more than their male counterparts. It shows that private sector banks are more open and welcoming when it comes to women directors. Average age of male directors was 59.77 years whereas that of female directors was 59.88 years in case of private sector banks. Average age of male directors was 57.66 years whereas that of female directors was 56.39 years in case of public sector banks.

5.4 Designation wise break up of women directors:

Table 4A: Designation wise break up of women directors in banks.

Designation	Women Directors
Chairperson (Non Executive)	8%
Executive Director/ WTD	12%
Independent Director	32%
MD & CEO	8%
Nominee Directors (GOI,RBI)	16%
Non Executive Director/ Shareholders Director	24%

(Source: Table was drawn based on collected data)

It was observed at table 4A that most of the women directors held the designation of Independent Director i.e. 32%, followed by Non-executive/ shareholders directors i.e. 24%. 16% of women directors were nominee directors. However women directors are way behind when it comes to the highest designation on board i.e. Chairperson and MD & CEO as each of these positions are held by 8% of women directors. It is further observed that 20% women directors are executive and 80% are non-executive.

Table 4B: Designation wise break up of women and men directors in banks.

Designation	Female	Male	Grand Total
Chairperson (Non Executive)	2	17	19
Executive Director/ WTD	3	27	30
Independent Director	8	51	59
MD & CEO	2	24	26

Nominee Directors (GOI,RBI)	4	20	24
Non Executive Director	3	21	24
Shareholders Director	3	21	24
Grand Total	25	181	206

(Source: Table was drawn based on collected data)

After the descriptive analysis, association of gender i.e, independent variable and designation i.e., dependent variable was checked using Chi-square test. To test the null hypothesis that there is no association of designation of directors on board with gender of directors. Chi-square test of independence was performed for table 4B. Observed value of Chi-square (0.98) was less than critical value of Chi-square (1.635) at 5% level of significance. Hence null hypothesis was rejected to prove alternative hypothesis i.e. there is association of designation of directors on board with the gender of directors.

5.6 Qualifications of Women Directors in Bank:

Table 5: Qualification wise break up of women directors in banks

Qualification Category	**No. of Women Directors**	**Women Directors**
CA, CS, ICWA, Law	6	24%
Commerce & Economics	5	20%
MBA	7	28%
Science	1	4%
Ph.D	1	4%
Others (Arts, Agriculture, Political Science, English, etc.)	5	20%

(Source: Table was drawn based on collected data)

From Table 5 it is observed that 24% of women directors at bank board were having educational qualifications like CA, CS, ICWA and law. However, 28% women directors were having MBA qualifications. 20% of women directors were found with Commerce and Economics background. Other qualifications like Arts, Agricultural, political science, defense studies, English literature, etc. were found with 20% women directors.

5.7 Women Representation at Board Committees at Bank :

Table 6: Women Representation in Number of Board Committees at Bank

No. of Board Committees	**No. of Women Directors**	**%age of Women Directors**
0	4	16%
1-3	8	32%
4-6	6	24%
7-9	6	24%
11	1	4%
Grand Total	**25**	**100%**

(Source: Table was drawn based on collected data)

Board committees are important governance tools to have better grip on corporate governance of corporate entities and hence they have been recommended even since the first committee (Cadbury Committee, 1992) on corporate governance pronounced its recommendations. However, women had representation on 35% of board committees. 16% of women directors did not held any board committee membership. 32% women directors held 1-3 board committee membership. Women directors with 4-6 and 7-9 board committee members were observed in 24% of board committees each. It was surprising to observe that one women director was found with 11 board committee membership in one public sector bank.

5.8 Types of Committees in which Women Directors are Members:

At table 7 it can be observed that out of total women directors only 3 are in the management committee board where all the major decisions are taken related to business matters of material significance i.e. sanction of capital, revenue expenditure, high value credit. Etc.

Table 7: Types of Committees in which Women Directors are Members

Board of Committees	**No. of Board committee membership held by**	**%age of Women directors**

	women directors	
Management Committee of Board	3	3%
Audit Committee	14	13%
Risk Management Committee	11	10%
Stakeholders Relationship & Customer Service Committee/ Credit Approval Committee	16	14%
Nomination & Remuneration Committee	14	13%
Fraud Monitoring committee/ Review of Wilful Defaulters & Non Cooperative Borrowers Committee	21	19%
CSR Committee	5	5%
Others (IT, Premise, Acquisition/ Disinvestment, ethics and culture, etc.)	27	24%

(Source: Table was drawn based on collected data)

It was further observed that number of mandatory board committee membership held by women directors were 55%. It shows seriousness in appointment of women directors on board committees by banks. It may be due to their professional qualifications.

6. DISCUSSION AND FINDINGS

The analysis of data and observations led to the following findings:-

6.1 Proportion of male and female directors on bank boards.

It was found that many PSU banks i.e. 4 in 10 banks do not comply with mandatory requirements of appointments of one woman director. Private sector banks were found to be more progressive in appointment of women directors. It was further found that proportion of female board members were significantly less than male board members.

6.2 Biographical Data

It was found that female directors takes 6 more years to be appointed as directors and gets early retirement by 5 years than their male counterparts. It was also found that private sector banks have early entry of women directors and late exit than their public sector female counterparts. Hence, in public sector banks women directors were found to be younger than the private sector banks.

6.3 Designation of women directors

It was found that out of total women directors 1/3rd held the position of independent directors. The non-executive positions were held by 1/4th of total women directors. The whole time directors' position was held by 2 out of 5 women directors. However, very few women take the position of chairperson of the board. It was further found that designation of directors was associated with the gender of directors being male or female.

6.4 Qualification of women directors

was found that women directors were highly professionally qualified with degrees like CA, CS, ICWA, Economics, Commerce, MBA.

6.5 Women in Board Committees

Most of women directors were found holding board committee memberships. It is interesting to note that 1 out of 2 female directors were holding more than 4-9 committee membership in their respective banks. 6 out of 10 women directors were members of mandatory committees like Audit committee, Risk Management committee, Stakeholders Relationship committee, Nomination and remuneration committee, CSR committee.

7.CONCLUSION

The present study is carried out to provide evidence of women directors' status in corporate governance structure in banking sector either independently or vis-à-vis their male counterparts with respect to biographical and non-biographical attributes. For this study, 20 banks listed on NSE (10 Public sector banks & 10 Private sector banks) having 206 directors were studies by conducting quantitative analysis and inferential techniques. While various research studied on women directors indicate advantages of appointing women directors on board, this species called as women directors is also admired for their thoughts, creativity and expertise (Erhardt, Werbel, & Shrader, 2003). However, there is dearth of study to show negative outcome of appointing women directors on board. Therefore that makes a strong case to appoint women directors. India remains no different and mandated appointment of one woman director on board by 31st March 2015. Thus study of women director in India has become inevitable.

In banking sector public sector banks still have to go far way to meet the compliance of appointing one woman director. The percentage of women directors in banks (12.14%) is approximately in line with average women director on India Inc. boards (13%). The entry of women director on bank board is late and exit is early than their male counterparts. There was a significant association with gender of directors and designation of directors. Only 1

out of 5 women directors were executive concluding that promotion from within to women to director level is a rear phenomenon and hence there is a scope to tap the potential of women to promote them as women directors.
There was no dearth of qualified women directors on board. The board committees witnessed more number of memberships with women directors in mandatory board committees. However, we could not study the active participation of women either in board or board committees, so it becomes further scope of study.

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Digital Transformation in Banking: The Future of Banking

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Abstract: *Digital disruption is occurring at every level in the banking industry. From new technology to new competition to heightened customer expectations, incumbent banks have become increasingly vulnerable. Banks are making significant investments to enhance customer experience and engagement through the development of new digital products and capabilities. Revenues and profits will migrate at scale toward banks that successfully use digital technologies to automate processes, create new products, improve regulatory compliance, transform the experiences of their customers, and disrupt key components of the value chain. The present study is to explore and indentifies digital transformation happening in banking services in India, to study new digital technologies (like Digital bank, Cloud computing, Artificial intelligence, Robotics and Blockchain technology etc.) by Indian banks and to study the implementation of digital technologies by Indian banks. This paper also enlists digital future of banking.*

Key Words: Digital bank, Artificial Intelligence, Cloud computing, Blockchain technology etc.

Theme 2: Technological Dimensions and Corporate Governance

1. INTRODUCTION

In the development of Indian Economy, Banking sector plays a very important and crucial role. With the use of technology there had been an increase in penetration, productivity and efficiency. It has not only increased the cost effectiveness but also has helped in making small value transactions viable. It also enhances choices, creates new markets, and improves productivity and efficiency. Banking sector always stand at the forefront of the economy and innovation has paramount concern to the application of modern technical devices. Electronic delivery channels, ATMs, variety of cards, web based banking, and mobile banking are the names of few outcomes of the process of automation and computerization in Indian banking sector.

With I.T revolution, banks are increasingly interconnecting their computer systems not only across branches in a city but also to other geographic locations which high-speed network infrastructure and setting up local areas and networks are now exposed to a growing number. The customers have high expectations and have become more demanding now as they are also more techno-savvy as compared to their counterparts of the yesteryears. They demand instant, anything and anywhere banking facilities. Though Reserve Bank of India has formulated many policies on adoption of I.T. in the overall working of the commercial banks in India, yet there is an urgent need to address the issues involved in this respect to compete with the banks at international level.

Indian banking has undergone a total transformation over the last decade. Moving seamlessly from a manual, scale-constrained environment to a technological leading position, it has been a miracle. Such a transformation takes place in such a short span of time with such a low cost.

2.LITERATURE REVIEW

The introduction of the most recent digital developments in the banking industry implies that retail banks' role in the financial sector has changed (Capgemini and Efma, 2016). Recent innovations in digital technology have resulted in increased competition from innovative firms, but it has also sparked a change in consumer preferences and demands that have altered the relationship between the consumers and the retail banks (Accenture, 2015a). As a result, consumers are today more willing to conduct their bank errands through digital platforms (Accenture, 2015a; Skinner, 2014).

Traditionally the banking industry has conducted its businesses with consumers through faceto-face interactions. However, as of late, retail banks have increased their use of digital platforms as supplementary channels to branch offices in order to offer their products and services to consumers (Capgemini and Efma, 2016). These supplementary channels allow banks to offer more personalised service at any time and anywhere geographically more effectively (Deutsche Bank 2015).

The pace of digital developments and the fact that the industry is becoming more digital oriented has opened the way for new competitors to establish themselves in the financial services market (Capgemini and Efma, 2016). For years, retail banks were protected by the industry's high entry barriers. However, the development of digital technologies has lowered the entry barriers for more innovative businesses to capture parts of the incumbent banks' value chain (Accenture 2015a; Deutsche Bank 2015). This has made it possible for non- 2 financial competitors to establish themselves in the industry by offering more niche and customised financial services and products (Capgemini and Efma, 2016).

Due to the increase in digital solutions in the banking industry, the industry is witnessing an increase in mobility among customers between banks (Ndubisi, 2007). The digital transformation within the industry has also affected the switching costs for customers that are able to choose from both non-financial and financial businesses in order to maximise their value (Ndubisi, 2007). This has sparked a change in traditional power balance between the bank and customer, as customers are now starting to take the driving seat and are able to put pressure on the banks to modernise their infrastructure, financial products, and services (Ernst & Young, 2010; Peppard, 2000).

K. Sudhakar et al (2014) studied the view on cloud computing in the banking secor and highlighted benefits , banks can get by adopting cloud computing. In the long term banks will have an application portfolio mix of on-premise and cloud-based services delivered across a combination of private, hybrid, and public cloud- based deployment models with the share of cloud services gradually increasing in the service mix.

Ernst & Young, Australia. (2015)'s report highlighted future digital technologies of banking, which includes cloud computing, Big data and cyber security. Report on 'Digital Banking framework published by An IDRBT - Institute for Development and Research in Banking Technology, (November 2016) explained digital banking, dimensions of digital banking and its benefits to banks. Capagemini's report (2017) concluded that banks are considering fintech firms as partners and banks are increasing adapting public cloud services.

2.1 Objectives

1. To explore and identifies digital transformation of Indian banking industry.
2. To study innovative digital technologies of banking
3. To study the implementation and usage of innovative digital technologies in Indian banking.

3. RESEARCH METHODOLOGY

The present study is based on the secondary data collected from different journals, magazines, sites, blogs and published data from various issues of RBI and different Public sector banks. Various studies on this subject have also been referred in this study.

3.1 Digital Transformation in Indian banking

According to a CII report, the banking sector in India is currently worth INR 81 trillion, and is expected to become the fifth largest in the world by 2020. The BFSI sector contributes about 40 percent of the revenue for major IT companies. As digital technologies evolve around the concept of data sharing over public networks on a number of devices, ensuring privacy and security related with banks are the major concerns at all levels. Hence, adoption of digital technologies will impact the core processes of a bank at a much deeper level, requiring them to revisit their legacy IT infrastructure and workflows.

Now, Digital banking is not an option; rather, it is a must-have strategy essential to surviving in a highly competitive environment. The strong growth in the digital banking has made it imperative for banks to transform their existing operations into an omni-channel approach. In other words, provide the same banking experience to customers irrespective of the channel - be it web, mobile or physical branch.

3.2 Digital Banking – Need of Today

Digital banking means more than just going paperless. Leading players are offering a new and improved customer experience and delivering faster and more efficient services.

3.2.1 *Digital Banking Definition*

There is not a standard definition for digital banking. Different people have given different definitions. Some of them are as follows: “Digital Banking—a new concept in the area of electronic banking, which aims to enrich standard online and mobile banking services by integrating digital technologies, for example strategic analytics tools, social media interactions, innovative payment solutions, mobile technology and a focus on user experience.” “Embracing a fully digital strategy requires end to-end modernization of a bank's often outdated infrastructure. Equally important, it requires a transition from an account-based view of banking customers to one that knows them as individuals and enhances the customer experience with relevant, convenient and personalized products and services.”

“Digital Banking is the application of technology to ensure seamless end-to-end (STP in the 'old' jargon) processing of banking transactions/ operations; initiated by the client, ensuring maximum utility to the client in terms of availability, usefulness and cost; to the bank in terms of reduced operating costs, zero errors and enhanced services.”

3.2.2 The Digital Banking Promise

Ideally, digital banking combines the benefits of two worlds : a new customer experience on the outside and an efficient, effective operating model on the inside- both enabled by digitization and the underlying technologies, processes and structure. On the outside, customers benefit from fair prices with increased transparency and comparability. Banks meet their needs with immediate, high-quality interactions, and transactions are performed quickly and securely. Customers are proactively informed about a rich spectrum of personalized products and services, including financial advice, new opportunities, and peer comparisons.

Making all of this possible will require support from the inside. The underlying operating model will need reshaping, with lean channel and organization structures in place to allow for fast processing. Decision and governance processes will need to be streamlined, with a new more- agile culture that has the right spirit to support a superior customer experience. An integrated IT infrastructure will be needed to meet all requirements, with fast computing to allow for super-fast processing. Last but not least, digital banking will change the way revenue is generated.

4.FINTECHS RESHAPING THE DIGITAL BANKING

The global financial industry is undergoing a transformational phase due to fast-paced technological changes. New technology startups, also referred to as FinTech, have started focusing on innovations in the finance space following the 2008 financial crisis. The objective of these startups is to revolutionize the finance industry. The FinTech industry comprises a variety of financial businesses such as online Peer-to-Peer lending, SME finance, crowd-funding platforms, wealth management & asset management platforms, cryptocurrency, trading management, mobile payments platforms and money/remittance transfer, etc.

The global FinTech sector is expected to become $45 billion in value by 2020, growing at a CAGR of 7.1%. India would play a critical role, given that the backdrop is highly supportive. The Indian FinTech market is expected to reach $2.4 billion by 2020. FinTech has bright growth prospects. One of the factors that could propel the growth further would be partnerships between this dynamic sector and the experienced traditional banking sector. Collaborations between the two can bring together the best of both worlds and offer unique products to a larger number of people in India.

Recent partnerships between FinTech companies and traditional banks clearly suggest that two entities needn’t necessarily compete, but can co-opt. While banks can offer voluminous amounts of money for lending purposes, FinTech companies bring technological expertise, customized credit products and advanced data analytics to the table.

Exhibit: 1 Banking Collaborating with FinTechs

Looking at Indian FinTech specifically, funding to private companies in the sector boomed from about $175M in 2014 to a high of $2B in 2015 (buoyed by mega-rounds to Paytm) and then slid to $530M in 2016. In 2017, it again increased to **$1.4 B** funding (from SoftBank Group, the Japanese Internet and telecom major). Many other FinTechs also receiving huge funds from investors. A host of global corporations and their venture arms have entered the fray, eager to reach India’s mostly unbanked population and profit from the country’s tech-friendly regulatory environment.

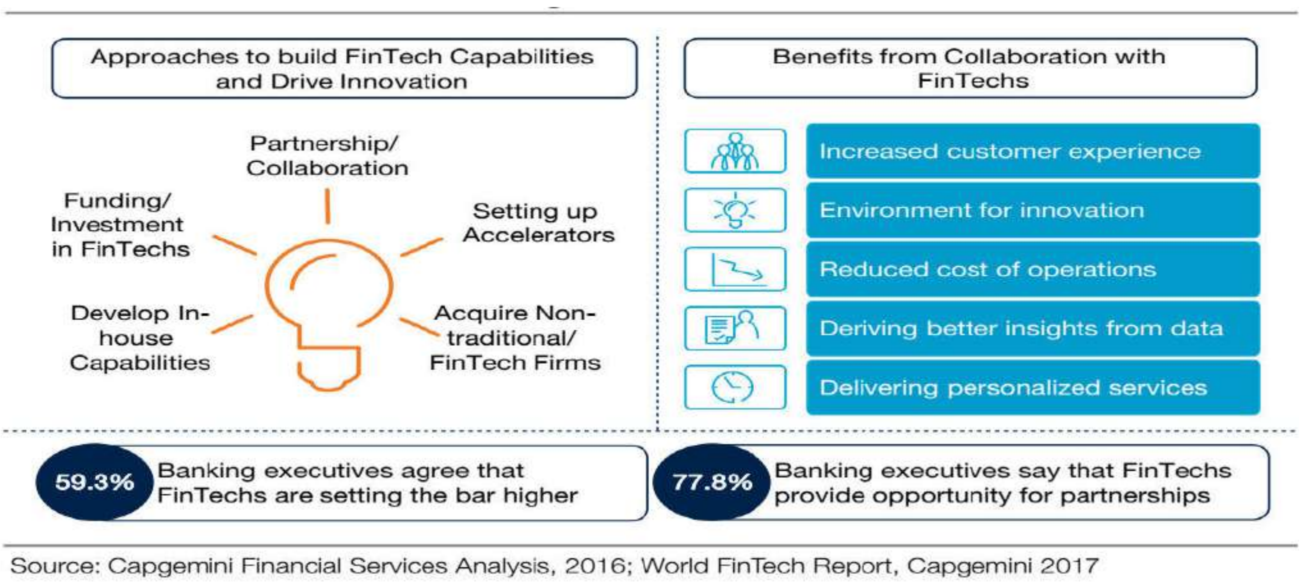

Figure : 1 78 Private FinTech Companies empowering Digital Banking in India

As the Indian fintech space grows to reach an expected $2.4 billion by 2020, 2018 will be a critical year in that journey. Customers are increasingly open to banking innovations driven by technology, government regulations are leading the charge, and private players are making major investments. This is leading to greater financial inclusion as everyone gets access to advanced banking services and a wide range of financial offerings. These trends are sure to play a key role in this transition.

Many Indian banks like SBI, ICICI, HDFC, AXIS, IDFC etc, have collaborated with fintechs and implemented innovative digital technologies

.

5.THE KEY INNOVATIONS IN DIGITAL BANKING

In last few years, the Indian banking sector has realised the need of digital technologies and is rapidly moving to embrace digital banking. They are making considerable investment in creating digital infrastructure in order to offer various solutions like mobile banking, e-wallets and virtual cards, etc. The key innovations in Digital banking are Digital-only/Virtual Banking, Cloud Computing, Artificial Intelligence, Robotics, Blockchain Technology etc.

5.1 Digital-only/Virtual Bank :

Digital-only bank Ally launched in the U.S. in 2008 and at the time, it was one of the first of its kind. But multiple new players have entered the scene in the last few years. These include Monzo, Tandem, N26, and Fidor in Europe, B1NK in Kazakhstan.

These banks hold key advantages over traditional institutions, such as freedom from historical tech restrictions and the fees associated with brick-and-mortar branches. And in many nations, financial regulations also help these banks flourish.

Currently India’s two digital banks- DBS Bank's Digibank and Kotak Mahindra Bank's '811' offering digital banks accounts. There’s no paperwork needed to start a digital bank account, customer just need to do is download it’s banking app, add the details and another account is ready. It gives paperless, signatureless and branchless banking experience. Digital bank accounts offer following benefits to account holders:

I. Minimum balance: Digital bank accounts do not require any minimum balance.
II. Charges: Online money transfers (IMPS, NEFT and RTGS) are free. Digital bank accounts also come with a free virtual Visa debit card.
III. ATM withdrawals: It provides unlimited free ATM withdrawals from any ATM.
IV. Interest rate : As per the RBI's mandate, digital bank account-holders enjoy the same rate of interest as customers with the bank's branches. Digibank is offering 7% interest rate compared to 6% offered by Kotak 811.
V. Online KYC **:** It process eKYC with Aadhaar and biometric.

Digital banks also provide special offers for doing online shopping, booking movie tickets or even flights or hotel rooms. However, because it is online app-based banking, a customer cannot fund their account by cash from the bank branch.

5.2 Cloud Computing:

National Institute of Standards and Technology (NIST) has defined cloud computing as:

'Cloud computing is a model for enabling convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction.”

The cloud plays a key role in the bank’s efforts to transform its business and operating model. From a technical viewpoint, the cloud automatically assembles, integrates and configures technology resources to meet business goals. In business terms, it eliminates the need for a physical infrastructure to be present at each location from where the bank operates, thus making it easier for the bank to deploy services rapidly and at a lesser cost.

Service models for would could be (a) Infrastructure as a Service (IaaS), which is typically used by IT managers / system administrators to commission additional machines on the cloud, typically to address temporary spikes in computing requirements (b) Platform as a Service (PaaS), where infrastructure on the cloud is used by application developers to develop applications and (c) Software as a Service (SaaS), where infrastructure on the cloud is used by end-users to use already developed applications.

Deployment options could be (a) private cloud, where the entire infrastructure would be meant for a single bank (b) public cloud, where infrastructure would be available to general public (c) community cloud, where infrastructure would be used by a group with common interests and (d) hybrid cloud, which would leverage infrastructure on more than one of the above deployment models.

5.2 .1 Benefits of the cloud to banks:

I. Cut costs: cloud computing means banks will not have to invest heavily in dedicated hardware, software and related manpower. It is much easier for them to update their IT infrastructure and the cloud’s modular, pay-on-demand model means they pay only for the hardware and software they need.

II. Improve flexibility and scalability: the cloud gives banks the ability to respond quickly to changing market, customer and technological needs. They can scale up and scale down technology according to requirement. The ability to respond quickly will be an important competitive edge.
III. Increase efficiency: banks will enjoy improved efficiency ratios and operating leverage. The standardization inherent in the cloud could make it easier to integrate new technologies and applications in the future. Because technology and business operations can be much more closely aligned, the cloud gives banks a golden opportunity to drive out complexity.
IV. Serve clients faster: cloud computing makes new and bundled products and services easier to develop and launch, either on a stand-alone basis or in partnership. It eliminates procurement delays for hardware and software. Banks will be able to boost computing power to meet demand peaks and provide the latest treasury solutions without needing to worry about whether the technology is up to date. Corporate will be able to access bank systems using web browsers from anywhere at any time.
V. Forge stronger client relationships: The combination of big data and potentially unlimited computing power will allow banks to develop systems capable of providing better insight into clients and make better decisions on their behalf. Services could become more customized.

Cloud services helps consumer to outsource the maintenance burden of servers and applications; scale systems up or down on demand; being able to access data from anywhere with a network connection; and the ability to replace occasional heavy capital expenditure (CAPEX) on IT with regular and predictable operational expenditure (OPEX). From a provider's perspective, cloud computing allows capital expenses to be leveraged into positive revenue streams after initial investments are made.

5.2.2. Challenges to banks in adoption of cloud computing

When a bank moves into cloud computing, there are two primary challenges that must be addressed:

I. Security : The confidentiality and security of financial and personal data and mission-critical applications is paramount. Banks cannot afford the risk of a security breach.

II. Regulatory and compliance**:** Many banking regulators require that financial data for banking customers stay in their home country. Certain compliance regulations require that data not be intermixed with other data, such as on shared servers or databases. As a result, banks must have a clear understanding of where their data resides in the cloud.

Banks must select the right service, deployment, and operating models to address security and compliance concerns. In the initial phases of cloud computing adoption, it is expected that banks will own and operate the cloud themselves with service providers taking increasing ownership and control of the cloud infrastructure as cloud computing matures and more rigorous controls become available. Many software providers such as Oracle, IBM, Microsoft and Pegasystems providing cloud solutions for financial services applications.

5.2.3 Implementation of Cloud computing by Indian banks

NABARD has successfully implemented cloud computing in rural India and revolutionized state and co-operative banks. NABARD has managed to bring 201 state and district co-operative banks and 6,939 branches on the Cloud based platform.

Instead of finding their own solution, the banks can utilize services offered by NABARD. NABARD chose an opex model barring the branch infrastructure in order to give these state and district co-operative banks access to a cloud-based platform on a minimum monthly subscription fee. By adopting the CBS platform, the co-operative banks have saved huge costs, and as a result, the banks will now have more time and money for finding business in rural areas and attracting new customers.

As per Section 29 and 30 of the Banking Regulation Act, 1949, the state and district central co-operative banks are required to prepare their balance sheets and P&L accounts and get the same audited by statutory auditors. The banks are also required to submit their balance sheets along with the auditor's report and its copies need to be furnished as returns to the RBI as well as NABARD within six months from the end of the financial year (that is, by September 30). However, these banks were taking about six months to complete audit.

After adoption of Cloud based platform by NABARD, the reports are generated automatically by the systems and as a result, almost all the co-operative banks are able to submit their annual reports within 10 days of annual closing in March. [1]

1. NABARD Revolutionizes Co-op Banks Using Cloud Computing , accessed in November 2017 at http://www.cio.in/content/nabard-revolutionizes-co-op-banks-using-cloud-computing

SBI built its own private cloud called "Meghdoot" of about 7500VMs hosting various financial services applications based on diverse technologies - Java, .NET, C/C++/Linux/Windows/WebSphere/WebLogic/ SQL Server/Oracle etc. Meghdoot leverages virtualization of compute, network and storage too. SBI has been leveraging Cloud Infrastructure for Collaboration Solutions, Capturing Customer interactions and Complaints, Analytics, Applications Development and Testing.

Recently in November 2017, SBI has deployed Microsoft's cloud-powered productivity solution, Office 365. The solution will empower the employees to collaborate effectively from any device anywhere (Android, iOS, Mac and Windows), providing an integrated experience and reduce complexity. [2]

HDFC deployed its private cloud on Oracle Exadata and, in collaboration with an Oracle development team, configured the system so that users could easily provision a new database based on the most-current database information. Through its Oracle private database cloud, HDFC can now restore its database in just three and a half hours, whereas before it took as long as three days. [3]

Kotal Mahindra bank using public cloud version of Oracle CRM tool for sales management. The tool has brought predictability to sales management. Its increased efficiency of Lead management. Other major banks AXIS , ICICI, IDFC bank using Microsoft public cloud and other cloud services for providing better services to their customers.

5.3 Artificial Intelligence:

Artificial intelligence (AI) is intelligence displayed by machines, in contrast with the natural intelligence (NI) displayed by humans and other animals. Here are three key applications of artificial intelligence and its implementation in the Indian Banking industry.

5.3.1 AML Pattern Detection and Fraud detection

Anti-money laundering (AML) refers to a set of procedures, laws or regulations designed to stop the practice of generating income through illegal actions. In most cases, money launderers hide their actions through a series of steps that make it look like money that came from illegal or unethical sources are earned legitimately.

Most of the major banks across the globe are shifting from rule based software systems to artificial intelligence based systems which are more robust and intelligent to the anti-money laundering patterns. Over the coming years, these systems are only set to become more and more accurate and fast with the continuous innovations and improvements in the field of artificial intelligence.

5.3.1.1 Implementation of AML and fraud detection technology by Indian Banks

State Bank of India has implemented AMLOCK, the Anti Money Laundering Solution, from 3i Infotech (a global provider of IT solutions and the fourth largest Indian Software Product Company), across its group.[4]

HDFC Bank, IDBI Bank and Yes Bank are using Infrasoft's Omni Enterprise AML solution. Infrasoft's AML software uses artificial intelligence to separate a fraudster from an honest investor. It tracks transaction patterns and does away with manual checks to catch customers whose profiles have changed without genuine reason. Such changes can be a sudden increase in investments or withdrawals and so on.[5]

Speech recognition technology is also attracting the industry's interest as a means of authenticating customers. Barclays has launched voice banking, which is self-authenticating; HSBC, First Direct and ICICI Bank are some other banks employing voice identification. From there, the next stop is facial recognition. Yes Bank is taking proactive steps in this direction by collaborating with a FinTech start-up called FRS Labs to build an AI and facial recognition-based solution to verify identity and fight fraud.[6]

Various fraud detection software like Actimize, MATLAB, SAS, Phishme, Clari5 EFM, Kount Complete, Simility etc, has been used by many Indian banks .

2. SBI deploys Microsoft's cloud powered office 365 solution, accessed in November 2017 at http://www.thehindu.com/business/sbi-deploys-microsofts-cloud-powered-office-365-solution/article19968227.ece

3. Banking on a Private Cloud *By Marta Bright, published in Oracle Magazine March/April 2013,* accessed in November 2017 at http://www.oracle.com/technetwork/issue-archive/2013/13-mar/o23privatecloud-1906454.html

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5.Anti-money Laundering software to curb terrorist activity, accessed in November 2017 at https://economictimes.indiatimes.com/tech/software/anti-money-laundering-software-to-curb-terrorist-activity/articleshow/2772117.cms

6.AI is coming to save banks from frauds, accessed in November 2017 at http://www.deccanherald.com/content/633337/ai-coming-save-banks-frauds.html?src=ilaw

5.3.2 Chat bots

Chat bots are artificial intelligence based automated chat systems which simulate human chats without any human interventions. They work by identifying the context and emotions in the text chat by the human end user and respond to them with the most appropriate reply. With time, these chat bots collect massive amount of data for the behaviour and habits of the user and learns the behaviour of user which helps to adapts to the needs and moods of the end user.

Chat bots are already being extensively used in the banking industry to revolutionize the customer relationship management at personal level.

5.3.2.1 Implementation of chatbots by Indian Banks

State Bank of India has deployed SBI Intelligent Assistant (SIA), an artificial intelligence based chatbot in association of Payjo -a leading AI Banking Platform based out of Silicon Valley, California that has the capability to respond to 850 million queries a day , making it the largest-financial sector AI solution in the world. SIA is a multilingual chatbot which can respond in 14 languages in speech or text. Payjo's other clients are YES Bank and RBL Bank. [7]

In March, 2017, HDFC Bank launched an electronic virtual assistant (EVA), an artificial intelligence-driven chatbot for customer services. Eva is India's first AI-based banking chatbot and can answer millions of customer queries across multiple channels instantly. Eva can assimilate knowledge from thousands of sources and provide answers in simple language in less than 0.4 seconds.[8]

Several major banks in India such as ICICI, and YES Bank, amongst others, adopting chatbots for supporting customer interactions.

5.3.3 Robotic process automation

Robotic process automation (RPA) is the application of technology that allows employees in a company to configure computer software or a "robot" to capture and interpret existing applications for processing a transaction, manipulating data, triggering responses and communicating with other digital systems.

5.3.3.1 Implementation of RPA by Indian banks

City Union Bank using the artificial intelligence powered robot named Lakshmi. It can answer intelligently on more than 125 subjects.

Lakshmi, who currently speaks in English, gestures, turns around and engages in a very life-like manner in conversations, Lakshmi can answer customer's questions like - "Want to know your account balance? Interest rates on home loans? Deferred payments or possible charges to be incurred on fixed deposit closure?" If a customer wants to know his bank account details or transaction history, the robot can flash the answer on its display. Sensitive financial information like account details are displayed discreetly on the robot's screen and not voiced. [9]

Figure:2 City Union bank M D Kamkodi interacts with robot Laxmi [9]

7. SBI deploys AI-based financial solution SIA, accessed in November 2017 at https://timesofindia.indiatimes.com/business/india-business/sbi-deploys-ai-based-financial-solution-sia/articleshow/60835330.cms
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Figure : 3 HDFC's Humanoid Robot IRA [10]

HDFC has deployed Humanoid robot IRA (Intelligent Robot Assistant) inside Mumbai's Kamala Mills branch, and as per reports coming in, this interactive humanoid can guide the incoming customer towards these banking operations: Cash Deposit, Foreign Exchange, Loans. Once the customer selects 'Take Me There' option, the robot will actually take the customer to that particular counter, thereby saving time and human resources.[10]

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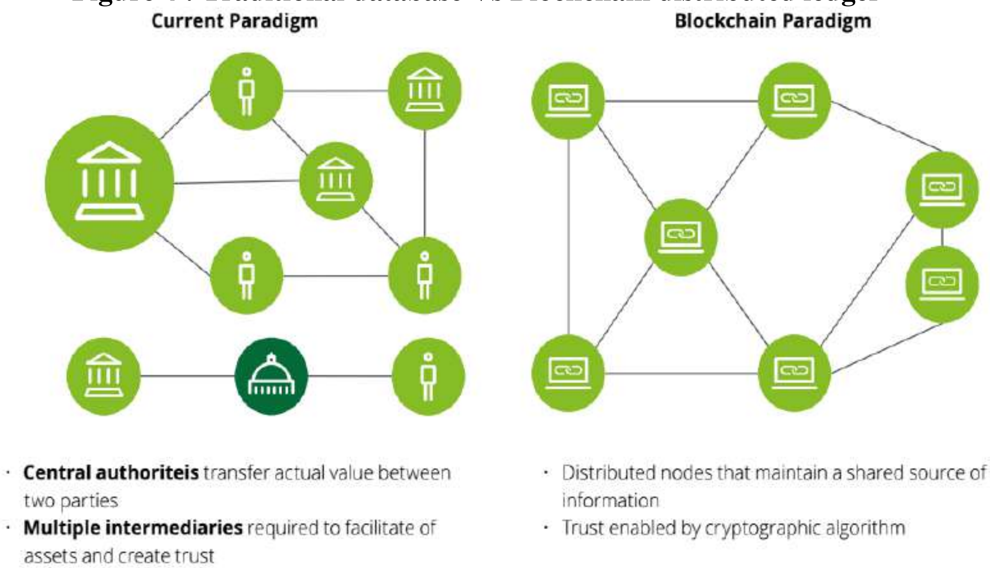
ICICI bank has implemented the robotic automation platform with the help of an international player called OpenSpan. ICICI bank's over 200 software robots are processing over 10 lakh transactions daily, bringing in greater operational efficiency, higher accuracy and a massive reduction in processing time for customer services. Software robots have reduced the response time to customers by up to 60 % and increased accuracy to 100%, thereby improving the by the bank's productivity and efficiency.[11]

4.3 Blockchain Technology:

"A Blockchain is a digital, immutable, distributed ledger that chronologically records transactions in near real time. The prerequisite for each subsequent transaction to be added to the ledger is the respective consensus of the network participants (called nodes), thereby creating a continuous mechanism of control regarding manipulation, errors and data quality."

Simply put, Blockchain is a protocol for exchanging value over the internet without an intermediary.

Figure 4 : Traditional database Vs Blockchain distributed ledger



Source : Deloitte's Report (April, 2017), 'Blockchain Technology in India – opportunities and challenges'.

10. HDFC Becomes 1st Bank To Deploy Robots For Customer Service; Fires 4,581 Employees Due To 'Improved Efficiency', accessed in November 2017 at http://trak.in/tags/business/2017/01/30/hdfc-bank-automation-humanoid-ira/

11. https://cio.economictimes.indiatimes.com/news/strategy-and-management/icici-bank-deploys-software-robotics-to-automate-business-processes/54179316

4.3.1 Types of Blockchain :

All Blockchain can be classified into three categories: Public, Permissioned and Private. A public blockchain is one where anyone can read or write on the platform, provided they can show proof of work. A permissioned blockchain offers selective transparency where only selected nodes have the rights to access and provide consensus on that transaction. The third blockchain type is a private blockchain where only chosen players have the rights to join the network which creates a closed loop environment.

4.3.2 Benefits of blockchain to banking industry

Blockchain technology transforming banking in following areas:

I. **Fraud Reduction :** Most banking systems around the world are built on a centralized database that is more vulnerable to cyber attack because it has one point of failure rather than many—once hackers breach the one system they have full access. The blockchain is essentially a distributed ledger where each block contains a timestamp and holds batches of individual transactions with a link to a previous block. This technology would eliminate some of the current crimes being perpetuated online today against our financial institutions.

II. **Know your Customer (KYC) : KYC** regulations are intended to help reduce money laundering and terrorism activities by having requirements for businesses to verify and identify their clients. Blockchain would allow the independent verification of one client by one organization to be accessed by other organizations so the KYC process wouldn't have to start over again. The reduction in administrative costs for compliance departments would be significant.

III. **Smart Contracts:** Because blockchains can store any kind of digital information, including computer code that can be executed once two or more parties enter their keys, blockchains enable us to have smart contracts. This code could be programmed to create contracts or execute financial transactions once a certain set of criteria has been achieved—delivery of products could signal an invoice to be paid for example.

IV. **Payments:** Blockchain disruption could be highly transformative in the payments process. It would enable higher security and lower costs for banks to process payment between organizations and their clients and even between banks themselves. In the current reality, there are a lot of intermediaries in the payment processing system, but blockchain would eliminate the need for a lot of them.

4.3.3 Implementation of Blockchain Technology by Indian banks

In 2016, ICICI Bank has successfully executed transactions in international trade finance and remittances using blockchain technology in partnership with a Dubai based bank Emirates NBD. ICICI Bank using the block chain technology to exchange real-time exchange verification of remittance transaction information and the original international trade information such as order, invoice, transportation and insurance.

South Indian Bank has successfully executed overseas transactions using blockchain technology in partnership with a leading currency exchange house in West Asia. The implementation of the block-chain technology in transaction platforms conforms to the South Indian bank's strategy to embrace the latest technology to ensure faster and safer transaction settlements.

KotaK Mahindra bank has successfully deployed blockchain technology that reduced the time of letter of credit (LC) issuance from 20 to 30 days to mere couple of hours.

Recently in November, 2017 The State Bank of India (SBI) has announced that it is due to implement Blockchain technology for smart contracts and Know your customers (KYC) protocols.

Recently in November 2017, Axis Bank has partnered with Ripple to use blockchain for instant cross-border money transfer mechanism. Ripple is a real-time gross settlement system (RTGS), currency exchange and remittance network, which uses blockchain for operating their services. They are built on open source Internet protocol, consensus ledger and native cryptocurrency called XRP (ripples). Under partnership with Ripple, Axis Bank will now enable instant cross-border money transfer, which will take only 5-10 seconds, compared to 3-4 days which is the norm right now.

5.FUTURE OF DIGITAL BANKING

Banks will become more digital. It's only as a matter of time. As customers, competitors, and even regulatory agencies push in this direction, the promise of anytime, anywhere banking with transparency and convenience will ultimately bring together today's branch-based traditional players with the no-frills offers of direct banks and innovative financial technology players, all coming from different directions.

In today's digital era, banks must adapt and implement innovative digital technologies to cut costs and become more efficient at what they do so that they can sustain their competitive advantage. Till today, few Indian banks have collaborated with FinTech Companies and implemented cloud computing, artificial intelligence and block chain technology and with the use of these digital technologies, banks have improved their productivity and efficiency.

Fintech innovations have expanded the boundaries of banking. The intensity of its disruption in India and a glimpse of the prosperous future that it holds is evident from a recent report by EY, according to which India is the second largest adopter of FinTech in the world, just next to China. We will definitely see more collaboration scenarios between banks and Fintech Companies. These partnerships will accelerate the digital journey as their offerings show customers fascinating new ways to improve their banking experience. Banking will encompass a wider range of services with multiple parties involved while at the same delivering a seamless customer experience. This will ultimately create banking that is convenient, fast, and proactively meeting needs—a stark contrast to today's more reactive and less-than-transparent business model.

Apart from these, there are many other technologies which Indian banks could harness in future. Banks can use Google glass technology to locate the nearest bank branch/ ATM, check account balances and use video conferencing for technical support. Augmented Reality (AR) app is integration of digital information with the user's environment in the real world. In India, AR mobile app has been launched by a Axis bank which lists all dining destinations, property lists, and shopping centres, bank ATMs, branches etc with real life pictures along with distance and directions. Cheque imaging is set to transform the speed and convenience of the humble cheque. Cheque imaging means cheques will be processed as images and clear faster within two working days, a process that previously took up to six days. A customer simply needs to send photograph of front and back of the cheque captured through his or her Smartphone. It is introduced by Barclays PLC, British multinational bank at the end of October 2017.

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Corporate Social Responsibility and Corporate Profitability: Empirical Study on BSE Sensex

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Abstract: *In India, many firms have taken the initiatives of CSR practices which have met with varying needs of the society. It is important to understand how and why companies adopt corporate social responsibility. The aim of this paper is examine empirically the relationship of CSR initiatives of selected Indian companies with the level of their profitability, their ownership status and type of their business activities- service or manufacturing. For this purpose BSE Sensex listed companies were taken and the data relating to the CSR initiatives of these companies for three years from 2014-15 to 2016-17 were taken from the secondary source. Data has been collected from the official websites of the firms, news items and www.ngobox.org. The relevant data have been analyzed with the application of Chi Square test. The findings revealed that the CSR initiatives are independent of their ownership status and the type of their business activities i.e., service or manufacturing. Although India has entered or taken a transformational change by involving into new CSR initiatives, but still a lot has to be done in this area.*

Key Words: *CSR initiatives, Corporate Social Responsibility, Profitability*

Theme 8 : Other Contemporary Issues of Corporate Governance in Indian Financial Services Sector

1. INTRODUCTION:

Corporate Social Responsibility could be a growing and vital a part of an organization's overall strategy. The voluntary compliance of social and ecological responsibility of firms is termed company Social Responsibility. it's primarily an inspiration whereby firms decide voluntarily to contribute to a far better society and a cleaner atmosphere. it's an inspiration whereby firms integrate social and environmental issues into their business operations and their interaction with their stakeholders on a voluntary basis. it's portrayed by contributions undertaken by firms to society through its business activities and social investment. below the businesses Act, 2013, any company having a net worth of Rs 500 crore or more or a turnover of Rs 1,000 crore or more or a net profit of rupees 5 crore or more has to spend at least 2 per cent of last 3 years average net profits on CSR activities that relates with the company's responsibility with the society at large.

2. LITERATURE REVIEW:

DR. MOHAMMAD ANEES(2012) has examined CSR in India based on NSE nifty companies and concluded that although CSR initiatives of the sampled companies are independent of type of ownership ,level of profits, and type of industry. High or Very High Level of CSR initiatives are almost nonexistent. Public Sector Companies role in CSR initiatives is insignificant. The majority of companies are at moderate or low level of CSR initiatives belong to the private sector, manufacturing industry and have a level of profitability below Rs. 5000 crores.

Solomon Adeoluwa Zaccheaus, Oyerogba Ezekiel Oluwagbemiga, olaleye Michael Olugbenga (2014) studied on effects of CSR on stock costs of listed producing companied in Nigeria and located that there square measure heaps of reasons why firms in Nigeria interact in company social responsibility (CSR). Some apply it in active compliance with the law, creation of goodwill, friendly contributing business surroundings, and since it's the proper issue to try and do for the society and surroundings. A negative and no significant relationship between stock prices and CSR is found. The results of econometric model appears to be statistically insignificant and show that there is no relationship between firms' CSR and stock prices and that firms' CSR performance has no effect on stock prices. They recommend that firms should engage in only necessary CSR activities, such as compliance with the law, ethic, building favorable business atmosphere, and a good marketing strategy, because it is not an important variable considered in valuing shares at the stock market.

Lakshmi Das , Amalendu Bhunia (2016) has studied on the Impact of CSR on Firms' Financial Performance – A Literature Review . This study monitors the diverse allied literature in India and abroad along with the findings and suggestions made by diverse researchers on the topic of how financial performances are affected by the corporate social responsibility. The primary findings were that most of these studies exposed positive impact of CSR on financial performance; some studies revealed a negative relationship between them and a few exhibited a mixed result. The study also demonstrated that a few studies pointed toward a positive impact of CSR on financial performance but their relationships had been found to be insignificant.

Christoph Lattemann et al. (2009), in their study examined why business firms in China in spite of having a higher level of economic growth, communicate less about CSR than those of firms in India. They underwent the factors relating to country, industry and firms in order to know the Intensity of communicating CSR and concluded that Indian firms communicate CSR more due to
a more rule based rather than relation based governance environment.

Dr. Satish Kumar (2012) explored CSR initiatives by 30 BSE listed Companies. The study concluded that CSR initiatives of the companies under study are independent of the level of Revenue, type of ownership and the type of public and private sector.

Omweno Nyameyio Enock & Dr. Kundan Basavaraji, Kuvempu University (2013)- CORPORATE SOCIAL RESPONSIBILITY OF TATA AND ITC COMPANY: A COMPARATIVE STUDY, CSR has been assuming greater importance in the corporate world in 21th century. Indian Government has drafted guidelines for CSR practices, which of late proposed companies to contribute a percentage share towards that cause (CSR). This study compares the CSR activities of Tata Company and ITC Company on different areas i.e. environmental friendliness, social accountability, employee's safety, human rights promotion and healthcare etc. The study also focuses on the reporting methods used by these companies. From this study, it is observed that all the two big private companies of the country are directly engaged in social responsibility in various areas, from innovation in agriculture & education to saving the environment. It is concluded that environment, education, community involvement and health care activities practiced as CSR by both companies.

3. OBJECTIVES OF THE STUDY:

- To know about the level of corporate social responsibility initiatives in India relating to BSE Sensex Companies.
- To calculate & compare actual CSR(%) initiatives done by BSE Sensex 30 companies as per companies Act,2013.
- To know whether corporate social responsibility initiatives are associated with three important aspects of the sampled companies viz., profitability, type of industry – manufacturing or service and type of ownership-private or public.

4. RESEARCH HYPOTHESIS:

H01: There is no significance difference of CSR practices of Public sector companies and Private sector companies.

H02: The levels of CSR initiatives of the companies are independent of the type of their industry manufacturing/service

H03:. Corporate profitability has no impact on CSR initiatives of the companies.

RESEARCH METHODOLOGY:

Period of the Study:

Period of the study ranged between 2014-15 to 2016-17.

Scope of the Study:

A sample size of 30 companies has been selected for this study. These 30 companies are those Listed at Bombay Stock Exchange and popularly known as BSE Sensex Companies. These Companies are from diverse industrial sector having a diverse ownership status. All of the 30 companies are reputed and have a very high market capitalization.

Variables & Data Sources:

- This paper uses two sets of secondary data. Prescribed CSR(Rs) of sampled 30 companies for 3 years have been calculated as per companies' act, 2013 based on Annual report of selected companies while actual CSR(Rs.) database has been collected from companies site & NGOBOX study report on CSR. Based on actual & prescribed CSR, we have calculated actual CSR(%) for 3 years & Mean Actual CSR(%) for sampled companies with geometric mean. It is attached in Annexure , Table-8.

- The Financial data consists of three measures of corporate profitability-Return on Assets (ROA), Return on Equity (ROE) and Return on Capital Employed (ROCE). The financial data have been obtained from companies' websites, reports and 'moneycontrol.com'for 3years of sampled companies. Based on 3years database of ROA, ROE and ROCE, we have calculated Mean ROA, Mean ROE and Mean ROCE for sampled companies with geometric mean. It is attached in Annexure , Table-8.

Analytical tool:

The First Model has been designed to analyze the impact of corporate profitability on CSR activity of firm. Thus, the independent variables used here are corporate profitability measures -Return on Assets (ROA), Return on Equity (ROE) and Return on Capital Employed (ROCE) and Mean Actual CSR(%) has been used as dependent variable in this model. The regression equation used is as follow:

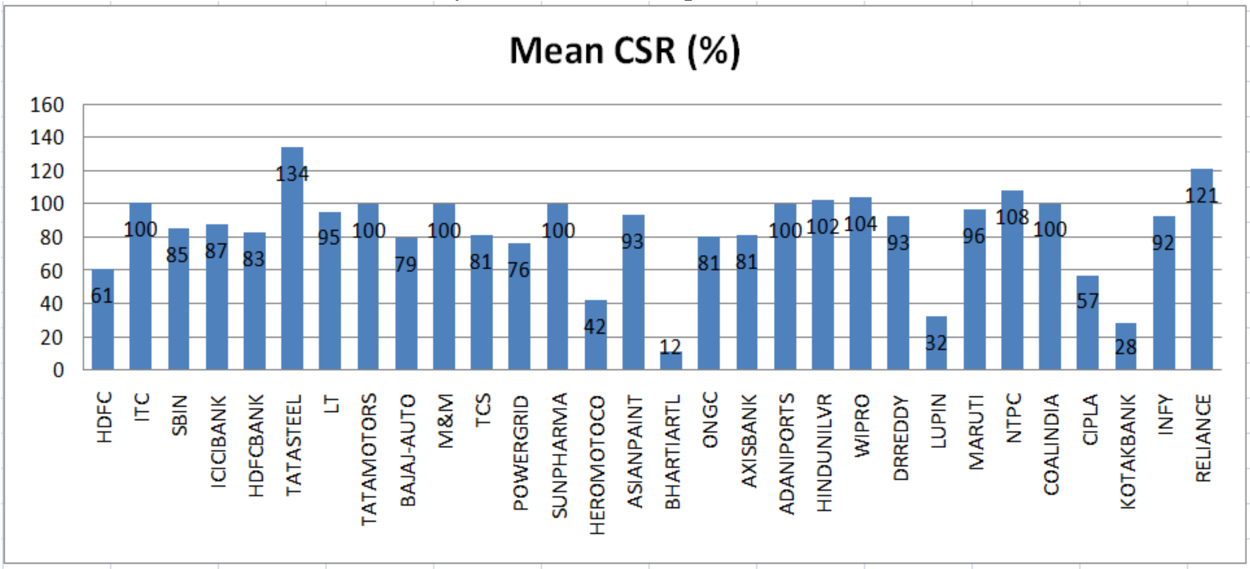
$$CSR=c + b1.ROA + b2.ROE + b3.ROCE.$$

CSR initiatives of sampled 30 companies are categorized in Manufacturing Vs Service & Public Sector Vs Private Sector as shown in Table2. The Fishers' Exact test and T test has been used to process and analyze the data with the help of spss.

5. ANALYSIS:

As shown in graph 1, Tata steel is having highest contribution (134%) in CSR activities while Bharti Airtel is having lowest contribution (12%) in CSR activities, as per companies' act-2013. While there are 16 companies which are contributing more than 90% in CSR activities from last 3 years -ITC, Tata steel ,LT ,Tata motors, M&M, Sun pharma, Asian paints, Adaniports, HUL, Wipro, Drreddy, Maruti, NTPC, Coalindia, Infosys and Relaince.

Graph-1 Mean Actual CSR(%) contribution by BSE Sensex Companies(2014 to 2017)



Source: Author (Reference Table-8)

CSR Initiatives and the Ownership of the Companies i.e., Public or Private Sector

As shown in Table 1 there are 5 public sector companies and 25 private sector companies. In order to statistically test whether the CSR initiatives depend on the type of the ownership of the company, the following hypotheses were developed:

H0: There is no significance difference of CSR practices of Public sector companies and Private sector companies.

H1: There is significance difference of CSR practices of Public sector companies and Private sector companies.

The secondary data was put to hypothesis testing process by applying t test using SPSS. The test statistics are presented in Annexure of Table 3.The P value given by significance (two- tailed) in the spss output show that in both cases, they are greater than the level of significance, which is 0.05. Therefore the null hypothesis is accepted and we can conclude that there is no significance difference of CSR practices of Public sector companies and Private sector companies.

CSR Initiatives and the Type of the Industry i.e., Manufacturing or Service

As shown in Table 2 there are 18 companies in Manufacturing while 12 companies are in service sector.
In order to statistically test whether the CSR initiatives depend on type of the industry –Manufacturing or service, the following hypotheses were developed:

H0: The levels of CSR initiatives of the companies are independent of the type of their industry manufacturing/service

H1: The levels of CSR initiatives of the companies are independent of the type of their industry manufacturing/service

We have divided CSR initiatives in scale- Satisfactory (more than 50% Mean CSR) and Not Satisfactory (less than 50% Mean CSR). As per the table-4, from sampled companies 87% companies are having satisfactory CSR initiatives while only 13% companies are having not satisfactory CSR initiatives from last 3 years. The secondary data was put to hypothesis testing process by applying Chi-Square test using SPSS.As shown in table 5, 2 cells (50.0%) have expected count less than 5, which makes the chi-square test very unreliable. So we have considered Fishers' Exact test for 2*2 matrix. The P(0.999) value given in the spss output(Table-5) greater than the level of significance, which is 0.05. Therefore the null hypothesis is accepted and we can conclude that the levels of CSR initiatives of the companies are independent of the type of their industry manufacturing/service.

CSR Initiatives and The Profits Of The Companies:

In order to statistically test whether the CSR initiatives depend on the profits of the company, the following hypotheses were developed:

H0:Corporate profitability has no impact on CSR initiatives of the companies

H1:Corporate profitability has impact on CSR initiatives of the companies

The secondary data was put to hypothesis testing process by applying multiple regression test using SPSS.The independent variables used here are corporate profitability measures -Return on Assets (ROA), Return on Equity (ROE) and Return on Capital Employed (ROCE) and Mean Actual CSR(%) has been used as dependent variable in this model. The test statistics summary is presented in the table-1.

Table 1: Summary of Regression Model

Particulars	Coefficients	p-value
ROA	0.326	0.709
ROE	0.963	0.394
ROCE	-1.290	0.402

R	0.183
R Square	0.033
Adjusted R Square	-0.078
F	0.300
Significant of F	0.825

*Significant at 5% level of significance
* Source: SPSS

- The above estimated regression equation indicates that the ROA & ROE are positively related to the CSR initiatives of the companies as beta coefficients are respectively 0.326,0.963 while ROCE is negatively related to the CSR initiatives of the companies as beta coefficient is -1.290.
- The correlation coefficient (R) 0.183 shows that association between CSR initiatives of the companies and profitability is positive and 18.3%.
- Further none of the P value is less 0.05. Thus, we may conclude that corporate profitability has no significant impact on CSR initiatives of the companies. Hence we do not reject the null Hypothesis.

6. CONCLUSION:

The results indicate that the ROA, ROE have significant influences CSR initiatives of the companies whereas the impact of ROCE on CSR initiatives of the companies is insignificant. Further correlation of CSR initiatives of the companies and profitability is positive and only 18.3%. So we can conclude that because all the sampled companies are sensex representing companies and having high market capitalization and brand name in market, they are spending good amount in CSR activities irrespective of profitability. From the sampled companies 16 companies are contributing more than 90% in CSR as per prescribed CSR by companies act,2013 while 26 companies are contributing more than 50% in CSR as per prescribed CSR by companies act,2013.As per the summary of hypothesis there is no significant difference of CSR initiatives of Public sector vs Private sector companies and CSR initiatives is independent of type of companies- Manufacturing vs service sector.

7. LIMITATIONS OF STUDY:

The weakness of the study can be pointed out on the basis of the following points:

- This research is based on secondary data collected from the websites of respective companies, the website of National Stock Exchange and the arbitraged report of NGOBOX.
- The sample size is small i.e., 30 companies and the sample of companies constitutes heterogeneous companies. No specific industry has been focused.

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ANNEXURE:

Table:2 List of BSE Sensex 30 Companies(As on 30-06-2017)

SECTOR/ INDUSTRY	NAME OF COMPANIES				
	PUBLIC SECTOR COMPANIES	PRIVATE SECTOR COMPANIES			
Manufacturing	ONGC	ASIANPAINT	CIPLA	TATASTEEL	ITC
	NTPC	HINDUNILVR	RELIANCE	TATAMOTORS	LT
	COALINDIA	LUPIN	BAJAJ-AUTO	SUNPHARMA	M&M
		DRREDDY	MARUTI	HEROMOTOCO	
Service	SBIN	AXISBANK	WIPRO	ICICIBANK	HDFC
	POWERGRID	ADANIPORTS	HDFCBANK	BHARTIARTL	TCS
		KOTAKBANK	INFY		
Source: Author (Reference: www.bseindia.com/sensexview/Index_Contribution.aspx?index_code=16)					

Table 3: Summary of Independent Samples t Test

		t-test for Equality of Means						
		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
							Lower	Upper
Mean CSR	Equal variances assumed	.512	28	**.613**	6.90567	13.48833	-20.72392	34.53526
	Equal variances not assumed	.822	13.121	**.426**	6.90567	8.39735	-11.21876	25.03011

Source : SPSS Output

Table 4: Summary of Type of CSR * Manufacturing vs. Service Cross tabulation

			Manf vs service		
			Manufacturing	service	Total
Type of CSR	Satisfactory	Count	16	10	26
		% within Type of CSR	61.5%	38.5%	100.0%
		% of Total	53.3%	33.3%	86.7%
	Not Satisfactory	Count	2	2	4
		% within Type of CSR	50.0%	50.0%	100.0%
		% of Total	6.7%	6.7%	13.3%
Total		Count	18	12	30
		% within Type of CSR	60.0%	40.0%	100.0%
		% of Total	60.0%	40.0%	100.0%

Source : SPSS Output

Table 5: Summary of Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.192[a]	1	.661		
Continuity Correction[b]	.000	1	1.000		

Likelihood Ratio	.189	1	.664		
Fisher's Exact Test				1.000	.531
Linear-by-Linear Association	.186	1	.666		
N of Valid Cases	30				

a. 2 cells (50.0%) have expected count less than 5. The minimum expected count is 1.60.
b. Computed only for a 2x2 table

Source : SPSS Output

Table 6: Summary Of Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	82.987	7.070		11.738	.000
	MEAN.ROA	.326	.865	.174	.377	.709
	MEAN.ROE	.963	1.110	.816	.868	.394
	MEAN.ROE	-1.290	1.514	-.908	-.852	.402

a. Dependent Variable: MEAN.CSR

Source : SPSS Output

Table 7 : Summary of Sampled Companies Database

	2014-15						2015-16					
	Actual	Prescribed	Actual CSR %	ROA	ROE	ROCE	Actual	Prescribed	Actual CSR %	ROA	ROE	ROCE
HDFC	49.48	122.61	40	2.35	19.34	4.51	85.7	139.26	62	2.45	20.78	4.79
ITC	214	213	100	21.73	31.31	29.54	247	246	100	19.88	29.94	28.18
SBIN	115	109	106	0.63	10.20	8.68	143	143	100	0.44	6.89	5.42
ICICIBANK	156	172	91	1.72	13.89	10.64	172	212	81	1.34	11.19	8.57
HDFCBANK	118.55	197.13	60	1.89	19.37	18.82	120	127	94	1.85	18.26	16.68
TATASTEEL	171.46	168.26	102	5.56	9.65	6.50	213	150	142	3.97	6.95	4.79
LT	76.54	106.21	72	5.81	13.63	10.89	119	101	118	5.47	13.04	10.66
TATAMOTORS	18	18	100	-9.48	-31.93	-16.02	20	20	100	0.44	1.04	0.67
BAJAJ-AUTO	42.91	86.33	50	18.08	26.31	25.38	86	86	100	23.30	29.71	28.71
M&M	83	83	100	10.08	17.25	13.85	84	84	100	8.69	14.59	12.31
TCS	219	285	77	30.53	42.40	41.32	294	360	82	29.46	38.87	38.16
POWERGRID	47	110	43	3.14	13.04	3.64	115	121	95	3.37	14.10	3.93
SUNPHARMA	4	4	100	-3.93	-6.48	-5.58	11	11	100	-3.13	-4.99	-4.23
HEROMOTOCO	2.37	44.04	5	22.67	36.47	35.93	65	58	112	25.38	39.42	37.77
ASIANPAINT	19	29	66	18.25	31.37	29.39	34	33	103	19.09	32.18	30.14
BHARTIARTL	41.1	140	29	10.44	16.86	12.76	42	189	22	4.66	8.93	5.62
ONGC	495	660	75	8.52	12.26	9.38	421	593	71	7.27	10.53	8.04
AXISBANK	123.22	133.77	92	1.59	16.46	14.25	137	163	84	1.56	15.46	12.59
ADANIPORTS	35.9	35.79	100	8.45	19.49	10.17	40	40	100	8.99	20.85	11.18
HINDUNILVR	82.35	79.92	103	31.65	115.87	88.95	92	91	101	28.81	110.73	81.16
WIPRO	133	128	104	15.34	23.66	22.73	159	156	102	13.68	19.79	19.02
DRREDD	29.17	36.6	80	10.20	15.79	14.25	41	41	100	7.71	11.67	10.61

Y												
LUPIN	12.6	39.6	32	21.77	26.55	25.64	20	54	37	20.29	24.88	24.19
MARUTI	37.25	50.11	74	11.06	15.65	15.00	78	65	120	11.66	16.92	16.38
NTPC	205	283	72	5.22	12.60	6.17	491.8	349.65	141	4.77	11.53	5.66
COALIN DIA	24	24	100	60.42	79.97	67.35	4.18	4.18	100	78.34	105.21	86.55
CIPLA	13.43	34.86	39	7.77	10.65	10.17	20	35	57	8.72	11.33	10.80
KOTAKB ANK	11.97	39.2	31	1.76	13.19	14.57	11	47	23	1.08	8.72	13.32
INFY	240	243	99	19.67	25.30	25.29	202	256	79	21.69	27.61	27.58
RELIAN CE	761	533	143	5.71	10.51	7.41	651	557	117	5.98	11.41	8.24

* Source: Author (Reference of Companies website, NGOBOX report)

Table 8: Summary of Sampled Companies Database

		2016-17									
		Actual	Prescribed	Actual CSR %	ROA	ROE	ROCE	Mean CSR	MEAN ROA	MEAN ROE	MEAN ROCE
1	HDFC	146	161	91	2.21	18.77	3.78	60.84	2.33	19.61	4.34
2	ITC	276	275	100	18.81	22.49	21.52	100.41	20.10	27.63	26.17
3	SBIN	109	188	58	0.38	6.69	4.71	84.89	0.47	7.78	6.05
4	ICICIBA NK	182	200	91	1.26	10.11	8.13	87.49	1.43	11.63	9.05
5	HDFCBA NK	305	304	100	1.81	17.95	16.80	82.92	1.85	18.52	17.41
6	TATAST EEL	194	116	167	3.09	6.93	3.89	134.26	4.09	7.75	4.95
7	LT	100	98	102	5.33	11.85	10.15	95.33	5.53	12.82	10.56
8	TATAM OTORS	26	26	100	-4.23	-11.91	-6.72	100.00	-4.50	-15.38	-8.02
9	BAJAJ-AUTO	94	94	100	18.38	22.46	21.74	79.21	19.78	25.99	25.11
10	M&M	83	83	100	10.05	15.40	13.23	100.00	9.58	15.71	13.11
11	TCS	380	446	85	26.35	30.31	29.91	81.16	28.72	36.83	36.13
12	POWER GRID	147	135	109	3.86	15.09	4.55	76.18	3.44	14.05	4.02
13	SUNPHA RMA	2	2	100	-0.10	-0.16	-0.15	100.00	-2.40	-3.92	-3.35
14	HEROM OTOCO	85	70	121	22.98	33.39	31.85	41.84	23.65	36.34	35.09
15	ASIANP AINT	47	39	121	17.65	25.94	24.57	93.35	18.32	29.70	27.92
16	BHARTI ARTL	5	207	2	-5.20	-9.80	-6.36	11.64	3.10	4.72	3.70
17	ONGC	526	536	98	7.23	9.64	7.85	80.54	7.65	10.76	8.40
18	AXISBA NK	135	196	69	0.61	6.59	7.61	81.09	1.15	11.88	11.09
19	ADANIP ORTS	47	47	100	7.90	18.38	9.17	100.10	8.43	19.55	10.14
20	HINDUN ILVR	103	101	102	30.43	69.18	59.47	102.04	30.27	96.10	75.44
21	WIPRO	186	176	106	12.92	17.47	16.54	103.83	13.94	20.15	19.27
22	DRREDD Y	40	40	100	8.41	11.93	11.35	92.72	8.71	13.00	11.97
23	LUPIN	19	66	29	17.60	21.25	20.55	32.37	19.81	24.12	23.36
24	MARUTI	89	89	100	14.38	20.28	19.43	96.26	12.29	17.51	16.84
25	NTPC	280	228	123	3.96	9.75	4.74	107.76	4.62	11.23	5.49
26	COALIN DIA	128	127	101	76.78	104.47	82.47	100.26	71.36	95.79	78.34
27	CIPLA	28	33	85	6.24	7.61	7.47	57.16	7.51	9.72	9.36
28	KOTAKB ANK	17	54	31	1.58	12.35	13.85	28.23	1.44	11.24	13.90
29	INFY	289	287	101	17.29	20.31	20.29	92.24	19.47	24.21	24.19
30	RELIAN CE	659	620	106	5.74	10.89	7.97	121.05	5.81	10.93	7.87

* Source: Author (Reference of Companies website, NGOBOX report)

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Role of Corporate Governance in Financial Sector with Reference to Perspective of Retail Investors

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Abstract: *Globally, Corporate Governance is gaining momentum and in India it has made rapid development in this context. One of the critical factor contributes to financial instability in many countries is inadequate corporate governance in the corporate and financial sectors. The constraint in corporate governance arrangements in banks and other financial institutions reduce their capacity to identify monitor and manage their business risks, and leads to poor quality lending and excessive risk-taking by financial institutions. The investment process majorly is to mobilise capital; to allocate capital among alternative ends; and to monitor the use of the invested capital, are among the key functions of the financial system. In market economies, they are carried out by a large number of individual investors and the overall outcome will mainly depend on their individual skills and incentives. But the result will also be highly dependent on the institutional framework of laws, regulations and business practices that shape and affect the interactions between equity investors and the corporation. This institutional framework is often termed as corporate governance. Especially to talk about financial sector various changes in the rules and regulations observed throughout the years. Present study reveals the perspective of retail investor towards corporate governance in financial sector. The study attempts to identify various factors in financial sectors which promote corporate governance and its variance with demographic profile of investors. The descriptive research design has been used for the study and primary data has been collected from retail investors of Navsari City. Statistical tools KMO test and Pearson correlation coefficient has been used for data analysis.*

Key Words: Corporate Governance, code of conduct, Retail Investor, Financial Sector Reforms

Theme-3: Scope of Corporate Governance in The Indian Financial Institutions

1. INTRODUCTION:

Corporate governance involves regulatory and market mechanisms, and the roles and relationships between a company’s management, its board, its shareholders and other stakeholders, and the goals for which the corporation is governed. Lately, corporate governance has been comprehensively defined as “a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intension of monitoring the actions of management and directors and thereby mitigating agency risks stemming from the devious deeds of these corporate officers”.

1.1 CORPORATE GOVERNANCE – GLOBAL SCENARIO

The enactment of Joint Stock Companies Act, in 1844, the English Company Law became one of the most permissive in the world and the concept in subsequent years became the basis of the Corporate Governance and framework for company law in many jurisdictions including India, Hong Kong, New Zealand, Singapore, South Africa as well as the states in Australia and provinces in Canada. Company Law developments in United States, though not directly influenced by the English Model, evolved along similar lines reflecting similar ideological traditions. However, development in continental Europe followed a different path. The German Corporate Governance system is generally regarded as the standard example of an insider-controlled and stakeholder-oriented system. In many European countries, shareholders exercise lesser control than the workers and similarly, in Germany the representatives of Union serve on Supervisory Boards. Until recently in Japan, shareholders virtually played no role except to provide capital. In India too, the institutional investors and other shareholders were passive investors and the companies were governed as family business.

There are some emerging issues where corporate government expected to happen. The appeal of "shareholder democracy" has dominated most changes in corporate governance over the past few years and has helped fortify the shareholder franchise. Though, maximizing enterprise value and a move from shareholder democracy to stakeholder view of governance is a tendency towards which academic literature is focusing towards. The greater control to shareholders over director selection and removal is initiated. Good Board focus is on the value creation plan, monitoring, and hold management responsible for its accomplishment. Complacent or inexperienced Boards incapable of directing an under-performing, ineffective, or inefficient management team are being questioned. Excessive or non-performance based compensation is a indication for governance intervention. Rapid technology development has created opportunity and risk. There is profound technological ignorance by many or most Boards that is creating an inability to direct and supervise management. Cyber security, BYOD (Bring Your Own Device), and social media are just three IT risks that have Deficient or non-existent internal controls, which in turn can cause privacy breaches, reputational damage, and significant investor loss. However the situation is changing fast with perceptible change in the profile of corporate ownership and insinuative improvement in Corporate Governance.

1.2 Principles of Corporate Governance

The Sarbanes- Oxley Act is an attempt by the federal government in the United States to legislate several of the principles recommended in the Cadbury and OECD reports.

1). Transparency in Dealings and Disclosures:
Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.
2)**.** Discipline in Operations:
Operational discipline asks for quality approval at every stage of predictor services. It refers to the effective and optimum application of the technology available at times. Integration and co-ordination in the entire system is but the prime requirement for the operational efficiency.
3). Rights and Equitable Treatment of Shareholders:
Organizations should respect the rights of shareholders and help shareholder to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.
4). Interests of other Stakeholders:
Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.
5). Role and Responsibilities of the Board:
The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.

1.3 Retail Investors in Indian Equity Market:

First of all, we need to understand who is referred to as "Retail Investor" in India. SEBI define retail investor as one whose total investment in equity market is not more than Rs. 2 lakhs in a year. Retail investors can be active or passive. Active retail investors are the ones "who invest in equity market through Primary Market (the New Issue market of IPOs / FPOs) and Secondary Market (Trading on Stock Exchanges) directly. Whereas passive investment to equity market is through mutual and pension funds.In India, as per the SEBI guidelines, in order to invest actively in equity market, investors must have a Demat Account linked with PAN from the Income Tax department of Government of India. Therefore, every investor have to have Demat Account with the two Depositories, NSDL (National Securities Depository Limited) and CDSL (Central Depository Services (India) Limited).

There is a steady rise in the retail investors' participation. Data shows that retail investors' average account grew by nearly 15% in FY17, though at a slower pace than institutions and HNIs. At the end of March-2017, retail investors' average account was worth Rs 75801, up 24.77% compared to Rs 60,750 in March-2016, according to data with industry-body AMFI. Institutional investors, including FIIs, had the largest ticket size, at Rs 11.07 crore per account. This figure was Rs 8.9 crore a year ago. However, HNIs held Rs 18.95 lakh per account at the end of FY17, a 3.3% drop from Rs 19.6 lakh twelve months back. The growth in turns creates a pressure of dealing with investors with a transparent mechanism and improved corporate governance.

2. LITERATURE REVIEW

Puneeta Goel, R S Ramesh (2016) analyzed the relationship between parameters of corporate governance on financial performance and to study the impact of corporate governance on financial performance. The study revealed that very few companies have a separate ethics committee for taking care of the ethical implication of its operations. Most of the companies have developed a code of ethics as it is mandatory by SEBI but only some companies have developed a detailed code of ethics for all levels of management and operations. The study asserts that there is positive impact of corporate governance practices on market valuation and profitability although the relationship may not be very strong and significant in all cases.

Basanta Raj Sigdel, Santosh Koirala (2015) examined insiders' perspectives on the determinants of corporate governance in the Nepalese financial sector. The study revealed that transparency and accountability are major explanatory factors in promoting corporate governance in the banking sector of Nepal. Discipline exerts reasonably strong positive influence in promoting corporate governance in the sample institutions. Other explanatory factors like fairness, responsibility, independence and social awareness have non-significant effect on the corporate governance.

Dr.Shobha.C, Dr.Kalaivani. K N (2014) studied on the role of corporate governance practices in selected Indian financial institutions. The study compared the corporate governance practices in various Indian public financial institutions and to know the company's philosophy on corporate governance in various financial institutions. The study concluded that the companies require proper corporate governance frame work in order to hold them responsible for the issues that are equally important to the society at large with consideration of countries unique legal environment and cultural values.

Ben Emukufia Akpoyomare Oghojafor et. al (2010) studied on poor corporate governance and its consequences on the Nigerian banking sector. The study determined the extent to which noncompliance with corporate governance codes by the bank executives contributed to crisis of poor corporate governance and to examine and evaluate the role of personal greed of executives in fostering this crisis. The study recommended that there is the need to urgently intensify the training and retraining of these officials.

3. RESEARCH METHODOLOGY:

3.1 PROBLEM STATEMENT: Although an excess of studies on corporate governance exist, but very few of them has investigated on the role of corporate governance in financial sector with reference to perspective of retail investors. The present study focuses on the perception of retail investor who purchases securities for his or her own personal account towards the corporate governance.

3.2 OBJECTIVES

1. To identify the various factors in financial sectors which promote corporate governance.
2. To study the impact of different demographical factors on investors' perception towards corporate governance.
3. To analyze the relationship between role of corporate governance and perspective of retail investors.

3.3 RESEARCH DESIGN: The present study focuses on the role of corporate governance in Indian financial sector with reference to perspective of retail investors. The study is descriptive research and primary data has been collected by using the survey method. The sample unit is Retail investors in Navsari city. Simple random convenient sampling is used to get responses from 200 retail investors. The tools used for the research are charts, graphs and some statistical tools and technique used in the analysis are KMO test and Pearson correlation coefficient. The study is limited to the Indian financial sector. Thus findings can't be generalized to other business sector such as insurance, banking, extractive and manufacturing.

4. DATA ANALYSIS AND INTERPRETATION:

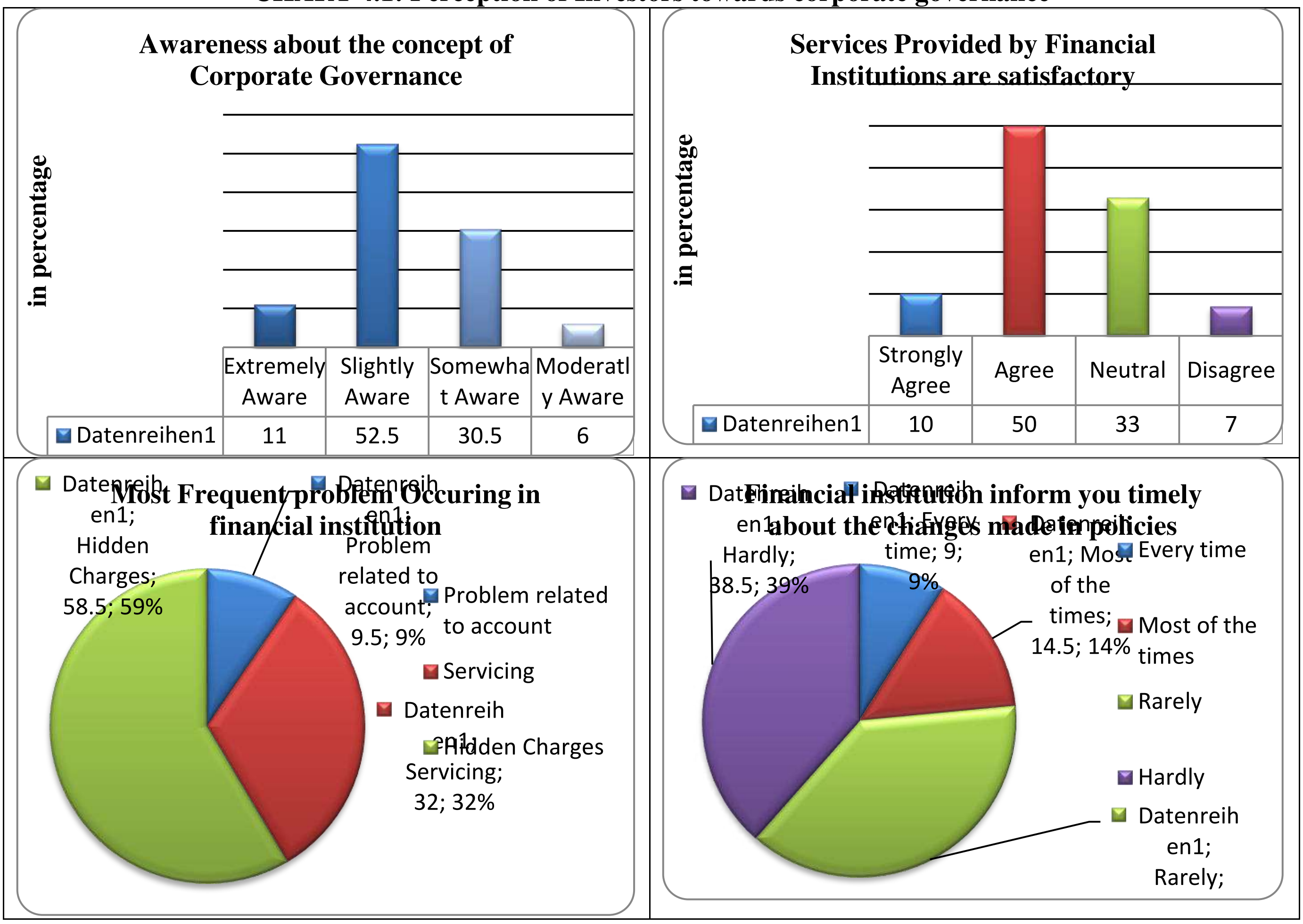
Table 4.1: Demographical profile of respondents

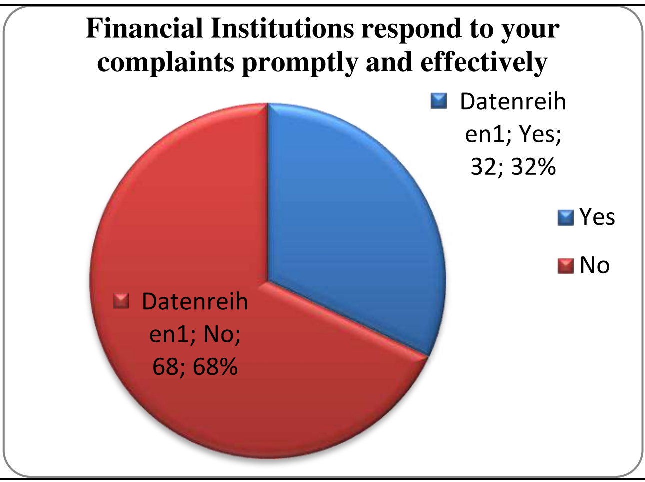
Gender	Male	73	Occupation	Student	2
	Female	27		Private Employee	27
Age	Less than 25	8		Businessman	37
	25 to 35	32		Retired	10
	36 to 45	35.5		Govt employee	24

	46 to 55	14	Income	Less than 100000	7.5
	More than 55	10.5		100001 to 300000	33.5
Marital Status	Unmarried	31.5		300001 to 500000	41
	Married	68.5		More than 500001	12
Education	HSC	7	How frequently you visit the broking firm	Everyday	13
	Graduate	49		Weekly	38
	Post Graduate	44		Monthly	32.5
Association with financial sector	New Customer	11.5		Occasionally	16.5
	1-5 years	48.5	How much time financial institution usually takes for reverting back to your complaints?	On the spot response	14.5
	5-10 years	29		A week	27
	more than 10 years	11		A month	49.5
				No response	9

Table 4.1 shows the distribution of respondents in terms of their demographic characteristics. In terms of sex, 73 percent were males while 27 percent were female the analysis showed that, the majority of respondents were within the age bracket of 36 to 45 and they are businessman and their income range were between 300,001 to 500,000. Most of respondents are associated with financial sector between 1 to 5 years. Majority of respondents weekly visit the broking firm. 49.5% respondents said that the financial institution take a month for reverting back to their complaints.

CHART 4.1: Perception of Investors towards corporate governance





From the above charts it can be said that 52.5% respondents are slightly aware about the concept of corporate governance. Majority of respondents are agreeing with the statement that they are satisfied with the services provided by financial institutions. Mostly respondents are facing the problem of hidden charges taken by the financial institutions. Only 9% respondents said that he financial institution inform them every time about the changes made in policies and 68% respondents replied negatively that the financial institutions respond their complaints promptly and effectively.

TABLE 4.2: FACTOR ANALYSIS:

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.826
Bartlett's Test of Sphericity	Approx. Chi-Square	1.206E3
	Df	105
	Sig.	.000
a. Based on correlations		

Normally, 0 < KMO < 1
If KMO >0.5, the sample is adequate.
Here, KMO= 0.862 which is indicates that the sample is adequate and we can proceed with the Factor Analysis.
The Kaiser-Meyer Olkin (KMO) and Bartlett's Test measure of sampling adequacy was used to examine the appropriateness of Factor Analysis. The approximate of Chi-square is 1.42223 with 91 degree of freedom, which is significant at 0.05 level of significance. The KMO statistic of 0.862 is also greater than 0.50. Hence, factor analysis is considered as an appropriate technique for further analysis of the data.

TABLE 4.3: INITIAL EIGENVALUES

		Initial Eigenvalues		
	Component	Total	% of Variance	Cumulative %
Raw	1	3.971	32.441	32.441
	2	1.810	14.785	47.226
	3	1.291	10.544	57.771
	4	.869	7.096	64.867
	5	.769	6.283	71.150
	6	.683	5.583	76.733
	7	.533	4.353	81.086
	8	.466	3.810	84.896
	9	.365	2.982	87.878

	10	.330	2.696	90.574
	11	.309	2.521	93.095
	12	.257	2.096	95.191
	13	.243	1.988	97.179
	14	.191	1.562	98.741
	15	.154	1.259	100.000
Extraction Method: Principal Component Analysis.				

On the basis of Varimax Rotation with Kaiser Normalisation, 4 factors have been extracted. Each factor is constituted of all those variables that have factor loading greater than 0.5. 4 factors were extracted from the 15 variables used to study. These 4 extracted factors explained 64.867 % of the variability the investor's perception towards fundamental analysis.

TABLE 4.4: ROTATED COMPONENT MATRIX

Rotated Component Matrix				
	Component			
	1	2	3	4
Q91	.785	-.305	.187	.247
Q92	.556	.349	.124	.130
Q93	.279	.556	-.001	.146
Q94	.641	.286	-.116	.044
Q95	.508	.324	.024	.169
Q96	.046	-.222	.630	-.163
Q97	.096	.032	.719	.122
Q98	.084	.712	-.084	-.070
Q99	.210	.472	.342	.306
Q910	.200	.463	.121	.263
Q911	.743	.333	-.157	-.017
Q912	.517	.064	.256	.116
Q913	-.067	.278	.709	.243
Q914	.291	.001	-.082	.759
Q915	.034	.274	.315	.695
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.				
a. Rotation converged in 6 iterations.				

Factor 1 is extracted from the statement of 9.1, 9.2, 9.4, 9.5, 9.11, and 9.12 are indication of factor-1. The questions highly on factor 1 seems to all related to discipline in Operations. Therefore named this factor as discipline in Operations. The questions highly on factor 2 seems to all related to principles of corporate governance. Therefore named this factor as principles. The questions highly on factor 3 seems to all related to transparency in Dealings. Therefore named this factor as transparency in Dealings. The questions highly on factor 4 seems to all related to behaviour of retail investors. Therefore named this factor as behaviour.

TABLE 4.5: CORRELATIONS MATRIX

Correlations Matrix							
		GENDER	AGE	MARITAL STATUS	EDUATION	OCCUPATIO N	INCOM E
Discipline in Operations	Pearson Correlatio n	-.250**	.612**	.207**	-.093	.042	.393**

	Sig. (2-tailed)	**.000**	**.000**	**.003**	.189	.557	**.000**
	N	200	200	200	200	200	200
Principles of corporate governance	Pearson Correlation	-.104	.272**	.121	.116	.099	.078
	Sig. (2-tailed)	.144	**.000**	.089	.101	.165	.273
	N	200	200	200	200	200	200
Transparency in Dealings	Pearson Correlation	-.089	.189**	-.037	.091	-.022	.154*
	Sig. (2-tailed)	.209	**.007**	.600	.202	.758	**.030**
	N	200	200	200	200	200	200
Behaviour of retail investors	Pearson Correlation	-.009	.250**	.025	-.214**	.162*	.434**
	Sig. (2-tailed)	.894	**.000**	.723	**.002**	**.022**	**.000**
	N	200	200	200	200	200	200
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

Table 2 describes the relationship between different parameters of corporate governance and perspective of retail investors. In order to find out that is there any correlation exists among the factors, Karl Pearson's coefficient of correlation test was done. It is observed that a positive correlation exists between gender, age, marital status and income with discipline in Operations where the p-value is less than significant level of 0.05 so that we accept the alternative hypothesis.

While in case of 2nd factor which is principles of corporate governance, it is observed that there is a statistically significant correlation exists with age of the respondents.

And 3rd factor which is transparency in dealings, it is observed that it is correlated with age. And 4th factor which is behaviour of retail investors factor it is correlated with age, education, occupation and income.

5. CONCLUSION:

There is a steady rise in the retail investors' participation. This growth in turns creates a pressure of dealing with investors with a transparent mechanism and improved corporate governance. Also one of the critical factor contributes to financial instability in many countries is inadequate corporate governance in the corporate and financial sectors. Especially to talk about financial sector various changes in the rules and regulations observed throughout the years. Present study reveals the perspective of retail investor towards corporate governance in financial sector. The study attempts to identify various factors in financial sectors which promote corporate governance and its variance with demographic profile of investors. The descriptive research design has been used for the study and primary data has been collected from retail investors of Navsari City.

The descriptive statistics shows the majority of investors were within the age bracket of 36 to 45and are associated with financial sector between 1 to 5 years. There is around 50 percent awareness about corporate governance among investors. The four factors were extracted from the 15 variables used in the study using factor analysis. The factors extracted are discipline in Operations, Transparency in dealing, principles of corporate governance and behaviour of retail investors. Discipline in operation exerts reasonably strong positive influence in promoting corporate governance in the financial sector. Transparency in dealing is major explanatory factors in promoting corporate governance in financial institutions. It is observed that there is a positive correlation exists between gender, age, marital status and income with discipline in Operations. By going through the subject matter, analysis, opinion of the respondents and the findings its suggested to overcome the problem of hidden charges taken by financial institutions and there is need to create more awareness among investors' about corporate governance

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An Evaluation of the Impact of Non-Performing Assets (NPAs) In Public Sector Banks in India

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Abstract: *The increasing trend of Non - performing assets (NPAs) and their associated risks and vulnerabilities in the banking sector in particular and the economy as a whole is worrisome. The role of the banking sector in economic transformation is pivotal on two fronts namely: facilitating of monetary policy transmission and an enabler in achieving government social programs. The main thrust for the establishment of public sector banks by law is essentially to channel credit to the poor, priority sector lending and subsidization. The paper will critically examine the impact of NPAs on the profitability, viability and efficiency on public sector banks. Non-performing assets (NPAs) are loans or advance for which the principal or interest payment remained overdue for a period of 90 days. In a situation whereby a borrower defaults to honour the interest or principal payment as the case may be for 90 days, then the loan is regarded as a Non –Performing loan, such default on the part of the borrower has some serious effect on the balance sheet. It is an establish fact that most of the NPAs that have accumulated in the balance sheets at alarming proportion are public sector banks. The overleveraged and under performance of the balance sheet in public sector banks and corporate entities have made the situation worsen as a good number of these non performing assets (NPAs) are caused by willful defaulters who are powerful and rich people who sometimes use their influence and political affiliation to continuing defaulting. The public sector banks are banks with major shareholding and ownership of government. The essence of the creation of these banks by law is primarily to bolster economic activities and growth, support priority sectors/programmes to develop and promote infrastructural development through enhanced credit mobilization and allocation. This paper will seek to explore the fundamental problem of how the issue of Non- performing assets (NPAs) can be addressed taken into cognizance the stress on borrowing and balance sheet, credit culture, willful defaulters, defaulter fraud and punishment by the court system. The paper will finally assess the far reaching cost implication of NPAs to the overall economy and the proactive and robust measures government has put in place to remedy the crisis in a more comprehensive and sustainable way.*

Key Words: Public Sector Banks, Non-Performing Loans, Balance Sheet Problem, Financial System

Theme: Scope of Corporate Governance in the Indian Financial Institutions

1. INTRODUCTION

The issue of Non Performing Assets (NPAs) have always been a perennial problem in India and the Reserve Bank of India (RBI) and Government of India (GOI) in their bid to tackle the problem have made tremendous efforts, commitments and strides to institute measures/ mechanisms/steps to address the prevalence and incidence of NPAs in public sector banks from two fronts; creating the legal and policy reforms environments - financial and economic. However, one notable reform in the banking sector in 1991 was the recommendation of Narasimhan Committee. Before the advent of the banking sector reforms that ushered in nationalization and liberalization in the banking industry in the 1991's, Public Sector Banks (PSBs) were regarded as the lifeline in the Indian banking and financial system. Besides, public sectors banks were the major players in reaching out to rural areas through bank branch expansion. However, with the introduction of reforms of Narasimham in 1991 and 1998 on the banking sector, the situation changed dramatically in the areas of recapitalization, macro and micro prudential regulations, classification of NPAs and Indian global standing.

According to Reserve Bank India (RBI) definition of NPA, a loan/ asset literally become a Non Performing Assets (NPAs) if the borrower in question does not pay the principal or interest due to the lender within the stipulated time (say 90 days/180 days). Interestingly, at any stage the borrower fails to honour his debt repayment, default arises. The fundamental issue that is widely debatable and has raised serious concern is the escalation of the twin balance sheet problem facing the Indian Banking Sector. The public sector banks are battling it out with the highly indebtedness of these corporate bodies whose over-leveraged and under-performed balance sheets has become an issue. Statistics have shown that 70% of outstanding credits in the banking sector are in Public Sector Banks.

Currently, the Indian Banking system comprises of twenty seven (27) public sector banks - Twenty-one (21) nationalized banks and six (6) State Bank of India Group which have been saddled with the huge impact of non-performing assets. It is important to note that an effective and efficient banking system in a country plays a pivotal role in promoting sustainable economic growth and development. This proposition can be substantiated when the financial intermediation process in the banks are efficient enough to facilitate the transfer of funds from the surplus sector (net savers) to the deficit sector (borrower) for productive investments. This core function of banks in accepting deposits from customers and lending of loans at high interest rate to the same customers is very critical in enhancing an efficient and effective financial system.

The banks have failed in some many occasions to conduct rigorous and thorough checks and contingency planning in-order to mitigate project risks. The other shortcoming is extending of loan facilities to companies whose balance sheets are stressed, not performing and unviable. Nonetheless, the tireless efforts of RBI and Government to put steps and measures in place to tackle NPAs don't seem to pay off despite the prudential guidelines/norms/policies instituted by RBI to tightened internal controls and due diligence of the bank lending process in public sector banks. What is clear is that in the boom years of the Indian economy between the early years of 2000 and 2008 public sector banks in particular made a lot of lending to corporate bodies. The problem worsened when the profits margins of these corporate entities who took these high loans declined as a result of the global slowdown. Another crucial reason for the high proportion of NPAs is the manner in which banks lend to people and industrialists. In all of these collateral / secured assets are regarded as key determinants to serve as guarantee in the event of default/liquidation/ bankruptcy of the borrower.

According to RBI sources; public sector banks lending to industries which is part of the banks' lending strategies accounts for about 80% of total credit which constitute a huge portion of Non- Performing Assets (NPAs). The balance sheets of five industries in Public Sector Banks have been identified as major defaulters having high proportions of NPAs - aviation, infrastructure, textile and mining.

This problem of NPAs if not curb and correctly addressed in an appropriate and proper way has the tendency to slow down economic activities which in turn impede economic growth and development.

2. OBJECTIVES

The objective of this paper is to critically examine the underlying impact of NPAs in the Public Sector Banks in India with special emphasis on bank credit control and lending activities since the Indian financial system is bank-centric in nature. The study aims to analyze the high incidence and proportion of NPAs and its adverse effect to the economy.

3. LITERATURE REVIEW ON NON PERFORMING LOANS (NPLS)

The literature review essentially examines the various perspectives, viewpoints of authors pertaining to this study under review, all of which provided sufficient information for readers with a fringe interest in the topic. Thus, our review of literature served three purposes: (1) it places one's research in a context relating to the existing research and theory; (2) it enables the researcher to ensure that his research would contribute to a better understanding of the topic reviewed; and (3) it helps the researcher to avoid the mistakes made by people whose works he/she reviews. It is against this background that this study is set to review some of the relevant literature on: The impact of Non - Performing Assets (NPAs) in Public Sector Banks in India.

On this topical issue of NPAs, Reserve Bank of India (RBI), renowned authors, writers and commentators in India have written extensively in their publications, articles, research papers and journals on the impacts of Non Performing Loans (NPLs) in Public Sector Banks and its far reaching implications to the Indian Economy. This paper aims to examine the strategic view shared by Reserve Bank India (RBI) and Government on the way forward of NPAs and how to holistically address the problem of NPLs in a more coordinated and sustainable approach.

Ghosh (2003) empirically examined non-performing loans of India's public sector banks in terms of various indicators such as asset size, credit growth and macroeconomic condition, and operating efficiency indicators.

Reserve Bank India (RBI) (2015). Data from RBI has showed that banks accounts for 64% of the total assets of the Indian Financial system. Public sector banks accounts for about 73% of the total assets of the banking system (and about 47% of the total assets of the financial system) Brei and Gambacorta (2012) find that while stronger capitalization sustains loan growth in normal times, banks during a crisis can turn additional capital into greater lending only once their capitalization exceeds a critical threshold. This implies that recapitalizations may not translate into greater credit supply until bank balance sheets are sufficiently strengthened.

Akhoury Rashmi,(2010) did a study on the Non Performing Assets (NPAs) overhang – its magnitude, solutions and legal reforms on the banking and Financial Sector Reforms in India. According to Rashmi, banking business has a vital role to play of accepting deposits from customers/depositors through financial intermediation, and the ability of the banks to effectively and efficiently mobilize and channel these funds to other sectors through lending activities for productive use which is very critical in the smooth functioning of the lending activities. His analyzing on intermediation- acceptance of deposits is that the deposits received from the customers have to be repaid by the bank, these deposits are referred as 'Liabilities' to the bank and as the loans provided to the borrowers which the bank in turn hopes to get back, are considered as 'Assets' to the bank which are classified as loans and advances

Pandey, Shruti J. and others (2013) did a detailed paper on Non –Performing Assets of Indian Banks on the Economic and Political Weekly (EPW), Vol.48, No.24.In 1998, laying special emphasis on the Narasimhan Committee on Banking Sector Reforms recommendations for further tightening of prudential standards/guidelines/norms/frameworks in order to strengthen the prevailing norms and bring them on par with evolving international best practices.

Dr. K. C. Chakraborty, Deputy Governor of Reserve Bank Of India (2013) delivered a keynote address on the theme looking back and moving ahead; ''The two decades of credit management in Indian Banks''.

Atul Mohan and Kapur Puneet (1996) did a study on the practical guide to Non-Performing Bank Advances. The paper did emphasize the risk and vulnerabilities involved in the traditional banking business of accepting deposits from customers on one hand and using such funds in financing lending activities on the other. The study further highlighted the high probability on the part of the borrowers to default at the time of honouring/ repayment of interest and principal. Evidence has showed that a greater percentage of the default-rate is recorded in the commercial banks because borrowers failed to honour their part of the bargaining by not payment of either principal or interest.

4. RESEARCH METHODOLOGY/APPROACH

The research procedures employed in the collection, presentation, processing, analysis and interpretation of our data and information in support of our analysis is based on secondary materials. Qualitative information was extensively used to interpret and re-interpret our findings on the impacts/steps/measures/challenges to strengthen our arguments on NPAs.

We utilized the sources and reports in bulletins, websites, journals articles, and working papers of credit rating agencies, and the Reserve Bank of India (RBI) to build and consolidate our arguments. Our argument has been validated in the view that the impact of NPAs in public sector banks and in the Indian Banking Sector is a serious concern and its prevalence in the Indian Banking system needs to be addressed.

5. PUBLIC SECTOR BANKS AND ITS HIGH LEVEL OF NON-PERFORMING ASSETS (NPAS)

Non Performing Asset (NPA) has always been a problem in the banking sector in the Indian financial system, be it in pre- 1991 or post- 1991 or in the 21st century. The classification of assets as Non Performing Loans (NPLs) were done by two committees then; Pre -1991, by the Ghosh committee - Health Code System classified Non - Performing Assets (NPAs) into 8(eight) categories and post 1991 Narasimham committee downgraded it into 3(three) in line with international standards; sub standard, doubtful and loss assets. Borrowers are considered as defaulters in the context of NPAs when they are unable repay their principal or interest within the stipulated time of 90 days /180 days as the case may be. The factors responsible for NPAs can be attributed to a larger extent to the ways public sector banks lend loans to people and industrialists without due diligence of secured assets. The situation gets much serious when Public Sector Banks seem not to pursue rigorous measures of recovery of these loans. This room for complacency on the part of PSBs has aggravated the problem of high proportion of bad loans necessitating further deterioration of asset quality in the system. Narasimham committee on economic and banking reforms in 1991 and 1998 recommended the setting up of the Asset Reconstruction Company (ARC) to curb the high prevalence of NPAs and restructuring of loans in Public Sector Banks.. Public Sector Banks were once considered as the only banks in the country that have the where it all to reach out the length and breadth of India introducing banking concepts to the masses and ordinary people.

Public Sector Banks in India were established by law to support economic activities and complements government's development agendas through lending activities to priority sectors in a bid to bolster socio- economic development. It is imperative to note that Non Performing Assets (NPAs) have the tendency to generate and inflict damaging consequences on the sustainability and growth of the banking system, and if not managed properly could lead to bank failure. The responsibility of the Reserve Bank of India (RBI) in this regard is to look at a number of avenues that are worth exploring to address the problem of stress on the balance sheet of public sector banks so that credit growth and culture would be restored to boost economic growth. Apart from the macro-economic factors that cause NPAs, others causes are bank- specific in nature. The bottom line is that RBI should explore all the available and possible avenues to tackle NPAs and as well as restoring sanity, growth and investor confidence in the banking sector. This will requires concerted, collective and coordinated efforts from all stakeholders concerned.

6. TREND IN NPAS IN PUBLIC SECTOR BANKS IN INDIA

Considering the prolonged incidence of NPAs in the Indian Banking system which has become a serious issue .The high proportion of NPAs have brought with it fear and loss of confidence, trust and hope in the minds and hearts of the investors, depositors and lenders. This situation has further weakened the smooth flow of funds to productive sectors resulting to the damaging effects of credit lending. Lack of preparedness on the part of the banks and poor recovery strategies of loans distort credit availability to productive sectors and adverse repercussion to the financial soundness of the Indian Banking system.

For the period under review ,asset quality in the banks have deteriorated considerable to the extent that the proportion of Gross non- performing assets to total credit in public sector banks continue to increase. According to the Financial Stability Report released by RBI, it was not good news for the banking industry as the forecast indicates unfavourable positions of banks in assets quality in the preceding years. Gross non-performing assets in banks would deteriorate to 9.3% .Comparative analysis of GNPA of banks for the periods under review:

Table: 1

Asset Quality ratio	**Sept 2015 (%)**	**March 2016 (%)**	**2016-17 (%)**
Gross Non Performing Assets (GNPAs)	5.1	7.6	9.3
Net Non Performing Assets (NNPAs)	2.8	4.6	-
Source: Reserve Bank of India- Financial Stability Report			

In a bid to realistically understand the worsening situation of non- performing loans in the banking sector, RBI conducted an asset quality review of 36 banks including public sector banks which accounted for 93% of the banks gross loans. The objective of the review is to examine and make assessment of the asset quality of banks at both bank and systems levels and systematically settle the issues of divergence in identifying Non Performing Assets and additional provisioning across banks.
The review disclosed that under baseline and severe stress scenario, public sector banks will continue to register higher Gross Non Performing Asset (GNPA) ratio as shown below:

Table: 2

Gross Non Performing Assets (GNPA)	**March 2016 %**	**March 2017 %**
Public Sector Banks (PSBs)	10.1	11
Source: Reserve Bank of India (RBI) –Financial Stability Report: 2016		

This review has shown that there are challenging times ahead of banks taken into consideration their asset quality which has deteriorated and continue deteriorating over time, thus resulting to the GNPAs to increase.

7. IMPLICATIONS OF NPAS ON THE BANKING SECTOR AND THE ECONOMY

The Public sector banks which are at the centre of NPAs problems in India are virtually exposed to huge financially loss on one hand and investor’s confidence and trust on the other which is a serious concern because the assets /loans that the lender was expecting positive returns from cannot contribute or perform but rather continue deteriorate in value by the day. In such a situation of a stress balance sheet, the bank will be confronted with numerous problems of survival as a going concern such as competition, efficiency, profitability and performance which has the propensity to distort profit margins resulting to When financial institutions in a country especially the banks are flourishing with sufficient bank credit being channeled efficiently and effectively to productive and priority sectors of the economy, stability and soundness of the financial system will be enhanced thus necessitating economic growth, employment and development. In the event of distortion in the smooth flow of financial intermediation between the lender and borrower, this will have an adverse repercussion on the banking sector and the economy because bank credit/loan is a catalyst to economic growth and any impediment in the smooth flow of bank credit creation will result to bad loan.

It is crucial however, to note that when assets are classified as Non-performing assets, the inherent risk of recovery in such circumstances is very high and should be given priority or otherwise the high proportion of bad loans will choke the system. Credit risk if not properly managed has the propensity to preoccupied the bank's attention with recovery procedures rather concentrating on expanding ventures.

8.DISCUSSIONS

The prolonged and protracted problem of NPAs in public sector banks is not a new phenomenon in the Indian Banking industry, rather this menace has mounted to alarming proportions which is not good for the growth of the economy. The factors responsible for NPAs and its underlying impacts are huge. As a matter of urgency, the government should take up the challenge. However, significant moves have been made by RBI and the Government of India in tackling the problem in the future. But much more needs to be done. Steps such as Indrad Hanush, Bankruptcy Code have been introduced. Also RBI had introduced in the past and of recent series of measures geared towards tough and stringent debt restructuring mechanisms to curb the increasing trend of NPAs in Public Sector Banks .Below is an analysis of the measure, objective and year.

Table: 3

No.	MEASURE/STEP/POLICY	OBJECTIVE	YEAR
1.	Debt Recovery Tribunals	To lessen the time required to for settling of cases	1993
2.	Credit information Bureau	To provide good information to prevent NPAs by way of maintaining and sharing data of individual defaulters	2000
3.	Lok Adalats	To tackle and recover small loans	2001
4.	Compromise Settlements	To provide a mechanism to recover NPAs below Rs 10 crores	2001
5.	Safaesi	To recover NPAs through acquiring and disposing of secured assets without involvement of the court system.	2002
6.	5:25 Rule	To maintain the cash flow of long term project loans	2014
7.	Joint Lenders Forum	To prevent stressed banks given loans to other bank	2014
8.	Bad Banks	To establish a bad bank that will tackle the problem of NPAs in a flexible manner.	2017
Source: Reserve Bank of India (RBI)			

The Government's strategic view to address the fundamental problem of NPAs in the Public Sector Banks taken into cognizance the issues of credit culture, wilful defaulters, stress on borrowing and loss of confidence in the banking system include:

8.1 Building a Strong Credit Culture in India

The issue of credit culture in India has been a prolonged and serious challenge but with the regulatory framework been developed for credit risk management, Reserve Bank India (RBI) is well placed now in its policy drive to support and enforced preemptive and regulatory approach to adopt measures towards building strong credit culture in India's financial institutions and further design policy framework that will facilitate robust risk management. Empirical evidence has revealed that India's credit growth rate incredibly low. In a bid to change this unsatisfactorily low trend, banks in India like other successful banks around the world should inculcate the concept credit risk management and focus on the development of strong credit culture that will give more premium and relevance to risk management throughout the bank's operations.

According to a report published in March 2015 by the International Monetary Fund (IMF) on Indian's very low credit growth, the analysis indicates that the weak, overleveraged and under- performing state of public sector banks balance sheets and the overall low appetite for bank credit had been responsible for the unfavourable conditions for credit growth.

The major issue concerning credit culture is that, the Indian bank's abilities to take on board prudential guidelines and norms and credit risk management as key instrument to better and properly identify and streamline higher quality loans/assets.

8.2 Wilful defaulters

This scenario of persistent refusal and reluctance on the part of borrowers to honour their financial obligations is borne out of the fact majority of these defaulters are rich, influential and highly placed individuals in society who can easily navigate their ways to secure and access more loans even though their credit rating, creditworthiness and financial standing is questionable. The irony is that instead of them doing repayment/honouring their obligations, they prefer to increase their debt exposure by applying for more loans. This indicative of the fact that willful defaulters don't care about the magnitude of their liabilities and thus the prescribe punishment in the event of default. Willful default occurs when a borrower deliberately refuses to honour his financial obligation despite having the capacity to pay or siphons off funds by disposing of assets without the knowledge of the bank, according to RBI. Reserve Bank of India (RBI) has adopted a policy of banks to name and shame willful defaulters by publishing their photographs.

The Reserve Bank of India has step up its surveillance and monitoring to check incidences of willful default by putting in place tight measures and tough norms notifying promoters that defaulting institutions can no longer escape from their responsibility even if they are not a full- time directors.

8.3 Stress on borrowing:

According to India Ratings Agency, a third of Indian firms' borrowing currently is stressed. The report further states a third of India's largest 500 corporate entities failed to earn enough to service their debt obligations (interest payments) in 2015. Statistics have indicated that of the 500 corporate borrowers, 178 had their interest coverage ratio below one (1). The sectors that fall under this category of declining interest coverage ratio include; construction and infrastructure, metals and mining and power. In the context of stress on borrowing, interest coverage measures a firm's ability to make interest payment on its debt through earnings - the lower the ratio, the less likely the firm is able to make interest payment. India Ratings considers a company stressed if it has an interest coverage ratio below 1. The declining trend underscores the fact that there is a marked drop in credit quality over the past years of the largest 500 corporate borrowers in India and the number of corporate entities falling under the category of interest coverage ratio below 1 has increased since then. With the turn of events of credit risk and the continuous deterioration in credit quality in corporate institutions, the Public sector banks are left with no options but to be more hesitant to lend money to these borrowers because the possibility of these companies with high levels of debt to service their obligations is extremely unlikely in the mere future.

8.4 Loss of confidence on Public Sector Banks

According a credit rating agency report, due to the low investor confidence among investors, the prospect for internal capital generation would be weak and that will further impede access to the bond and equity markets. With such bleak situation and the challenges ahead of raising capital from the market, public sector banks will depend on the government to meet core capital requirement. On the same issue of investor confidence and related developments, Viral Acharya Deputy Governor, Reserve Bank of India delivered a speech on the challenges, prospect and future of NPAs in public sector banks, disclosing that state-owned banks might be restructured, merged and even pushed to merge to take them to safety.

Public Sector Banks will survive any climate and will continue to lend to the general public as well as the infrastructure, social welfare measures and to meet any eventuality by the government.

Looking ahead of restoring confidence in the banking sector in particular and the financial system as a whole, The Reserve Bank of India (RBI) as part of its policy drive has put in place robust frameworks to restore public sector bank health because according to RBI when bank balance sheets are so weak, that has the tendency of impede healthy credit growth thus dampening economic activities and growth.

9. FINDINGS/RESULTS

According to Reserve Bank India (RBI) - Financial Stability Report on non performing loans; more than Rs 7 lakh crore worth of assets in the balance sheets of the Indian banking industry are being classified as Non Performing loans (NPLs). Further analysis have shown that 10% of these loans given out are going to be paid back since a significant portion of these bad loans are in the balance sheets of public sector banks. They apparent defaulters are corporate entities. The stressed balance sheets in the public sector banks is indicative that highly unlikely that repayments of these high loans would be forthcoming taken into account the bad performance of the loans, prudential norms not adhered to and above all banks lethargy to improve their recovery capabilities.

Recapitalization plan and restructuring of loans is of course was a positive idea by Government but not enough to address the issue comprehensively. The Government of India would not continue to bail out borrowers/corporate bodies bearing in mind the huge financial implication to the economy. Taking up such venture is a huge and expensive venture.

Reserve Bank of India and the Government have taken up the bold step of tough prudential guidelines/norms/frameworks to move towards compliance with the Basle iii banking regulatory framework of capital adequacy norm, the Indian government in its 2017 fiscal year union budget announced that 250 billion rupees will be allocated toward the recapitalization of public sector banks which to many is a good step in the right direction. Following this development, the Reserve Bank of India (RBI) launched an asset quality review for banks to take necessary steps to clean up their balance sheets by March 2017. The government's recapitalization plan for Public Sector Banks was a welcome development which is aimed at propelling credit growth by up to 700 basis point to 15% and as a direct consequence of the projected GDP growth to 7%. The Rs 2.1 lakh crore (representing 1.2% of GDP) will be injected for two years. The capital infusion will be funded through three sources:

- Rs 18,139 crore from budgetary provisions
- Rs 58,000 crore from the market as government dilutes its stake and;
- Rs1.35 lakh crore through recapitalization bonds issued by the Government

According to sources from brokerage firm Ambit Capital, lending growth across banking system was estimated to be at 8% in 2018-19. With the recent recapitalization plan coming into motion, the credit system is expected to grow to 12%-15% subsequent years which will ultimately improve prospects of growth for the industrial sector as well as services sector, thereby propelling GDP growth to 7% year -on- year in 2019 from 5.8% in 2018.
The Industrial sector is likely to see a 7% growth in 2018-19 from 5% in the current fiscal year.

The Service sector is projected to grow at 7.3% in the current fiscal year and rise to 7.5% in the succeeding year.Growth in agriculture is expected to get to a boost from an estimated 1.5% this fiscal to 4.2% in the next financial year.

10. IMPLICATION AND AREAS FOR FUTURE RESEARCH

The strategic view of Reserve Bank of India (RBI) and Government to address the problem of NPAs in public sector banks through recapitalization and loans restructuring policies have had far reaching implications to the taxpayer, financial system and the overall economy. At what cost would the Government take up such plan. The financial implication I can attest would be huge to clean and restructure the stressed balance sheet of Public Sector Banks. Apparently, it would be a herculean task considering the unfavourable macroeconomic conditions domestically and globally. The whole idea of recapitalization and government intervention in public sector banks stressed balance sheet is good but not sufficient enough to solve the problem of NPAs on one hand and give assurance that the crisis won't repeat itself on the other. The fundamental question that begs for answers; can the bank-specific causes of NPAs be given more attention in addressing the issue owing to the fact that asset quality review is very critical in bank lending and credit growth. Also are the macroeconomic factors of NPAs in Public Sector Banks such as GDP growth, inflation and interest rate improving or not. Proper identification and diagnostic test of the root cause of NPAs in public sector banks is very critical. Knowing the problem can only lead to finding a lasting solution. Public Sector Banks whose assets/loans are no longer performing and stressed balance sheets can be merged and ownership diluted with performing ones. A quick fix of the problem can't work because the crisis is an institutional failure that has been going on for a long time now.

11. CONCLUSIONS / RECOMMENDATIONS OF FUTURE STUDY

It is no secret by now we all know the damage that Non Performing Assets (NPAs) have caused to the Indian Banking Sector in particular and the economy as a whole in terms of economic growth and sustainable development. In a bid to correct the problem of balance sheet stress aggravated by Non-Performing Loans (NPLs) and finding a way to mitigate the prevalence of such risks in the public sector banks, The Reserve Bank of India (RBI) should institute measures, guidelines, regulations, frameworks and policies that are robust and enforceable. This paper examines the impact of Non-Performing Loans in the Public Sector Banks in India and highlights its findings and conclusions below:

Firstly, strengthening of effective financial regulation and banking supervision norms, guidelines and frameworks; According to Basle guidelines, macro/micro- prudential frameworks/guidelines/ norms are key determinants to mitigate credit risks and vulnerabilities. It is imperative that banks implement the **CAMELS** principles of capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk in their strategic bank lending activities and put into practice their use and ensuring that borrowers/corporate bodies are not complacent in adhering to these norms.

Secondly, enhancing awareness creation programs that are geared towards curbing unproductive borrowings; it is essential that the Bank Supervisors of RBI take stock of assets/loans in the balance sheets of corporate entities that are unviable and not performing by way of asset quality reviews and constant monitoring and surveillance of bank lending policies and practices. The whole essence of bank intermediation is to facilitate and channel/transfer of funds from the surplus sector (net savers) to the deficit sector (borrowers) for productive investments. The responsibility of banks in this case is to ensure that this process is distorted thus the increasing need to tighten internal controls and due diligence.

Thirdly, scaling up multiple layers of approval to sanction huge borrowers; there is a need for the banks to conduct screening and credit appraisal checks in given out loans to borrowers. Cross checking of creditworthiness through credit referencing of would be borrower is very necessary. Collaterals/secured assets should be a pre condition in extending loans.

Fourthly, Transparent mechanism and proper disclosure regulation should be put in place; Early adherence to prescribed guidelines by RBI would have helped to ameliorate these tangible inefficiencies so that Public Sector Banks would not lose grounds to private and foreign banks that admittedly had brought to the banking industry financial and technological innovations given them the competitive edge to deliver efficient and effective service quality. Banking supervision officials should be made accountable for their actions/decisions.

To reduce the propensity/mitigate the occurrences of Non- performing Assets (NPAs), it is vital that prompt action and effective communication flow, proper legal framework, cooperation and coordination between the stakeholders and regulators concerned. Punitive measures and its far reaching consequences should be instilled in the minds of the borrowers in the event of willful default.

It is therefore crucial that further reforms are instituted to strengthen the weak existing legal and contract enforcement system and deteriorating credit discipline which are responsible for high proportion of NPAs in public sector banks for quite a long time now in the Indian Banking sector.

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A Conceptual Study on Various Roles and Challenges of Stock Exchanges and Regulators in the Governance Process of Stock Market of India

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Abstract: *Corporate governance and economic development are basically correlated, successful corporate governance system encourage the progress of well-built financial systems. Financial market regulator showed India's promise to move towards as a strong financial strength, through establishing stock market with excellent practices of better corporate disclosure and healthier investor protection. The establishment of National Stock Exchange (NSE), with experienced expertise to advance trading practices and lessen unethical dealings, supported by a well-built legal structure and hi-tech support to build up the governance arrangement, has been the best part of the Indian stock market in the last decade. The gaining importance of Corporate Governance in India has been principally attributed to the three big scams, the Harshad Mehta scam, the Ketan Mehta scam and the more recent Satyam Computers Limited scam involving Ramalinga Raju. There have been minor incidents like the C.R. Bhansali case and the UTI scam, which have added bigger the grounds for a well-built governance structure. The Securities Exchange Board of India (SEBI) is playing a vital role to corporate governance of India's stock market, as it serves as the fundamental body that ensures investors are protected and the securities market is regulated. The main objectives of paper are to study corporate governance practices in Indian stock market and to find out various roles and challenges of stock exchanges and regulators in the governance process of stock market of India.*

Key Words: Corporate governance, Indian stock market, SEBI (Security Exchange Board of India), NSE & BSE.

Theme: 5: Indian Financial Markets and Corporate Governance

1. INTRODUCTION:

The establishment of National Stock Exchanges (NSE & BSE), a state-of-the art exchange, with refined know-how to develop trading practices and decrease immoral transactions, supported by a well-built legal structure and technical foundation to build up the governance arrangement, has been the best part of the Indian stock market in the last decade. The stock exchanges are the important participant of the capital market. They are the platform of trading in securities and as such they maintain and manage the buying and selling of securities. Thus, stocks exchanges comprise of a marketplace where securities issued by the central and state, governments, public bodies and joint stock companies are traded.

There are mainly four stock exchanges in India as follow:

1. Bombay Stock Exchange (BSE)
2. National Stock Exchange (NSE)

3. The Over the Counter Exchange of India (OTCEI)
4. Regional Stock Exchanges

1.1 Bombay Stock Exchange (BSE):

Bombay Stock Exchange Ltd. was established in 1875. BSE is Asia's first & the best ever stock exchange in globe with the speed of 6 micro seconds and one of India's most important exchange groups. Over the past 141 years, BSE has facilitated the expansion of the Indian corporate sector by providing well-organized capital-raising platform. The BSE dominated the Indian capital market accounting for more than 60 per cent of the all India earnings. Today BSE provides an efficient and transparent market for trading in equity, currencies, debt instruments, derivatives, mutual funds. It also has a platform for trading in equities of small-and-medium enterprises (SME). India INX, India's 1st international exchange, located at GIFT CITY IFSC in Ahmedabad, is a fully owned subordinate of BSE. BSE is the first exchange in India and second in the globe to get ISO 9001:2000 certifications. It is also the first Exchange in the nation and second in the world to obtain Information Security Management System Standard BS 7799-2-2002 certification for its On-Line trading System (BOLT). BSE provides a host of other services to capital market participants including risk administration, clearing, settlement, market data services and learning. It has a global reach with customers around the world and a nation-wide presence. BSE also provides depository services through its Central Depository Services Ltd. (CDSL) arm.

1.2. National Stock Exchange (NSE):

According to World Federation of Exchanges (WFE), National Stock Exchange (NSE) is the most important stock exchange in India and the fourth largest in the world by equity trading volume in 2015. NSE believes that the scale and width of its products and services, sustained leadership positions across multiple asset classes in India and internationally allow it to market demands and changes and deliver improvement in both trading and non-trading businesses to provide high-quality data and services to market participants and clients. NSE initiated electronic screen-based trading in 1994, derivatives trading and internet trading in 2000. NSE has a fully-integrated business model comprising our exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also supervises compliance by trading and clearing members and listed companies with the rules and regulations of the exchange. NSE is a lead the way in technology and ensures the consistency and performance of its systems through a culture of improvement and investments in technology.

1.3. The Over the Counter Exchange of India (OTCEI):

OTCEI was incorporated in 1990, sponsored jointly by the ICICI, SBI, UTI, Capital markets Ltd., Can ban Financial services Ltd., LIC, GIC. The Exchange was set up to aid enterprising promoters in raising funding for new projects in a cost efficient and to provide investors with a transparent mode of trading. The OTCEI was the first electronic national exchange with a display based trading system listing companies of small size. It approved business with a paid up capital as low as 30 lacs to get listed. The National Securities Clearing Corporation Ltd. (NSCCL) was set up by the National Stock Exchange of India Limited (NSE), the country's largest stock exchange. It is the leading clearing house in the Indian capital markets and is accountable for resolve all trades on the NSE as well as on OTCEI. In fact, consumer favourites like VIP Advanta, Sonora tiles and Brilliant Mineral Water are made by high development companies that have benefited by listing on OTCEI.

1.4. Regional Stock Exchanges:

There are 23 stock exchanges in India. Among them two are national level stock exchanges namely Bombay Stock Exchange (BSE) and National Stock Exchange of India (NSE). The remaining 21 are Regional Stock Exchanges (RSE). The regional stock exchanges provided investors an access to big brokers in Mumbai. They also served as a link between the local companies and local investors. During the early sixties, there were only few recognized RSEs in India namely Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore. The number remained unchanged for the next two decades. 1980s was the turning point and many RSEs were incorporated. The latest is Coimbatore Stock Exchange and Meerut Stock Exchange. Each regional stock exchange followed its own practice and procedures in respect of listing and trading of securities, clearing and settlement of transaction, and risk containment measures.

2. NEED OF CORPORATE GOVERNANCE PRACTICES IN INDIAN STOCK MARKET:

Corporate governance became important in Indian context because of the scams that occurred since liberalization from 1991, for e.g. the UTI scam, Ketan Parekh scam, Harshad Mehta scam & the latest & the biggest of them all the Satyam Fraud scam. Another reason is that the legal & administrative environment in India provides excellent scope for corrupt practices in business.

3. LEGAL FRAMEWORK CORPORATE GOVERNANCE PRACTICES IN INDIAN STOCK MARKET:

The four main legislations governing the Indian stock market are as follows:

3.1. The SEBI Act, 1992 which establishes the SEBI with four fold objectives of protection of the interests of investors in securities, development of the securities market, regulation of the securities market and matter connected therewith and incidental thereto. The disclosure standards were enhanced to develop transparency and maintain the objective of investor protection. The issuers are now required to disclose information on various aspects, such as, the track record of profitability, risk factors, etc. Issuers now also have the option of raising resources through fixed price floatation or the book building process.

3.1.1 Clause 49 of the Listing Agreements:

The SEBI implemented the recommendations of the *Birla Committee* through the passing of Clause 49 of the Listing Agreements.11 Clause 49 may well be viewed as a milestone in the evolution of corporate governance practices in India. The requirements of Clause 49 were applied in the first instance to the companies in the BSE 200 and S&P C&X NIFTY stock indices and all newly listed companies, on March 31, 2001. These rules were applied to companies with a paid up capital of INR 100 million or with a net worth of INR 250 million at any time in the past five years on March 31, 2002, and to other listed companies with a paid up capital of over INR 30 million on March 31, 2003. The *Narayana Murthy Committee* worked on further refining the rules, and Clause 49 was amended accordingly in 2004.

The key mandatory features of Clause 49 regulations deal with the following:

a. Composition of the board of directors;
b. The composition and functioning of the audit committee;
c. Governance and disclosures regarding subsidiary companies;
d. Disclosures by the company;
e. Reporting on corporate governance as part of the annual report; and
f. Certification of compliance by company with the provisions of Clause 49.

3.2. The Companies Act, 1956 which deals with issue, allotment and transfer of transfer of securities, disclosures to be made in public issues, underwriting, rights and bonus issues and payment of interest and dividends. Company law provides for regular accounting information to be supplied to the shareholders along with a report by the auditors. Disclosure is also a vital element in the ability of the capital market to exercise its discipline on the issuers of capital.

3.2.1 Disclosure of Accounting Treatment:

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

3.2.2 Board Disclosures – Risk management:

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

3.3. The Securities Contracts Regulation Act, 1956 which provides for regulations of securities trading and the management of stock exchanges.

3.4. The Depositories Act, 1996 which provides for establishment of depositories for electronic maintenance and transfer of ownership of demat securities. The major aspect contained in Depositories Act, 1996 is relief from stamp duty to the investors & a depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of a beneficial owner.

3.5. Stock Exchanges in Corporate Governance:

India currently has two major stock exchanges—the National Stock Exchange, established in 1994, and the Bombay Stock Exchange (BSE), the oldest stock exchange in Asia, established in 1875. Until 1992 the BSE was a monopoly, marked with inefficiencies, high costs of intermediation, and manipulative practices, so external market users often found them disadvantaged.

3.6. Recent ICDR & Corporate Governance:

SEBI has issued its latest regulation in 2009 for Issue of Capital & Disclosure called ICDR 2009 wherein significant amendments has been made for strengthening corporate governance norms in Capital market. In 1994, SEBI issued new guidelines on preferential allotment that prohibited preferential allotments at a price lower than the average market price during the last six months. It is now replaced by the SEBI (ICDR) Regulation, 2009.

4. OBJECTIVES OF THE STUDY:

The main objectives of the conceptual research are:

- To study corporate governance practices in Indian stock market.

- To find out various roles and challenges of stock exchanges and regulators in the governance process of stock market of India.

5. RESEARCH METHODOLOGY:

This paper reviews the literature on the basis of secondary data collected from various sources such as articles, research papers, annual reports, sustainability reports and various official websites etc.

6. VARIOUS ROLES AND CHALLENGES OF STOCK EXCHANGES AND REGULATORS IN THE GOVERNANCE PROCESS OF STOCK MARKET OF INDIA:

Following points show relevance of role of Stock Exchanges' in the Corporate Governance:

1. Stock exchanges in the region developing rapidly; new exchanges being established
2. Stock exchanges remain government owned entities
3. CG codes proliferating, some no longer voluntary
4. Regulatory or enforcement powers of exchanges limited
5. Room for strengthening of listing rules
6. Disclosure of listed companies requires further attention
7. No evidence of race to the bottom, need to align with industry peers

7. THE EVOLVING ROLE OF EXCHANGES IN RESPECT OF CORPORATE GOVERNANCE:

7.1. Exchanges Act As A Source Of Corporate Governance Related Regulation:

Exchanges provide complementary rationales for establishing themselves as a source of corporate governance-related regulations. In essence, by raising transparency and discouraging illegal or irregular practices, exchanges are act as regulatory authorities. The regulatory function of exchanges is exercised in the context of an existing legal framework. To the level that the appropriate laws or securities regulation already deal with corporate governance of listed companies, the role of exchange regulation can therefore only be balancing. For example, rules on prospectus issuance follow largely from SEBI Prospectus Directive which may have further limited the scope of standards setting by exchanges. Even in authority where exchanges are empowered to matter set of laws, they may be subject to sanction by another regulatory authority, e.g., in the India, proposed changes to exchange rules must be filed with the SEBI.

7.2. Exchanges Played A Central Role In The Effective Implementation Of National Corporate Governance Codes:

"Corporate Governance is concerned with asset the balance between fiscal and communal goals and between person and communal goals. The corporate governance framework is there to promote the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society." Later SEBI constituted two committees to look into the issue of corporate governance – the first chaired by Kumar Mangalam Birla that submitted its report in early 2000 and the second by Narayana Murthy three years later. The SEBI committee suggestions had the greatest impact on altering the corporate governance condition in India. The Narayana Murthy committee worked on further refining the rules. The Exchange has brought about supreme clearness, speed & efficiency, security and market honesty. **7.3. Compliance**

Requirements:

Listed companies have to fulfil with rules and regulations of concerned stock exchange and occupation under the observation of stock exchange authorities. Clause 49 of the listing agreement with stock exchanges provides the code of corporate governance prescribed by SEBI for listed Indian companies. With the introduction of clause 49, compliance with its requirements is mandatory for such companies. Exchanges have played a pioneering role in the development of the Indian securities market.

7.4. Awareness Raising Efforts Have Also Played A Role:

Some exchanges have been actively involved in increasing the awareness around the value of good corporate governance. For instance, The National Stock Exchange (NSE) a leading stock exchange covering various cities and towns across the country has established & organized training sessions and other educational projects in order to increase the awareness of securities market & good governance practices and the Code of Best Practice for Listed Companies. Such programmes not only serve the general public but also require corporate to maintain good governance in light of investor awareness. In the same way an equally important accomplishment of BSE Limited is its nationwide investor awareness campaign - "Safe Investing in the Stock Market" under which awareness campaigns and dissemination of information through print and electronic medium is undertaken across the country. The advent of technology to the markets has been largely attributed to the National Stock Exchange (NSE). A significant step towards that initiative was the launch of the Integrated Market Surveillance System (IMSS) in 2006. The IMSS's primary objective is to monitor the market activities across various stock exchanges and market segments including both equities and derivatives. IMSS collects and analyses data not only from the stock exchanges but also from National Securities Depository, Limited. (NSDL), Central Depository Services (India) Limited. (CDSL), clearinghouses, and clearing corporations. The RBI introduced the electronic funds transfer system, "The Reserve Bank of India National Electronic Funds Transfer System" (referred to as "NEFT System" or "System"). The objective of the system is two-fold. First, is to establish an electronic funds transfer system to facilitate an efficient, reliable, secure and economical system to funds transfer and clearing in the banking sector throughout India. Second, is to relieve the stress on the paper based funds transfer and clearing system.

8. SEBI AND REGULATIONS OF THE STOCK MARKET:

Before the establishment of the securities and exchange board of India, the principal legislations governing the securities market in India were the capital issues control act 1956 and the securities contract act 1956. The regulatory powers were vested with controller of capital issues for the primary market and the stock exchange division for the secondary market in the Ministry of finance, Government of India. In the year 1989, SEBI was formed by the ministry of finance. Since then, SEBI as gradually was granted more and more powers. With the repeal of the capital issues control act and the enactment of the SEBI act in 1992, the primary market has become the preserve of SEBI. The ministry of finance has transferred most of the powers in the securities contracts act 1956 to SEBI. SEBI protects the concern of investors in securities and encourage the growth of securities marketplace.

8.1. Roles Of The SEBI Are As Follow:

- Regulate the business in stock exchanges and any other securities markets.
- Register and regulate the working of capital market intermediaries like as brokers, merchant bankers, portfolio managers and so on.
- Register and regulate the working mutual funds.
- Promote and regulate self-regulatory organizations.
- Prohibit fraudulent and unfair trades' practices in securities markets.
- Promote investors' education and training of intermediaries of securities markets.
- Prohibit insider trading securities.
- Regulate substantial acquisition of shares and takeover of companies.
- Perform such other functions as may be prescribed by the government.
- Review any intermediary or market participant information.
- Review books of depository participants, issuers of beneficiary owners.
- Investigate and inspect books of accounts and record of insiders.
- Suspend the registration of banker if and quarry is there.
- Suspend certificates and registration if and quarry is there.

9. IMPLICATIONS OF CORPORATE GOVERNANCE ON STOCK MARKET:

- The securities market is regulated by various agencies such as the Department of Economic Affairs (DEA), The Department of company affairs (DCA), the Reserve Bank of India and the SEBI. The activities of these agencies are coordinated by a high level committee on capital and financial markets.
- SEBI has introduced the concept of IPO grading, done by a credit rating agency registered with SEBI, for all primary market issuers, who file their draft Red Herring Prospectus, on or after 1 May, 2007. The grading is performed after due consideration to governance structure and financial strength.
- The bigger challenge in India, however, lies in the proper implementation of those rules at the ground level. In India at present there are 23 recognised stock exchanges along with NSE & BSE playing a prominent role in carrying out objectives of SEBI rules, regulations & guidelines in true letter and spirit.
- Clearing houses have been established by the stock exchanges and all transactions are mandatorily settled through these clearing houses and not directly between the members, as was practiced earlier.
- The practice of holding securities in physical form has been replaced with dematerialised securities and now the transfer is done through electronic book keeping, thereby eliminating the disadvantages of holding securities in physical form. There are two depositories operating in the country.
- The margin system, limits on intra-day, trade and settlement guarantee fund are some of the measures that have been undertaken to ensure the safety of the market. The trading and settlement cycles have been significantly reduced. The cycles were initially shortened from 14 days to 7 days. The settlement cycles were further shortened to T+3 for all securities in 2002. The settlement cycle is now T+2.

- Listed companies are required to furnish unaudited financial results to the stock exchanges and also publish the same on a quarterly basis. To enhance the level of disclosure by the listed companies, SEBI decided to amend the Listing Agreement to incorporate the segment reporting, accounting for taxes on income, consolidated financial results, consolidated financial statements, related party disclosures and compliance with accounting standards.

10. CONCLUSION:

Corporate governance is a key focus area and capital markets needs to ensure introduction of swift legislative changes to ensure confidence in the market. As the worldwide monetary disaster begins to move away and standard returns in the market, India needs to set forth infrastructure to offer the essential advance to the commercial debt market and begin modern financial products, while ensuring the best interests of the investors in mind. Development of norms and guidelines are an important first step in a serious effort to improve corporate governance. The Ministry of Corporate Affairs has proposed the New Companies Bill 2008 which aims to improve corporate governance by vesting greater powers in shareholders. These have been balanced by greater emphasis on self-regulation, minimization of regulatory approvals and increased and more transparent disclosures. The existing (Clause 49) and ensuing (The Companies Bill, 2008) legislations do cover the fundamentals of effective corporate governance and India compares favourably with most other developing and Asian economies as far as the adequacy of corporate governance regulations are concerned. Improved corporate governance, however, does not solely rest on control through increased regulations.

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Evaluation of Financial Soundness of Indian Life Insurers Based on Caramel Framework

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Abstract: *Financial vulnerability in the insurance sector stems from the various risks such as underwriting risks, investment risks and other nontechnical risks that results in the failure of financial system and in turn it causes a financial instability. Therefore frequent Evaluation of financial performance of insurers is essential in the competitive arena to measure financial stability of the insurance sector. IMF recommended Macro Prudential Indicators (MPI) under the Financial Stability Assessment Programme (FSAP); later in the September 1999, they were termed as FSIs (Financial Soundness Indicators). Das et al suggested CARAMEL framework [(C)apital adequacy; (A)ssets Quality; (R)isk Insurance and (A)ctuarial issues (M)anagement Efficiency; (E)arning and Profitability; (L)iquidity] as an extension of CAMEL Framework to evaluate financial soundness of the insurers.*

Present study aims at evaluating financial soundness of the public vs. private insurers based on CARAMEL framework that comprises of the two set namely Core set and Encouraged Set. Secondary data for the analysis was obtained for the period of year 2005 to 2015 from the Public Disclosures of respective Life Insurers' website. The public disclosure contains detailed financial performance statistics of the respective life insurers. Further the Handbook of the insurance statistics and IRDA's Annual Reports for the respective years were refereed.

The results of empirical examination and analytical ratios endorse the growth of Indian life insurance industry. However the key indicators of financial soundness indicate slower growth for LIC of India, whereas results indicate improvement in financial stability of private players.

Key Words: Insurance Companies, LIC of India, Financial Ratios, Financial Soundness Indicators

Theme - 8: Other Contemporary Issues of Corporate Governance in Indian Financial Services Sector

1. INTRODUCTION

Financial soundness of insurance sector is extremely important to mobilize domestic savings and generate long term investments for the economic activities of the country. It plays a key role in maintaining economic stability in adverse economic conditions by providing long term investments to ensure robust and stable financial system of the country. Thus the sound insurance sector eliminates the risk of financial vulnerability of the other economic entities and facilitates the financial stability in the country's economy. Das et al pointed out that the insurance have a strong correlation with the economic growth however the insurers are vulnerable to changes occurred in the social, economic and regulatory aspects. Recent changes in the insurance industry however appear to have increased the vulnerability of this sector as well as the potential of insurance failures to have systemic implications. In particular the assimilation of banking type activities by life insurers and growing linkages between banks and insurance companies appear to be the key potential threats to financial stability. Indian insurance industry also passing through the same snap shot as Das et al indicated.

In a liberalized competitive scenario Indian life insurance sector exposed to some challenges such as financial deregulations, Macroeconomic trends, mergers and acquisitions, corporate governance failures, Premium rate fluctuations, long tail liabilities, frequency and severity of the claims etc. that leads to a risk of financial vulnerability in the insurance sector. Das et al classified these risks in to the three broad categories like (1) Technical risk (2) Investment risk and (3) Other risk that results in the failure of financial system and in turn it causes a financial instability. Therefore frequent Evaluation of financial performance of insurers is essential in the competitive arena to measure financial stability

Numerous studies have paid focus around measuring financial stability of insurance sector and they have suggested various measures of the financial soundness indicators (FSI). Das et al proposed CARAMEL framework in the year 2003 [(C)apital adequacy; (A)ssets Quality; (R)isk Insurance and (A)ctuarial issues (M)anagement Efficiency; (E)arning and Profitability; (L)iquidity] as an extension of CAMEL Framework with two important aspects of Analysis: issue of management soundness and actuarial issues to evaluate financial soundness of the insurers. Present study aims at evaluating financial soundness of the public vs. private Indian life insurers based on CARAMEL framework that comprises of the two set of Insurance FSI namely Core set and Encouraged Set.

2. LITERATURE REVIEW

Numerous studies have paid focus around measuring financial stability of insurance sector and they have suggested various measures of the financial soundness. Harry Markowitz recommended Modern portfolio theory in the 1952; the theory suggests how to reduce risk by maximizing expected investment portfolio returns by choosing the securities and the proportions of various assets (Markowitz, 1991), James Tobin pioneered Q Ratios in 1969 to measure firms' stability by estimating a stock's fair value. Steven pointed out that Tobin's q is defined as the ratio of the market value of installed capital to its replacement cost (James Steven, 2005). Stephen Ross proposed Arbitrage Pricing Theory (APT) in 1976; Suheyli Reshid noted that APT recommends the proper estimation of insurance prices that would be appropriate in a competitive market and increases the market value of the company (Reshid, 2015). Black swan events were discussed by Nassim Nicholas Taleb in his book "Fooled By Randomness" published in the year 2001, The Black Swan is an essential concept for understanding how do we make mistakes in predicting the some events that stand largely outside the realm of the predictable in the known universe due to their dynamism? Illgner et al stated that human beings' tendency to reflect on the past in order to predict the future limits their understanding of the world and increases vulnerability to extreme, unexpected events. Taleb contends that chance plays a larger role in world affairs than most would care to admit, and that Black Swans are worsened by the fact that they are unexpected (Illgner et al, 2010). Staking and Babbel proposed a Capital Structure, Interest Rate Sensitivity, and Market Value correlation Model that focuses on the joint role of capital structure and interest rate risk management as related elements in an insurer's overall financial strategy. Within this framework, the relation between leverage, interest rate sensitivity and firm value is investigated in the property-liability insurance industry (Kim B. Staking and David F. Babbel, 1995). CAMEL approach as Uniform Financial Institutions Rating System (UFIRS) was proposed to evaluate financial institutions and this supervisory rating system was applied first by the Federal Financial Institutions Examination Council (FFIEC) in the year 1979. CAMEL consists of the five components; Capital adequacy, Asset quality, Management, Earnings and Liquidity. The sixth component "S" stands for the Sensitivity to Market risk was added to the CAMEL by Federal Reserve and the OCC, thus the CAMEL was replaced by the CAMELS in the year 1997. Cummins et al recommended Risk Based Capital, Audit Ratios and Cash Flow Simulation for Solvency Prediction and analyzed the accuracy of the principal models used by U.S. insurance regulators to predict insolvencies in the property-liability insurance industry and compares these models with a relatively new solvency testing approach—cash flow simulation. Specifically, they compared the risk-based capital (RBC) the Financial Analysis and Surveillance Tracking (FAST) audit ratio system and a cash flow simulation model developed by the authors. Both the RBC and FAST systems are static, ratio-based approaches to solvency testing, whereas the cash flow simulation model implements dynamic financial analysis. (Cummins et al, 1998). IMF initiated efforts to development of financial soundness indicators after financial crises in the late 1990s and recommended Macro Prudential Indicators (MPI) under the Financial Stability Assessment Programme (FSAP); later in the September 1999, they were termed as FSIs (Financial Soundness Indicators). Das et al suggested CARAMEL framework [(C)apital adequacy; (A)ssets Quality; (R)isk Insurance and (A)ctuarial issues (M)anagement Efficiency; (E)arning and Profitability; (L)iquidity] as an extension of CAMEL Framework to evaluate financial soundness of the insurers in the year 2001.Stephen enumerated the number of risks that an insurance company faces such as Underwriting Risk, Product Design & Pricing Risk, Actuarial Risk, Operational Risk, Management Risk, Liquidity Risk, Insolvency Risk, Reinsurance Risk, Regulatory Risk, Interest Rate Risk, Foreign Exchange Risk and Credit Risk in conducting its business. It was also stated that many insurance supervisors use a CARAMELS framework to assist their off-site analysts and on-site examiners in assessing and evaluating the risks run by insurance companies (Stephen Rossiter, 2016). Simpson and Damoah pointed out that Comparing to other frameworks used for financial evaluation of insurers CARAMELS model has developed two significantly important parts of analysis: the issue of management soundness and actuarial issue (Samuel Nana Yaw Simpson and Obi Damoah, 2008).

Few studies have evaluated one or more dimensions of CARAMEL framework in context of Indian insurance sector. Chakraborty examined financial Efficiency of the Public-sector General Insurance Firms in India based on

CARAMELS framework for the study period 2009-2015 (Joy Chakraborty, 2016), Bava and Chattha evaluated Financial Performance of Life Insurers in Indian Insurance Industry for the period of 2008-12. The study uses multiple linear regression models to measure the extent to which the determinants of FSI exert impact on life insurers' profitability (Sumninder Kaur Bawa and Samiya Chattha, 2013). Joo analyzed financial stability of Indian non life insurance companies based on the standards prescribed by Insurance Solvency International Limited (ISI). The study highlights the extent of relationship between various factors and solvency of non life insurers in India by using multiple regression analysis for the period of study ranges from 2005 to 2009 (Bashir Ahmad Joo, 2013). Asari and Fola evaluated financial soundness and performance of life insurance companies in India by employing ratio based CARAMEL framework for the study period 2009-13. The CARAMEL parameters were statistically tested with the help of statistical tools, viz., Independent Samples T-test or/and Mann-Whitney test. It has taken seven registered life insurance companies of India (Valeed Ansari and Wubshet Fola, 2014). Jena analyzed financial performance of five Indian life insurance companies for the period of 5 years ranges from 2008-12. Financial techniques such as trend analysis and ratio analysis i.e. current, liquidity, absolute liquidity and debt equity ratios have mainly been used for proper analysis (Artta Bandhu Jena, 2014). Dar and Bhat employed CARAMEL parameters for comparative evaluation of financial performance and soundness of LIC of India and four private life insurers in India for the study period 2006-2013. The CARAMEL parameters have been tested statistically with the help of T-Test (Showket Ahmad Dar and Javaid Ahmad Bhat, 2015). Dey et al studied the firm specific factors affecting the overall financial performance of 13 life insurance companies in India for the period of 2004 - 2013. The regression model was applied; where ROE was taken as dependent Variable and underwriting risk, liquidity, leverage, volume of capital, tangibility & size were taken as Independent Variable (Dey et al -, 2015).

Numerous studies have paid focus around measuring financial stability of Indian insurance sector and few studies have evaluated one or more dimensions of CARAMEL framework. Literature review suggests that majority of study held for the period ranges for 5 to 7 years and evaluated financial soundness of selected life insurance companies. This may not give a complete picture of the entire life insurance industry in special reference to LIC vs PLIC therefore frequent evaluation of financial performance of all the insurers is essential in the competitive arena to measure financial stability.

3. RESEARCH DESIGN

The purpose of this paper is to discuss the financial soundness indicators of the life insurers by the ratio-based CARAMEL Framework proposed by Das et al in the IMF working paper – WP/03/138. The descriptive research design was adopted to evaluate financial soundness of the Indian life insurers with special reference to LIC of India (LIC) vs. Private Life Insurance companies (PLIC). Secondary sources of data such as IRDA annual reports, Handbook of the insurance statistics and public disclosure of the respective life Insurers were used to obtain data pertaining to financial performance statistic for the period ranges from year 2005 to 2015.

4. CARAMEL FRAMEWORK

Das et al proposed CARAMEL framework in the year 2003 [(C)apital adequacy; (A)ssets Quality; (R)isk Insurance and (A)ctuarial issues (M)anagement Efficiency; (E)arning and Profitability; (L)iquidity] as an extension of CAMEL Framework with two important aspects of Analysis: issue of management soundness and actuarial issues to evaluate financial soundness of the insurers. Das et al (Das et al, 2003) suggested two set of Insurance FSI; Core set and Encouraged Set.

Table – 1 **Insurance Financial Soundness Indicators: CARAMEL Framework**

Category	Financial Soundness Indicators	
	Core Set	**Encouraged Set**
Capital adequacy	Capital / Total Assets	Solvency Ratio
	Capital / Technical Reserves	
Asset Quality	Equities / Total Assets	
Reinsurance and Actuarial Issues	Net Premium / Gross Premium	
Management Soundness	First Year Premiums / Gross Premium	Operating Expenses / Gross Premiums
Earnings and profitability	Return on equity (ROE) = Net Income to Equity	Return on Asset (ROA) = Net Income to Total Asset
Liquidity	Current Asset to Current Liability	

Source: Udaibir R Das, Nigel Davies and Richard Podpiera (2003): Insurance and Issues in Financial Soundness, IMF Working Paper No. 3/138, Compiled From p. 28 and p. 37

5. EVALUATION OF FINANCIAL PERFORMANCE OF LIC VS. PLIC

This study reveals analysis based on the CARAMEL framework suggested by Das et al. Various results that indicating a financial soundness of the respective insurers has been found as follows.

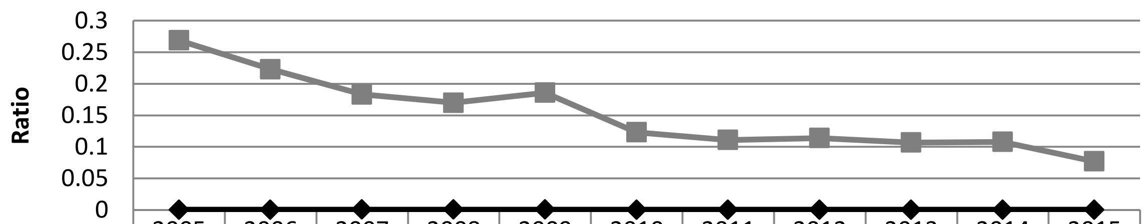
5.1 Capital Adequacy Ratio

Capital Adequacy is considered as a key indicator of an insurer's financial efficiency and stability to absorb the reasonable amount of losses occurs due to the unexpected claims. Capital adequacy ratios ensure the efficiency and stability of a insurers by lowering the risk of becoming insolvent. These prudent standards have recognized the importance of adequate capitalization with solvency as key focus area of insurance supervision. Das et al suggested three types of the measures to ensure capital adequacy;

5.1.1 Capital Adequacy_1 – Capital to total Assets

Capital adequacy_1 i.e. Capital to total assets viewed as balance sheet perspective rather than a cash flow perspective therefore Analysis of capital adequacy depends critically on realistic valuation of both assets and liabilities of the insurance companies. Figure – 1A reveals year wise (2005 to 2015) capital adequacy of the Indian Life Insurers. Reasonably lower ratio may be preferred to higher one.

Figure - 1A: Capital Adequacy_1_Capital / Total Assets



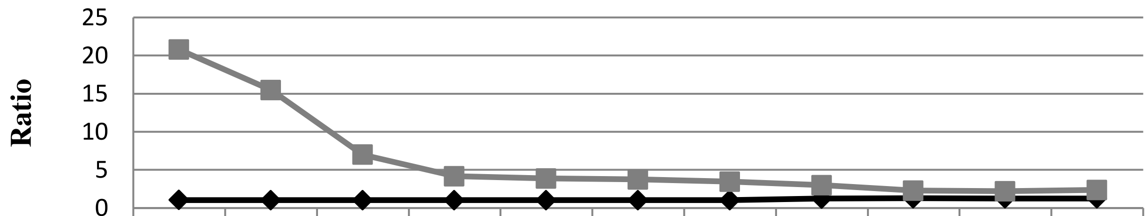
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LIC	0.0003	0.0003	0.0005	0.0004	0.0004	0.0003	0.0003	0.0004	0.0003	0.0003	0.0003
PLIC	0.269	0.223	0.183	0.17	0.186	0.123	0.111	0.114	0.107	0.108	0.077

Figure – 1A exhibit very lower ratio for LIC of India than the private players that indicates efficient use and investment of capital to create greater asset base. It indicates that the LIC of India achieved best results in terms of Capital Adequacy_1 ratio. Figure – 1A also reveals steady results enrolled by LIC whereas PLIC exhibits decreasing trend during the study period, hence so far as PLIC is concern, they have enrolled significant growth in terms of the efficient use of capital and there was a considerable improvement throughout the study period.

5.1.2 Capital Adequacy_2 – Capital to Reserves

Another way to measure capital adequacy is to calculate a ratio of capital to technical reserves. T*echnical reserves* are the amounts *insurance companies* set aside from profits to cover claims. *Technical reserves* include the unearned premium reserve and the outstanding claims reserve. Figure – 1B exhibits the trend of technical reserve position as follow.

Figure - 1B: Capital Adequacy_2 - Capital to Technical Reserve



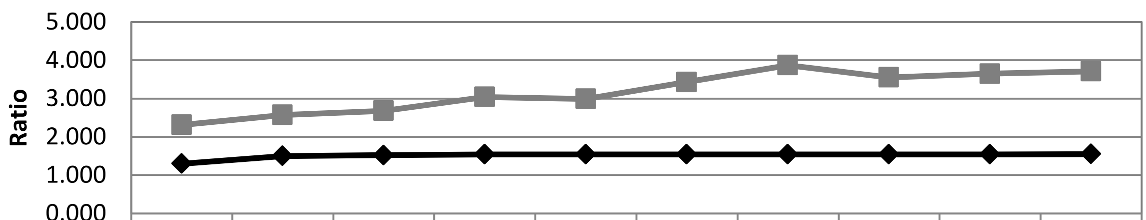
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LIC	1.038	1.029	1.017	1.017	1.015	1.014	1.022	1.242	1.265	1.253	1.248
PLIC	20.783	15.481	6.987	4.162	3.876	3.756	3.458	2.997	2.27	2.19	2.359

The analysis of this ratio highlights that public sector life insurer LIC has maintained its ratio almost at a similar level, with its ratio ranging between 1.038 & 1.248 over the eleven year study period. Figure - 1B indicates a trend of the Capital Adequacy_2 ratio in respect of LIC and PLIC. The analysis reveals that the LIC was better in holding comparatively higher reserves than PLIC; however data exhibit continuous lower ratio till the year 2010 but thereafter there was an increasing trend in the Capital adequacy_2 ratio in respect of LIC. Figure - 1B indicates a trend of significant improvement in Capital Adequacy_2 ratio in respect of PLIC. In the year 2005 it was reported highest as 1 **:** 20.78 but after continuous decrease year by year it was reached to 1 **:** 1.248 in the year 2014.

5.1.3 Capital Adequacy_3 - Solvency Ratio

Solvency Margin is considered key focus area of insurance supervision and it is a size of capital of insurance companies to meet potential financial obligations. "Solvency Margin" can be measured by the ratio of the amount of Available Solvency Margin to the amount or Required Solvency Margin Therefore IRDA has made it mandatory for the insurance companies to maintain minimum solvency margin in ratio of 1.5 (not less than).

Figure - 1C Capital_Adequacy_3 - Solvency Margin



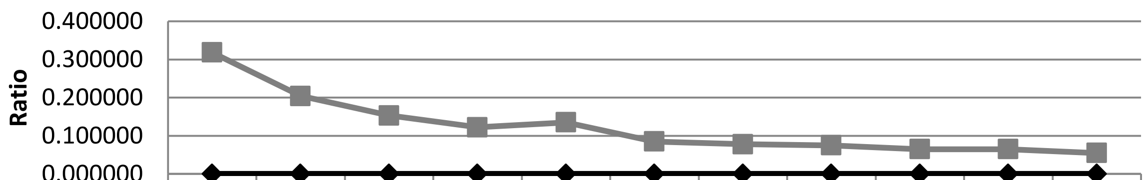
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LIC	1.3	1.5	1.52	1.54	1.54	1.54	1.54	1.54	1.54	1.55
PLIC	2.31	2.57	2.68	3.04	2.99	3.43	3.87	3.55	3.65	3.71

Figure - 1C reveals that LIC has maintained solvency ratio near by the statutory requirement suggested by IRDA; Peer average i.e. PLIC enrolled a steady growth in maintaining solvency ratio.

5.2 Asset Quality

Types of asset quality are a very important measure in credit rating and financial strength rating of insurance companies. It determines the level of financial failure of insurance companies. Das et al indicated that equities to total assets ratio reveals the degree of insurer's exposure to stock market risk and fluctuations of the economy (Das et al, 2003). Lower ratio indicates better asset quality; just like as capital adequacy_1 it reveals that the proportionately less amount invested in the more risky (Equity) or less liquid (Real Estate) assets to find better match between the yield on assets and the long tail liabilities.

Figure - 2 Asset Quality Indicator - Equity to Total Asset



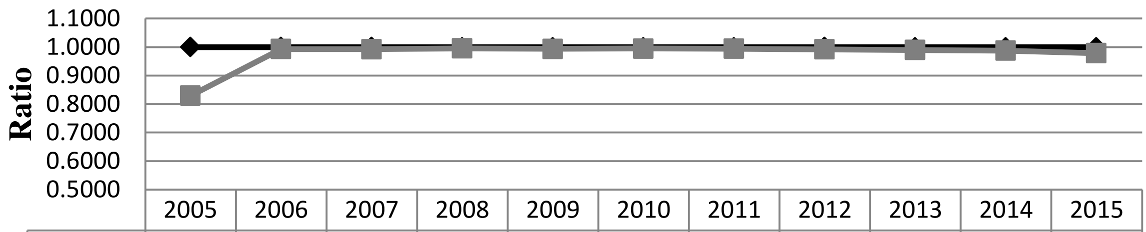
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LIC	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
PLIC	0.3180	0.2040	0.1530	0.1220	0.1350	0.0850	0.0780	0.0750	0.0650	0.0650	0.0550

Figure - 3 reveals a year wise position of Asset Quality of LIC and PLIC; there was a best result achieved by LIC by lower ratios than the PLIC. It indicates proportionately larger amount is invested in the total asset than the equity; however data exhibit continuous lower ratio till the year 2010 but thereafter there was an increasing trend in the Asset Quality of LIC. There was a continuous decrease in the asset quality ratio of PLIC. It indicates significant improvement in the asset quality of PLIC during the study period.

5.3 Reinsurance and Actuarial Issues

Risk Retention Ratio purely based on a reinsurance and actuarial issue in which underwriting strategy of insurers can be viewed that how much degree of risk they retain and how much degree of risk they pass on to the reinsurers. It reveals the risk bearing capacity of the insurance companies. It is a ratio of net written premium to gross written premium.

Figure - 3 Risk Retention indicators – Net Premium to Total Premium



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LIC	0.9999	0.9996	0.9997	0.9994	0.9994	0.9995	0.9994	0.9996	0.999	0.9994	0.9992
PLIC	0.8298	0.993	0.9928	0.9952	0.9934	0.9948	0.994	0.9919	0.9895	0.9877	0.9788

Figure - 3 reveals a year wise Risk Retention position of LIC and PLIC; it indicates that the risk passed on to the reinsurers is very negligible in respect of Indian life insurers; however private insurers have shown better results achieved as compare to LIC; decreasing trend of ratios indicating better use of reinsurance services by PLIC.

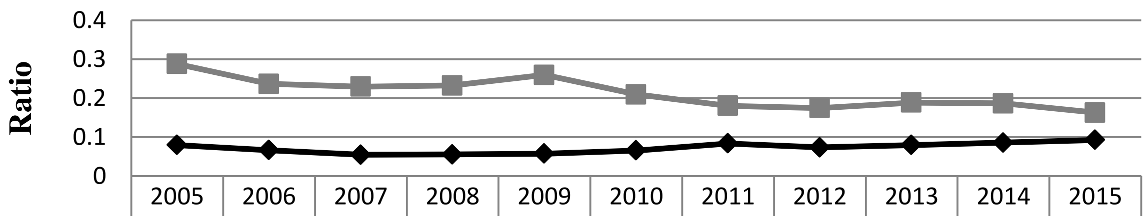
5.4 Management Efficiency

Sound management system perceives the efficient operations that result in to the better performance. Management efficiency plays a key role in the financial stability of the insurers. They are positively correlated with the sound management system.

5.4.1 Management Efficiency_1 indicator – Operating Expenses to Total Premium

The efficient management viewed as less operating expenses to the gross premium, affecting overall management efficiency and financial stability. . However, it is not easy to find any direct quantitative measure that indicates the management soundness; operational efficiency is likely to be correlated with management efficiency. Das et al suggested ratio of Operating Expenses to Gross Premiums as a core set indicator of management efficiency. Management Efficiency_1 of Indian life insurers were measured as ratio of Operating Expenses to Gross Premiums.

Figure - 4A Management Efficiency_1 - Operating Expenses to Total Premium

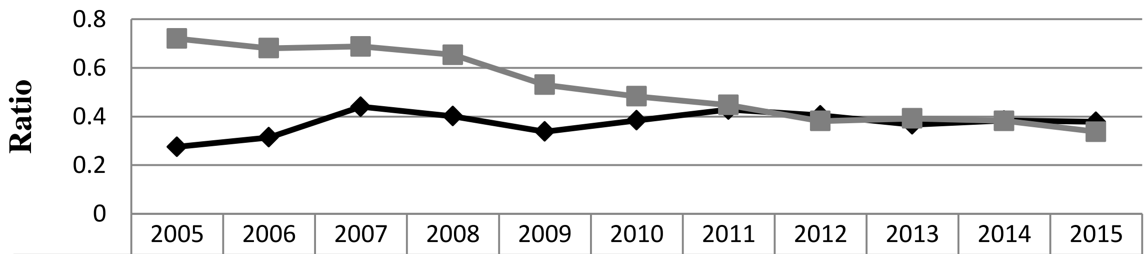


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LIC	0.08	0.067	0.055	0.056	0.058	0.066	0.084	0.074	0.08	0.086	0.093
PLIC	0.288	0.237	0.23	0.233	0.26	0.21	0.181	0.175	0.189	0.187	0.163

Figure – 4A indicates ratio of management efficiency_1; there was best results for LIC that yields larger size of gross premiums at the cost of lower proportion of the operating expenses as compare to PLIC. However the PLIC recorded improvement by exhibiting fluctuated and decreasing trend. During the study period LIC witnessed a fluctuating trend in the ratio; however the increasing trend was observed during the year 2013 to 2015 in respect of LIC. In contrast to LIC; PLIC exhibit decreasing trend during the year 2013 to 2015 in respect of Management Efficiency Ratio_1.

5.4.2 Management Efficiency_2 - First Year's Premium to Total Premium

Figure - 4B Management Efficiency_2 - First Year's Premium to Total Premium



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LIC	0.275	0.314	0.44	0.401	0.338	0.384	0.428	0.404	0.367	0.383	0.378
PLIC	0.72	0.681	0.688	0.654	0.53	0.483	0.447	0.381	0.392	0.382	0.337

Das et al suggested ratio of First Year's Premium to Total Premium as an encouraged set indicator of management efficiency. Management Efficiency_2 of Indian life insurers were measured as ratio of First Year's Premium to Total Premium and calculated as follow as shown in Figure – 4B.

Management Efficiency_2 was measured as ratio of First Year Premiums to Gross Premiums. Figure - 4B reveals ratio of management efficiency_2; LIC witnessed fluctuating but decreasing trend after the year 2011 in the ratio analysis during the study period. It indicates a positive growth of new business. PLIC witnessed fluctuating but decreasing trend in the ratio analysis during the study period. It indicates a negative growth of new business.

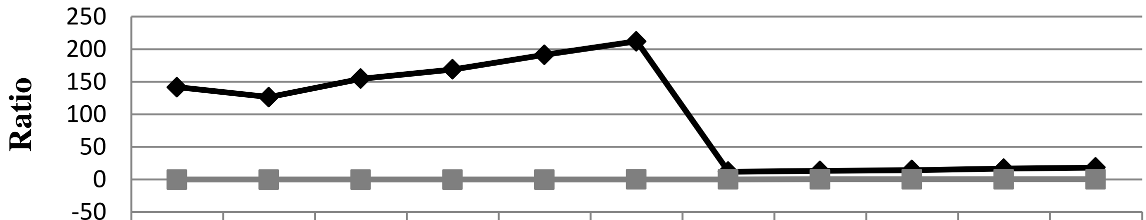
5.5 Earning and Profitability

Das et al indicated Return on Equity (ROE) as a core set indicator whereas Return on Asset (ROA) as an encouraged set indicator of earning and profitability.

5.5.1 Return on equity (ROE)

Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. A rising ROE suggests that a company is increasing its ability to generate profit without needing as much capital. It also indicates how well a company's management is deploying the shareholders' capital. In other words, the higher the ROE it is the better. Falling ROE is usually a problem (Unknown, 2015).

Figure - 5A Return on Equity - Net Income to Equity



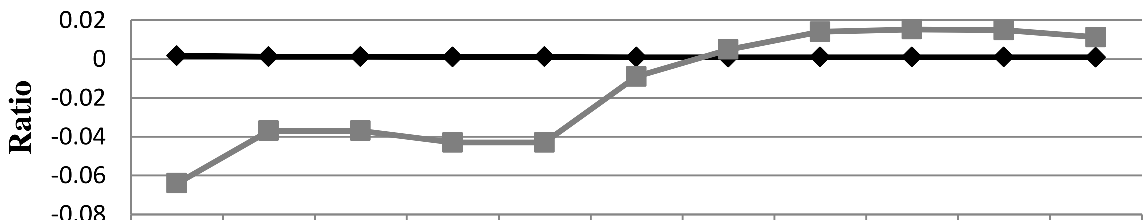
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LIC	141.67	126.37	154.72	168.93	191.47	212.14	11.72	13.13	14.38	16.57	18.24
PLIC	-0.202	-0.184	-0.239	-0.349	-0.32	-0.101	0.062	0.188	0.235	0.23	0.205

Table - 5A Exhibit continuous increasing trend in terms of Return on Equity in respect of LIC, it is viewed as better and depicts growth of earning and profitability. PLIC have recorded negative ROE during the study period 2005 to 2010, fluctuating but increasing trend was observed during the study period 2005 to 2013, PLIC exhibit decreasing trend during the year 2014 and 2015, and it was viewed as a problem and depicts less earning and profitability.

5.5.2 Return on Assets (ROA)

Return on assets (ROA) shows the percentage of profit that a company earns in relation to its overall resources (total assets). ROA is calculated by dividing Net Income by Total Assets. In this study ROA was calculated as follow as shown in Figure – 5B.

Figure – 5B Return on Assets = Net Income (PAT) to Total Assets



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LIC	0.0017	0.0012	0.0012	0.0011	0.0011	0.001	0.0009	0.001	0.0009	0.001	0.0009
PLIC	-0.064	-0.037	-0.037	-0.043	-0.043	-0.009	0.0049	0.0141	0.0153	0.0149	0.0113

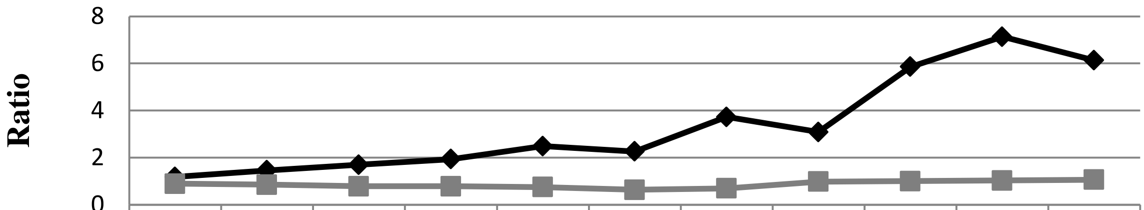
Figure - 5B reveals ratio of Return on Assets; it exhibit satisfactory performance of LIC as well as Pvt. Players. LIC witnessed marginally decreasing trend whereas Pvt Players witnessed continuous increasing trend during the study period 2005 to 2013 thereafter there was a decrease in ROA.

5.6 Liquidity Analysis

There are varieties of way to measure ability of business organization to meet immediate financial obligations and short term commitments. Current ratio viewed as a firm's financial soundness to meet short-term debt obligations.

It measures the adequacy of resources of the firm to pay its debt obligations over the next 12 months. The current ratio can be computed by dividing total current assets by total current liabilities of the firm. Higher ratio indicates more liquidity of the firm and strong solvency position; therefore a higher current ratio considered as better liquidity ratio. Commonly acceptable current ratio is 2; it's a comfortable financial position for most enterprises.

Figure- 6 Liquidity Ratio - Current Asset to Current Liability



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LIC	1.179	1.457	1.693	1.937	2.487	2.259	3.723	3.087	5.858	7.132	6.132
PLIC	0.892	0.85	0.78	0.78	0.746	0.636	0.696	0.983	1.003	1.025	1.065

Figure - 6 reveals the liquidity position of the LIC and PLIC. Rule of thumb in respect of current ratio is 1**:**1. The analysis indicates that LIC recorded increasing trend with strong liquidity position as compare to PLIC. PLIC recorded poor liquidity position with decreasing trend during the study period year 2005 to 2012 and it was remained below 1**:**1.

6. DISCUSSION OF THE MAJOR FINDINGS

The results of empirical examination based on the CARAMEL parameters endorse the growth of Indian life insurance industry in the post liberalization arena. The results of analytical ratios in the evaluation of financial performance of Indian life insurers within CARAMEL framework reveal that the performance of LIC was better than the PLIC in respect of Capital Adequacy, Asset Quality, Management Efficiency, Earning Capabilities or Profitability and Liquidity position.

Thus **LIC was found better in...**

- …Efficient use and investment of capital to create greater asset base and keeping higher reserves (Capital Adequacy_1& 2).
- …Finding better match between the yield on asset and long tail liabilities (Asset Quality)
- …Cost effectiveness in respect of operating expenses (Management Efficiency_1)
- …Positive new business growth; however there was a fluctuated decreasing trend (Management Efficiency_1)
- …Return on Equity (Profitability)
- …Greater Liquidity Position (Liquidity)

However the PLIC recorded satisfactory improvement in respect of Capital Adequacy and Asset Quality; but results reveal unsatisfactory overall performance in respect of New Business Growth, Cost Effectiveness (Management Efficiency_1), Return on Equity (Profitability) and Liquidity Position.

In addition, results reveal that PLIC have performed better than LIC in respect of the Solvency Margin, Risk Retention Ratio (Reinsurance and Actuarial issues), and Return on Asset (Profitability).

PLIC was found better in...

- …Keeping higher Solvency Margin (Capital Adequacy_3).
- …Using more reinsurance services; Passing risk on to the reinsurers (Reinsurance and Actuarial issues)
- …Return on Assets (Profitability)

However the results suggests that LIC showed an improvement in Return on Assets; but the cost effectiveness of LIC in respect of operating expenses affected adversely in the last three years of the study period; therefore the results highlights unsatisfactory performance of LIC in respect of Management Efficiency_1; on the other hand PLIC recorded improvement in respect of cost effectiveness hence it was perceived as a sound management system.

The evaluation of financial performance of the life insurers endorses the steady growth of Indian life insurance industry.

7. CONCLUSION

The results of empirical examination of CARAMEL paraneter highlight the better performance of LIC than the PLIC's performance in respect of Capital Adequacy, Asset Quality, Management Efficiency, Profitability and Liquidity position. However the PLIC recorded satisfactory improvement in respect of Capital Adequacy and Asset Quality; but results reveal unsatisfactory overall performance in respect of new business growth and cost effectiveness (Mgt Efficiency_1), Return on Equity (Profitability) and liquidity position.

It was also revealed in the results that financial performance of PLIC was better than LIC's performance in respect of the financial performance such as Solvency Margin (Capital Adequacy_3), Risk Retention Ratio (Reinsurance and Actuarial issues), and Return on Asset (Profitability). However LIC recorded improvement in Return on Assets; but in last three years of the study period its cost effectiveness in respect of operating expenses affected adversely; on the other side PLIC have improved their financial soundness in respect of cost effectiveness.

8. IMPLICATION

Results of financial performance indicate overall financial soundness of Indian life insurance industry. LIC recorded its financial soundness with little fluctuation year by year; however in the last three years of the study period it was found stable or there was a decreasing trend, whereas PLIC have recorded the trend of improvement. The finding of this study implies a challenge of stiff competition from PLIC to LIC in the coming years.

9. RECOMMENDATION FOR CHANGE

Results of ratio analysis reveal unsatisfactory overall performance of LIC in area of New Business Growth and Cost Effectiveness (Management Efficiency_1), Return on Equity (Profitability) and Liquidity Position therefore it needs to be given corrective action to make improvement.

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Impact of Organization Performance on the Corporate Governance in the Banking Sector in India

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Abstract: *The financial crisis of 2008 brought the spotlight on the state of Corporate Governance in the banking Sector. The Basel committee standards set in 2105 provided a framework within which banks and central banks should operate to achieve robust and transparent risk management and decision-making processes to promote public confidence and uphold the safety and soundness of the banking system.*
It is seen that a banks' corporate governance differs from that of any other firm in the economy due to the deposit insurance and provident regulations. In a banking company, shareholder interests and supervisors' interests may not run parallel, even from a long-term perspective.
In this study, we look at the Indian Banking sector and its corporate Governance norms. The empirical research will examine the association between distinctive measures of corporate governance and various accounting and economic outcomes of the banks. Using both the banks in both the public sector and private sector, the study would look at the various structural measures of corporate governance (e.g., board characteristics, stockownership, institutional ownership, existence of debtholders, mix of executive compensation, etc) governing them,
The study would be using a regression model to see how the various parameters of organizational performance affect the corporate governance of the banks.

Key Words: corporate governance; earnings quality; firm performance; regression analysis; banking regulation

Theme 1: Contemporary Dimensions of Corporate Governance

1. INTRODUCTION

World Bank defines corporate governance as "the structures and processes by which companies are directed and controlled". Organisation for Economic Co-operation and Development (OECD) describes the four pillars of Corporate Governance as diligence, transparency, responsibility and accountability. It is believed that a company with high corporate governance standards would maximize shareholder wealth.

The concept of Corporate governance norms started in UK. Cadbury Committee Report (1992) was the first report which formalised the principles of corporate governance as should be followed by business corporations. This report formed the basis of formation of corporate governance laws in various countries. Greenbury Report (1995) elaborated on the issue of director's remuneration. Hampel Report (1998) elaborated the corporate governance norms and the Turnbull Report (1999) described the internal control systems required for proper governance. At the same time, Root (1999) detailed the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework which led to the formation of corporate governance principles in US.

In India, the concept of corporate governance was first discussed by Kautilya in 'Arthashastra' as far back as 150 BCE (Rangrajan, 1992). Kautilya gave the guidelines as to how a company should behave and the processes it should follow in order to have good governance. In recent times, corporate governance in India was first talked about by Securities and Exchange Board of India (SEBI) when it formed a committee under industrialist, Kumar Manglam Birla in 1999, to debate and propose the guidelines for corporate governance measures. The committee submitted its report in 2000 but SEBI was able to implement many of the committee's recommendations only by 2006. One of the recommendations which was immediately enforced was introduction of Clause 49 in the listing agreement. Under this, listed companies had to follow the corporate governance guidelines. The Companies Act (2013), gave in detail the corporate governance procedures and guidelines to be followed by companies both in the public and private domain.

The lack of corporate governance in the financial sector was prominently brought in focus with the financial crisis in 2008 (Erkens et al. 2012). The crisis originated as a payment problem by some investment banks in US. It grew fast and swamped the global financial system within a period of six months. The rapid and encompassing growth of the crisis highlighted the complete lack of corporate governance regulations in the financial sector.

One of the reasons of lack of corporate governance regulations in the banking sector was the belief that banks were following the Basel Norms (Sen & Ghosh (2005); Sarma (2007)). The Basel guidelines are focussed on the risk management and capital control of the banking sector and the financial system. These norms include strict capital control and risk management by banks. But these norms only apply to Commercial banks and do not apply to Investment banks and the rest of the financial sector. The crisis in 2008 encompassed the banking and financial sector worldwide and had an impact on the economies of different nations. It also emphasized the need of corporate governance norms in addition to the Basle norms for banks.

Subsequent to the 2008 crisis, the corporate governance laws related to the banking sector were toughened both in India and abroad, with the Central Banks of each country setting down binding guidelines regarding governance policies.

In India, commercial banks are classified as public sector banks and private sector banks based on the shareholding pattern. Banks having government as majority shareholder are called as public sector banks. The banking sector in India, was dominated by the public-sector banks prior to 1991. After the liberalisation of the economy in 1991, new private sector banks were given licenses for banking,

After the 2008 financial crisis, Reserve Bank of India (RBI) has stressed on the significance of corporate governance in the banking sector. They have also come out with exhaustive guidelines of disclosure by banks related to all matters of governance. Gopinath (2008) has talked about the significance of reforms in the Indian banking sector. He also highlights the comprehensive guidelines of corporate governance laid down by RBI for the banking sector.

In this study, we look at the Indian Banking sector and its corporate Governance norms. The empirical research will examine the association between distinctive measures of corporate governance and various accounting and economic outcomes of the banks. Using both the banks in both the public sector and private sector, the study would look at the various structural measures of corporate governance (e.g., board characteristics, stockownership, institutional ownership, existence of debtholders, mix of executive compensation, etc.) governing them.

2. REVIEW OF LITERATURE

Tricker (1984) preceded the Cadbury Report (1992). He noted the importance of governing for all the companies and suggested that “If management is about running business: governance is about seeing that the said business is run properly.” According to him, all the companies in an economy whether owned by private individuals or government, required to have proper governance in place.

Anderson et al. (1993) examined the relation between three monitoring mechanisms used for corporate governance; external auditing, internal auditing, and directorships and found that the monitoring role of board of directors is substitutable with internal audit and external audit quality.

Fleming and McNmee (2005) talked about the ethical aspect of corporate governance. They propose a model for a firm to commence an ethical audit of corporate governance. In order to do this, the authors identify three parameters - ethics as applied moral philosophy; equity as social justice; and corporate governance as the moral health of an organization. This model provides an outline to check the integrity of a firm on the basis of the three themes – individual responsibility, social equity and political responsibility. The study stresses on the importance of key employees in (re)producing and challenging the organizational philosophy.

Jensen (1993) felt that occupation of both CEO and the chairman positions by the same person led to a power concentration which was likely to decrease the controlling and monitoring ability of the board over management's activities. Therefore, it was believed that in order to avoid the power concentration and balance between management and control, for a strong governance structure, the roles of the chairman and CEO should be separated.

Seth-Purdie (2005) did the study based on interview of select public servants from Commonwealth countries about their experience of working within the newly established Corporate governance standards. The interviewees felt that the guidelines were not as strict and there could be instances of blurring of lines of accountability, subverting of authority and political interference. They believed much stricter measures were required to be in place for better governance.

Singhvi and Desai (1971) in their seminal paper talked about the quality of corporate financial disclosure. Thy found that insufficient corporate disclosure in annual reports leads to large amounts of fluctuations in the market price of these securities.

.Zahra and Pearce (1989) identified four board attributes: composition of the board, characteristics of the board members, structure of the board and process of selection of board members and tried to link it to the three vital board roles : service, strategy and control. The study looks at the impact of boards of directors on the financial performance of the companies.

According to Azid and Asutay (2007) Leaders of a nation play a significant role in laying the foundation of a governing body which maintains the organizational setup and contributes towards the management of ethical issues. Moreover, the management of a firm on all levels should focus on customer satisfaction besides their economical objective to control the economy and overall achieve the essence for the presence of a firm's existence

Beasley (1996) based on an empirical test was able to conclude that inclusion of large number of outside independent members in the board of directors led to a substantial reduction in the likelihood of fraud in financial statements of the company.

Hyun (1999) in the OECD report discussed the repercussions of the South East Asian Crisis on the Korean economy. The report talked about the gap in Korean economy in the field of corporate governance. The report further discussed the lack of control in the way chaebols were run and complete disregard of corporate governance procedures by them.

Charreaux and Desbrières (2001) discuss a very crucial point of difference between stakeholder value and shareholder value.

Buchanan (2007) talked about the corporate governance regulations in Japan. The author analysed the concept of “Internalism”, which stands for the belief that companies should be controlled by internally appointed managers who are integrated into their firms. He further noted that traditional Japanese companies believed more in internalism and considered independent board of directors as a western fad.

Kim and Kim (2008) discussed some of the best governance practices in Korea. They identified three kinds of corporations in Korea namely: newly privatized companies; large corporations run by professional management; and banks with considerable equity ownership in the hands of foreign investors. The authors found that governance levels of many of these companies met with the global standards. At the same time, they also identified many large chaebols-affiliated or family-run firms that were still being run as fiefdom and did not adhere to minimum standards of governance.

Afsharipour(2009) examined corporate governance reforms in India as a case study for evaluating the competing claims on global convergence of corporate governance standards.

Cheung et al (2008) in their study used disclosure and transparency scores regarding companies in two countries namely Hong Kong and Thailand, and find the determinants of these disclosure scores. Empirical results show that financial characteristics explain some of the variation in the degrees of corporate disclosure for firms in Hong Kong but not for firms in Thailand.

Eng and Mak (2003) in their study about Corporate Governance and Voluntary Disclosure tries to find an impact of ownership structure and board composition on the voluntary disclosure by companies. Here the ownership is measure through government, managerial and block holder ownership. The government ownership is positively associated with voluntary disclosure while managerial ownership is negatively associated.

Larcker et al (2007) made an empirical research on the various parameters of Corporate Governance. They identify fourteen parameters of corporate governance which show a mixed association on the performance of the organization.

Grove et al (2011) examines the impact of corporate governance during the financial crisis on US commercial banks. They used the parameters examined by Larcker in his paper. It is revealed from their findings that corporate governance factors have a stronger effect on the performance of the banks then loan quality. They also find a strong negative association of leverage and financial performance.

Andres and Vallelado (2008) in their study use an econometric model to prove that board composition and size are related to their ability to manage and efficiently control to create value.

Adams & Mehran (2008) on a study for Federal Reserve Bank have tried to link the corporate governance of the banks with the performance of the banks. They took a sample of banks performance over a period of 34 years. They identified that independence of the banks was not related with the performance of the banks, while board size was found to be positively related with the performance of the banks.

Love & Rachinsky (2006) have tried testing the same by taking a sample of 107 banks in Russia and 50 banks in Ukraine. The test shows that there is a weak relationship of governance and performance in the banks taken in the study.

Arun & Turner (2004) examine the governance issue of banks in the emerging economies. They also came to a similar conclusion that until a prudential regulatory system is in place where in there is privatization of banks the governance issue cannot be made the strength of banks.

3. OBJECTIVE

The study aims at finding out a standardised and systematic way to analyse Corporate Governance across banks be it private or public sector. Based on the parallel finding across banks, arriving at a conclusion as to how does the corporate governance of the bank gets affected by the major driving factors of growth of any bank. The study also aims at understanding the relationship between the two & trying to establish a best fit model so as to analyse the significance of relationship between growth or profitability of a bank & its corporate governance.

- The study measures the Corporate governance index for select public sector and private sector banks in India
- The study measures the relationship between performance of the banks and the corporate governance index

4. METHODOLOGY

Listed Indian banks are required to comply with the Corporate Governance requirements as specified in the Reserve Bank of India, State Bank of India Act, Banking Regulation Act, Indian Banks Act 1956 Act, Acquisition & transfer of undertaking.

While most of the banks are compliant with the Law and the Regulations to a significant extent, some banks have taken extra efforts to go beyond what is required in the statute and have been more than compliant on the Corporate Governance Requirements. However, there is no comprehensive tool for measuring the Corporate Governance status of the banks. Due to lack of a comprehensive tool, banks are not in a position to self-assess their Corporate Governance status and benchmark themselves against other banks nor do the investors have an easy-to-understand measure that provides the Corporate Governance status of a company.

To analyse the current scenario pertaining to corporate governance of Indian banks, we had designed a questionnaire based on different parameters which precisely observes the compliance of various norms in the governance area & aims at giving an overall picture as far as the corporate governance bit is concerned for a particular bank. Limited availability of data has restricted us to find out results based on 17 banks out of approximately 40 odd Indian banks functioning in the country. We have taken 17 listed banks which includes 7 private banks & 10 public banks in order to diversify our study based on the availability of data pertaining to corporate governance. The answers to the questionnaire have been found out from the annual reports of the banks published for the year 2016-17 & BSE website. The questionnaire is developed taking into consideration the four OECD principles for Corporate Governance.

This questionnaire includes questions based on 4 major principles/sections:

Section	Category	No. of Questions
A	Role of stakeholders in corporate governance	4
B	Disclosure & transparency	6
C	Responsibilities of the board	26
D	Equitable treatment of shareholders	4

All the questions have their answers as yes/no barring 4 questions in the Responsibilities of Board section. Hence we have followed the binary way. We have assigned 1 for yes & 0 for no since all the questions are framed in a way that a positive answer is an implication of a good corporate governance practice. Responsibilities of board includes following 4 questions which fetches us a numerical answer:

a. What is the size of the board? (Section C)
b. How many board members are Executive? (Section C)
c. How many board members are Independent? (Section C)
d. How many board members are Non-Executive? (Section C)

For the above 4 questions, we have followed the methodology as below :

a. Size of the board remains the same number.
b. According to the literature & looking at it from corporate governance perspective , It's good to have less number of executive members since it implies that a person already with authority & responsibility being a member of the board which increases the burden on one person & thereby leading to distraction or handling of various duties which leads to division of attention. Hence the banks that have lower than 50 %(of the total board size) executive board members has been assigned 1 & rest of the banks have been assigned a value of 0.
c. As suggested in most of the books it's always good to have more number of independent directors from

governance perspective than dependent directors since independent directors hold no shares of the bank & hence they won't be focusing on majorly increasing the revenue or profitability per share rather they would give an independent view for overall picture of the banks. Hence if the number of independent directors is equal to or greater than 50% of the board size, we have assigned value of 1 & 0 for composition with independent directors less than 50% of the board size in number.

d. Point b explains the rationale behind the conversion for this question.

Based on our findings of the answers to each question, we have tried to find the Cumulative Corporate Governance Disclosure Index for individual banks which is nothing but the summation of individual scores based on each question. Each question carries 1 mark barring the 'size of the board' question which is included in the Responsibilities of the Board section. Maximum marks for this question is 15 since it is the upper limit assigned legally for any bank or organisation as far as the size of Board of Directors is concerned. The maximum score that any bank could fetch here is 54. Following table describes the breakup of the score & weightage given to each section.

Section	Category	No. of Questions	Maximum Possible Marks/score
A	Role of stakeholders in corporate governance	4	4
B	Disclosure & transparency	6	6
C	Responsibilities of the board	26	40
D	Equitable treatment of shareholders	4	4
	Total	40	54

Formula for finding CGDI score :

CGDI = Total marks obtained in Section A + Total marks obtained in Section B + Total marks obtained in Section C + Total marks obtained in Section D

Now having found out the CGDI score, we have prepared a regression model on excel which takes our CGDI score as a dependent variable. The main idea here is to link or find the correlation between few main factors which drive the performance of the bank to Corporate Governance scenario of the bank & based on that trying to find our whether the corporate governance of the bank is dependent on these factors or not. These factors include Return on assets, Return on equity, Ratio of Independent directors to the board size, Leverage, Total assets, Revenues, Net profits. The values for these factors have been taken from the financials of the year ending 2017 from Bloomberg. All these factors are taken as dependent variables for our calculations & based on the data available, we have tried to find out some statistical tools like Analysis of some Variance, Correlation, Regression which would help us analyse the relation between these factors & understand the variations in the governance of banks based on the same.

5. ANALYSIS

On the basis of the methodology stated above after running the regression analysis on the various parameters we had the following output in Excel. We will try and analyse each aspect of the output individually.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.98726207
R Square	0.974686394
Adjusted R Square	0.85949823
Standard Error	7.79845744
Observations	17

If we look at the Multiple R, the correlation coefficient it tells us how strong the linear relationship is between the independent and the dependent variables. For example, a value of 1 means a perfect positive relationship and a value of zero means no relationship at all. In our case the dependent variable is the CGDI score of the banks taken on the basis of the questions asked in the various parameters [See Exhibits 1 to 4]. The independent variables are ROA, ROE etc. mentioned in Exhibit 5. The value of R shows us that the model is a good fit and we can say that there is a strong linear relationship between the CGDI score and the various factors. The R2 which is the Coefficient of Determination tells us how many points fall on the regression line which in this case is very close to 1. When there are more than 1 independent variable we generally look at adjusted R square as it us a better idea of the same. The model we ran gave us good fit of the data meaning there is linear relationship of CGDI score and factors.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	7	23416.84062	3345.262945	55.00635	0.00000114
Residual	10	608.1593844	60.81593844		
Total	17	24025			

SS = Sum of Squares.
Regression MS = Regression SS / Regression degrees of freedom.
Residual MS = mean squared error (Residual SS / Residual degrees of freedom).
Significance F: The significance associated P-Value.

Here the key thing to look at is the value of Significance F which tells us whether our model is significant or not. While taking regression analysis we assumed the Alpha to be 5%. Hence any value of Significance F which is less than 0.05 the model is said to be significant.

Table 1

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	46.06	10.67	4.314	0.002
ROA	-1.511529021	169.535649	-0.0089157	0.993062
ROE	1.270768197	27.21400946	0.046695368	0.963675
Ratio of Independent directors to board size	28.88916367	7.821592322	3.693514374	0.004153
Leverage	1.518566647	0.252631263	6.01100049	0.00013
TA	-0.000001573	1.63286E-06	-0.963383389	0.358073
Revenue(In mn)	0.000038433	3.74703E-05	1.02570037	0.329204
NP (in Mns)	0.000083505	6.73838E-05	1.239239894	0.243553

Coefficient: Gives us the least squares estimate.
Standard Error: the least squares estimate of the standard error.
T Statistic: The T Statistic for the null hypothesis vs the alternate hypothesis.
P Value: Gives us the p-value for the hypothesis test.
Lower 95%: The lower boundary for the confidence interval.
Upper 95%: The upper boundary for the confidence interval.

Here, we try and segregate the independent variables and see which among them are significant. We find that Intercept, Ratio of Independent directors to Board size and leverage are the three variables which are significant and also make the model significant. So now, while put these values in the regression equation we can use the values in the column coefficients and get the estimated value of Y through the regression equation.

The model used for checking the effect of the various variables on the CGDI score is given by:
CGDI = ά + β1ROA +β2ROE + β3Ratio of Independent Directors + β4Leverage + β5Total Assets + β6Revenue + β7Net Profit + error
Here ROA, ROE and Net Profit talk about profitability of banks, Leverage talks about debt capacity, Total Assets and revenue depict the size of the bank and ratio of independent director talks about the composition of the board. Based on Table 1 above, in the regression equation only two independent factors namely Ratio of Independent directors in the board and total leverage of the company are significantly impacting the Corporate Governance Index. The other factors are found to be not so significant.

Table 2

RESIDUAL OUTPUT		
Observation	*Predicted CGDI Score(Max being 54)*	*Residuals*
Axis	38.98792224	9.012077762
BOB	41.31011321	-5.310113213
Canara	35.61645352	-1.616453521
HDFC	46.17000664	-1.170006643
ICICI	41.29388388	2.706116123
IDFC	29.55854397	9.44145603
IDBI	29.97479329	8.025206705
IndusInd	35.68966713	0.310332871
kotak	33.94210649	4.05789351
oriental	43.67112878	-12.67112878
pnb	34.51735147	-2.517351471
sbi	43.27626514	-1.276265144
syndicated	35.90157758	2.098422418
UCO	25.53051426	8.469485738
Union Bank	34.32607453	-7.32607453
United bank	33.07583634	0.924163661
Yes bank	41.25997253	-4.259972533

The last part which we included in the model is the Residual which gives us the idea of the difference between the actual data points and the predicted data points. We can tell from this table which banks have CGDI score which is very close to the score predicted through our model. IndusInd and United bank have values very close to the actual values. If we take the average of the residuals it is 0.5 and the median is 0.3 which shows that most of the banks have result very close t the actual value.

6. CONCLUSION

The study is able to determine the Corporate Governance Index for the select public sector and private sector banks. It also has been able to prove with data set that there is linear relationship between the corporate governance of the banks in India with the performance of the banks. Taking various performance indicators as independent variables we have been able to get a good fit model which gives us the value of dependent variable which is the governance score.

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ANNEXURE

Exhibit 1

Section A- Role of Stakeholders in Corporate Governance
Does the company explicitly mention the safety and welfare of its employees? (1/0)
Does the company explicitly mention the role of key stakeholders such as customers or the community at large? (1/0)
Does the company explicitly mention environmental issues in its public communications? (1/0)
Does the company provide an ESOP or other long term employee incentive plan linked to shareholder value creation? (1/0)

Exhibit 2

Section B- Disclosure and Transparency
Does the company disclose director shareholding? (1/0)
Does the company disclose management shareholding? (1/0)
Does the company have a dispersed ownership structure? (1/0)
Is there any statement requesting the directors to report their transactions of company stock? (1/0)
Does the company use an internationally recognised accounting standard? (1/0)
Does the company have an internal audit operation established as a separate unit in the company? (1/0)

Exhibit 3

Section C- Responsibilities of the Board
Does the company have its own written corporate governance rules? (1/0)
Does the board of directors provide a code of ethics for all directors and employees? (1/0)
Does the board holds requisite number of meetings (minimum four) in a year? (1/0)
Is the chairman of the board an independent director? (1/0)
The Chairman of the board is 0t the CEO of the company? (1/0)
What is the size of the board? (Number)
How many board members are Executive? (Number)
How many board members are Independent? (Number)
How many board members are Non-Executive? (Number)
Are there any women directors on board? (1/0)
Are there any foreign nationals on the board? (1/0)
Does the company state in its annual report the definition of "Independence" in context of directors? (1/0)
Does the company disclose payment made to directors? (1/0)
Does the company have a board of director's report? (1/0)
Does the company have an Audit committee? (1/0)
Does the company indicate roles and responsibilities of Audit Committee? (1/0)
Does the company have an Risk Management committee? (1/0)
Does the company indicate roles and responsibilities of Risk Management Committee? (1/0)
Does the company indicate functions of Risk Management Committee? (1/0)
Does the company have an Shareholder Grievance committee? (1/0)
Does the company indicate roles and responsibilities of Shareholder Grievance Committee? (1/0)
Does the company indicate functions of Shareholder Grievance Committee? (1/0)
Does the company indicate the attendance of Shareholder Grievance Committee meetings? (1/0)
Does the company have other committees apart from the ones mentioned above? (1/0)
Does the company indicate roles and responsibilities of Other Committees? (1/0)
Does the company indicate functions of Other Committees? (1/0)

Exhibit 4

Section D- Equitable Treatment of Shareholders
Does the company have any other shares part from ordinary equity shares? (1/ 0)
Have there been any cases of insider trading involving company directors and management? (1/0)
Does the 0tice to shareholders specify the documents required to give proxy? (1/0)
How much holding does promoter have? (50% or more)

Exhibit 5 (Independent Variables)

ROA	ROE	Ratio of Independent directors to board size	Leverage	TA	Revenue (In mn)	NP (in Mns)

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A Conceptual Study of Sick MSMEs in India - Causes and Remedies

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Abstract: *MSME sector is one of the largest MSME sectors in the Country. It contributes to more than 10% of the total production in the Engineering Sector in India. MSMEs are an important contributor to economic growth and employment. . However, the MSMEs face a wide range of issues that hinder their progress, optimum growth and development and in long run they turn 'Sick'. Few studies focus on issues of MSMEs. In 2006, in Gujarat itself 42,500 industries were reported sick. However, there have not been many efforts to resolve these issues and indepth research seems to be rare. This paper tries to look into the current issues faced by MSMEs in India, their challenges and tries to recommend some measure for entrepreneurs and policy makers to reduce the further chances of MSMEs becoming sick.*

Key Words: sick, sickness, Micro, Small and Medium, impact, government

Theme-7: Contemporary Issues in Governance

1. IMPORTANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES

MSME play a significant role in the economy of India. As per the report of Government of India there were 36 million units in 2016 which provided employment to over 80 million persons. It contributed more than 6,000 products which contributed to 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country. It had significant importance for exports, which contributed to 35% in direct Indian exports while 45% in the overall exports from India (MSME report GOI 2016). MSMEs are also employment generators. They provide maximum opportunities for both self-employment and jobs after agriculture (Srinivas, 2013).

2. INTRODUCTION TO MSMES

Micro, small and medium enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The defined limit on investment for enterprises to be classified as micro, small and medium enterprises is as follows:

Table 1: Classfication of MSMEs

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Rs. 2.5 million / Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
Small	Rs.50 million / Rs. 5 crore	Rs. 20 million / Rs 2 crore
Medium	Rs 100 million / Rs 10 crore	Rs. 50 million / Rs 5 crore

* Investment limit in Plant & Machinery ** Investment limit in equipment

Growth of MSMEs

Table 2: Existing MSMEs in India

Sr No	Characteristics	Registered Sector	Unregistered sector	Economic Census - 2005	Total

1	Size of the Sector (in Lakh)	15.64	198.74	147.38	361.76
2	No. of Rural Units (in Lakh)	7.07 (45.20%)	119.68 (60.22%)	73.43 (49.82%)	200.18 (55.34%)
3	No. of women enterprises – lakhs (%)	2.15 (13.7)	18.06 (9.1)	6.4 (4.3)	26.61 (7.4)
4	Total employment - lakhs	93.09	408.84	303.31	805.24

Source: Annual Report 2015-16 GOI Ministry of Micro, Small & Medium Enterprise

The above table shows the number of MSMEs in India and their potential for employment generation in the rural areas.

3. MAJOR CHALLENGES FACED BY MSMES

Studies on MSMEs have highlighted various issues faced by them. Some of them are lack of availability of adequate and timely credit; collateral requirements; limited access to equity capital; problems in supply to government departments and agencies; procurement of raw materials at a competitive cost; problems of storage, designing, packaging and product display; lack of access to global markets; low technology levels and lack of access to modern technology; lack of skilled manpower for manufacturing, services, marketing, etc.; multiplicity of labour laws and complicated procedures associated with compliance of such laws; absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily[1], red tape, poor infrastructure, issues relating to taxation (direct and indirect) and regulatory norm (Lama, 2013 & 2013).

Some other challenges include inadequate access to finance, changes in technology, changes in demands, emergence of new markets, sparse population, infrastructural bottlenecks, particularly transport etc. (Vibhuti and Barki, 2016).

4. AN OVERVIEW OF THE PROBLEMS OF SICKNESS IN MSMES

It is said that change is the only constant thing. Factors like globalization, new product developments, competition, mergers, acquisitions, technological changes etc. have made the business scenario uncertain. Even the large scale business houses are not spared from the changes in the external environment. This has led to a situation where organizations are not able to survive and sometimes turn 'Sick'. In 2006, in Gujarat itself 42,500 industries were reported sick.

'Sick Industrial Companies Act (SICA) 1985' Section 3(1)(o) defines sick industrial company as an industrial company (being registered for not less than 5 years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

Companies (second amendment) Act, 2002 in its section 2(46AA) defines a sick industrial company as an industrial company, which has at the end of any financial year:

- accumulated losses exceeding 50% of average net worth during 4 years; or
- has failed to repay debts to its creditor(s) in 3 consecutive quarters on demand made for repayment.

The study of sick industries has become important because the number of sick industries are increasing day by day. According to Reserve Bank of India figures the number of sick MSMEs during 2015-16 had doubled to 4,86,291 compared to 2,22, 204 sick units reported during 2012-13[2].

Table 3: Sick SMEs

Year	Number
2012-13	2,22, 204
2013-14	4,68,399
2014-15	5,37,269
2015-16	4,86,291

During the year 2014-15 the outstanding loan for sick MSME units was Rs 33,378.17 crore as compared to Rs 32,869.92 crore in 2013-14 and Rs 16,639.89 crore in 2012-13[3]. The number of sick units state wise show that in

[1] https://researchersclub.wordpress.com/2014/03/14/issues-and-challenges-before-managers-in-the-indian-msmes/ retrieved on 20th December 2017.

[2] http://www.thehindubusinessline.com/news/number-of-sick-msmes-doubled-in-four-years/article9630846.ece retrieved on 21/12/2017

2014-15 Uttar Pradesh had 77,761 sick units, followed by 50,006 units in Maharashtra, 49,003 units in Gujarat, 44,719 in Tamil Nadu, 43,437 units in Andhra Pradesh and 38,835 units in West Bengal[4].

Looking at the above facts, it is evident that industrial sickness is a rampant and one of the most important aspects of worry for government, financial institutions and the organization itself.

However, all the policies and rehabilitation packages designed by government are aimed at rescuing large scale organizations. On the contrary as compared to large scale organizations, MSMEs face more risk of turning sickness. It is therefore important to study issues specific related to sickness of MSMEs.

5. ISSUES

5.1 Causes of industrial sickness

The factors mentioned in the previous paragraphs have mentioned the challenges faced by MSMEs. These challenges if not tackled properly adversely affect MSMEs and become causes of sickness. Some studies have suggested five major causes of industrial sickness, viz., promotional, managerial, technical, financial and political. Goyal et. al (2012) attribute the major causes of sickness in MSMEs as lack of finance, bad production policies, marketing and sickness, inappropriate personnel management and ineffective corporate management.

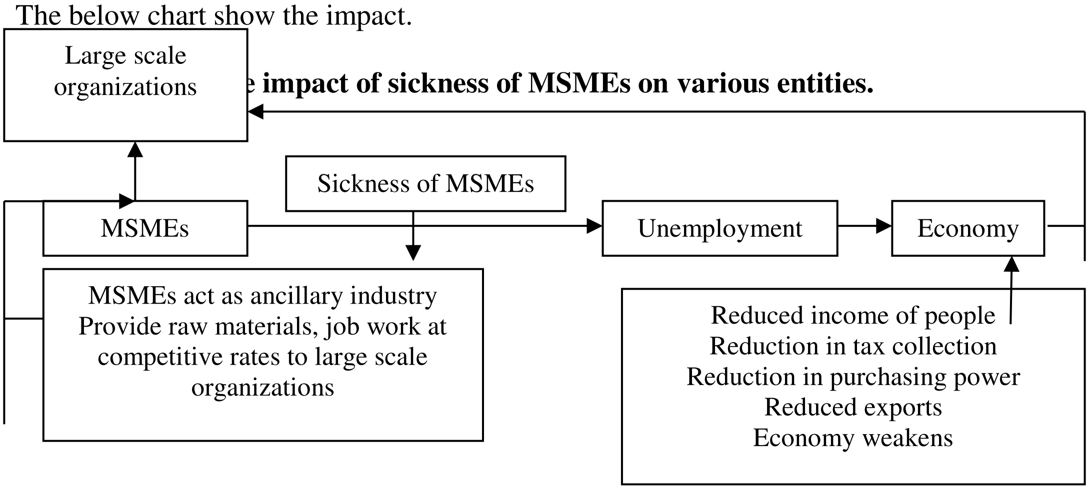
5.2 External causes: SICA included external factors as energy crisis, raw materials shortage, infrastructure bottlenecks, inadequate credit facilities, technological changes and global market forces. Goyal et. al (2012) include constraints related to personnel, marketing, production and finance as external causes of sickness in MSMEs.

5.3 Internal causes: According to SICA internal factors leading to sickness include mismanagement, overestimation of demand, wrong location, poor project implementation, unwarranted expansion, personal extravagance, failure to modernize and poor labor-management relationships.

6. Impact of sickness of MSMEs on various entities

As discussed in the earlier paragraphs, MSMEs has potential to employ a large number of people. A slow down or sickness of MSMEs will have a significant impact on government, economy and the large scale industries. The below chart show the impact.

e impact of sickness of MSMEs on various entities.



The above figure shows how the sickness of MSMEs affects other entities. MSMEs act as feeder to the large scale organizations. Since large organizations cannot produce everything at a competitive rate due to their size and fixed cost, MSMEs provide them with cheap material and job work. This is possible for MSMEs due to cheap labour and less liabilities.

Thus if the sickness of MSMEs is not tackled properly, it will create unemployment. This unemployed workforce will impact the economy directly or indirectly. The loss of pay will result in reduction of purchasing power which in turn will affect the tax collection. Since Sick MSMEs will not be able to produce products or serve at competitive rates it will reduce the exports significantly which again will result in loss of revenue for the government. Further, this all will affect the working and profit of large scale organizations.

Government's efforts to deal with industrial sickness

From time to time Government of India (GOI) has tried to deal with the issue of industrial sickness. Various legislations like Sick Industrial Companies Act (SICA) 1985 and Companies (second amendment) Act, 2002 to has tried to define sick industries and made some provisions to facilitate them.

[3] https://timesofindia.indiatimes.com/city/nashik/15-rise-in-sick-MSMEs-in- state/articleshow/48208967.cms retrieved on 21/12/2017.

[4] https://timesofindia.indiatimes.com/city/nashik/15-rise-in-sick-MSMEs-in-state/articleshow/48208967.cms retrieved on 21/12/2017

In the year 2006, GOI brought the first comprehensive legislation "The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 covering the entire gamut of the micro, small and medium enterprises. In the year 2015 GOI framed a list of items reserved for exclusive manufacture in MSE Sector. The Micro and Small Enterprises Cluster Development Programme (MSE-CDP) was reviewed in 2006-07 to accelerate holistic development of clusters to help MSMEs.

GOI has taken issues related to sickness of MSMEs, Non-Performing Assets and exit policy seriously and the Ministry of Micro, Small & Medium Enterprises had notified a Framework for Revival and Rehabilitation of MSMEs on 29th May, 2015. Under this framework any enterprise can seek revival and rehabilitation benefit through a committee constituted by banks with representatives from State Governments, experts and others. The main features of the framework are identification of incipient stress, committees for distressed micro, small and medium enterprises, corrective action plan (cap) by the committee, options under corrective action plan (cap), restructuring process, prudential norms on asset classification and provisioning, wilful defaulters and non-cooperative borrowers and review (Annual report 2015-16). Some organizations like Indian MSME Helpline Private Limited are helping MSMEs by advising them in drafting Corrective Action Plan (CAP) under the legal framework of Reserve Bank of India[5].

GOI is has also made tie-ups with the NGOs, Governmental agencies as well as with the Universities for proper implementation of its policies for setting up of MSMEs. Such tie-ups aim to guide the entrepreneurs for starting up new ventures (Vinay Kumar, 2017).

7. CONCLUSION

MSMEs play an important role in the development of country by contributing to GDP growth and employment generation. Despite being such an important contributor it faces challenges which are sometimes beyond control due to which the number of sick MSMEs is increasing at an alarming rate. GOI is also launching new schemes to help MSMEs but the rate at which is MSMEs turning sick has to be taken seriously. Government, education and training institutions, financial institutions, industry associations and the promoters will have to take a collective step firstly, to stop MSMEs turning sick and second to review the sick units.

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4. Srinivas, K. T. (2013), Role of Micro Small and Medium Enterprises in Inclusive Growth. International Journal of Engineering and Management Research, 3(4), pp. 57-61.

[5] https://www.msmehelpline.com/rehabilitation-scheme-for-sick-msme.php retrieved on 20th December 2017.