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Research Article

An Analysis Of Indian Public And Private Sector Banks

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ARTICLE INFO | **ABSTRACT**

As economic globalization intensifies competition and creates a climate of constant change, winning and keeping customers has become all the more important. Nowadays banks have realized that cost of attracting a new customer is much more than retaining existing customers, so banks are emphasizing more upon customer satisfaction.

The financial industry has experienced numerous frauds and scandals, which has led to the necessity of corporate governance. In India, the banking industry is more coordinated and well-run than any other sector, but policymakers and banks themselves still need to work hard to enhance their governance procedures. To strengthen the governance of the banking industry, a number of legislative and regulatory reforms have been started; however, in compared to global development, the kind of reforms and their successful execution are insufficient. Principles of corporate governance are predicated on elements such as bank integrity, fairness, disclosures, responsibility, and openness. Maintaining standards and enhancing stakeholder transparency necessitates the application of corporate governance in the banking sector. An analysis of the corporate governance practices of banks in the public and private sectors is the goal of this research project. The study also determines how corporate governance affects banking organization's performance.

Keywords: Corporate Governance**,** banking industry, organization's performance, financial industry

Introduction:

Banks these days provide a variety of services ranging from opening a savings account to internet banking, granting loans to selling insurance, providing locker facilities to transferring money abroad. Their customers come from all classes of society from a salaried group to a Multi National Corporation having its business activities all around the world. The banks have to satisfy all the customers belonging to different social groups. The banking has therefore become more complex and requires specialized skills.

People working in banks act as a bridge between the bank and the customer. They are the people who face customers directly and are the first ones to know what customer actually needs. As a service provider their role becomes very important in shaping bank's perception in customer's mind. As services can make or break a customer, much emphasis is laid upon service delivery by most of the banks. The link between service quality and customer satisfaction has been subjected to intense scrutiny by a few service quality researchers (Bolton and Drew, 1994; Bitner and Hubbert, 1994). As survival of the fittest has become the order of today, every bank is trying woe the best customer who is common for all. Retaining the existing customers and attracting new ones has become all the more difficult especially for public sector banks (Bhatt, 1990).

Corporate Governance- A Prologue

"Corporate Governance" is a concept with several applications. It encompasses the framework, procedures, and methods that a business uses to convey accountability, authority, and responsibility to all parties involved. To ensure the long-term sustainability and profitability of a corporate enterprise, good corporate governance balances the interests of many stakeholders, including a company's consumers, suppliers, owners, and employees (Quentin C, 2010).

Key Parameters of Corporate Governance

"The accountability of each stakeholder in providing sustainable value to the organization and the quality, transparency, and dependability of the relationships between the stakeholders are related to corporate governance," according to Kesho (2009).

The fundamental elements of corporate governance are those that are used to assess the governance style of the company. These elements serve as the benchmarks by which the corporate governance practices of the banks are assessed. The company's corporate governance philosophy, the makeup and composition of the board, the degree of disclosure, the organization of board committees, and the channels of communication are some crucial factors. While adhering to the corporate governance code, the aforementioned considerations must be made. In the banking industry, these metrics are used to evaluate the efficacy and calibre of corporate governance.

Methodology

In this investigation, data was gathered from 300 participants who were chosen at random. Primary data is being gathered from a sample of SBI and ICICI Bank employees via structured questionnaires as part of a study. The annual report has also been examined in order to assess the state of corporate governance in both public and private sector banks.

Hypothesis

H_0: There is no significant difference between Effectiveness of Corporate Governance in Public and Private sector banks.
H_1: There is significant difference between Effectiveness of Corporate Governance in Public and Private sector banks.

Analysis and Interpretations

The banking industry's corporate governance code is extremely detailed. A code of corporate governance is an integral component of all banks' annual reports. Nonetheless, certain banks' operational protocols do not always strictly follow the Corporate Governance rules. Under the direction of the Board committee, specialized operational committees have been established to concentrate on important topics. Independent Directors typically lead these operational committees. Working together with the board, these committees enable them to concentrate solely on areas of priority.

Comparison on Corporate Governance Parameters

Corporate Governance Parameters	**Public Sector Bank**	**Private Sector Bank**
Company's philosophy on Corporate Governance	Yes	Yes
Board Size /Board Composition / Structure and strength of the Board	Appropriate	Appropriate
Disclosure: Financial Disclosures/Non-Financial Disclosures	Financial Disclosures: Appropriate Non-Financial Disclosures: Not Appropriate	Financial Disclosures: Appropriate Non-Financial Disclosures: Not Appropriate
Audit Committee	Present	Present
Compensation / Remuneration Committee	Present	Non Existing
Investors / Shareholders Grievance Committee	Present	Present
Environment and Health Committee	Non Existing	Non Existing
IT Strategy Committee	Present	Present
Nomination Committee	Present	Non Existing
Compliance and Ethics Committee	Non Existing	Non Existing
Whistle Blowing Committee	Present	Non Existing
Risk Monitoring Committee	Present	Present
Means of communication	• Bank's Website • Press Releases • News Papers	• Bank's Website • Press Releases • News Papers

In this research, t-test has been applied to test various parameters that are regarded as basic necessity for compliance of Corporate Governance guidelines within the banks. The below mentioned parameters can prove the Effectiveness of Corporate Governance in Public and Private Sector Banks.

Parameters of Corporate Governance

High Level of Disclosures						**Results: H_0**
	Mean	**Std. Dev**	**Frequency**	**t- value**	**Critical value**	**Accepted**
Private Sector	4.2615	0.839598	26	-1.415342	2.0181	
Public Sector	4.8976	1.206783	18			
Shareholding Patterns						

	Mean	Std. Dev	Frequency	t- value	Critical value	Rejected
Private Sector	3.7686	0.732601	26	-2.654645	2.0181	
Public Sector	4.7863	1.161911	18			
Appropriate Governance structure						
	Mean	**Std. Dev**	**Frequency**	**t- value**	**Critical value**	**Accepted**
Private Sector	4.7248	0.935605	26	0.196749	2.0181	
Public Sector	4.6589	1.21838	18			
Presence of strong and independent BOD						
	Mean	**Std. Dev**	**Frequency**	**t- value**	**Critical value**	**Accepted**
Private Sector	4.5012	0.899054	26	0.354176	2.0181	
Public Sector	4.2986	1.038567	18			
Adequate Committee Structure						
	Mean	**Std. Dev**	**Frequency**	**t- value**	**Critical value**	**Accepted**
Private Sector	4.3945	0.865787	26	-1.219868	2.0181	
Public Sector	4.7984	1.230169	18			
Means of Communication						
	Mean	**Std. Dev**	**Frequency**	**t- value**	**Critical value**	**Accepted**
Private Sector	4.1043	1.210534	26	-0.834567	2.0181	
Public Sector	4.4672	1.036756	18			

Assumptions:

• Level of significance for critical value is 5%.
• t- values are absolute values.

The foundation of corporate governance is made up of many ideas. The parameters that define the degree of compliance with corporate governance in banks are established. Employees at both public and private banks still have a very limited understanding of the notion of corporate governance. The t-test is used to test a few crucial factors. A comparative study is conducted comparing banks in the public and private sectors. Below are the results:

• There is no discernible difference between banks in the public and private sectors when it comes to the high level of disclosures. The findings demonstrate how little financial and non-financial information is disclosed by banks in the public and private sectors. The banks are not disclosing and providing all of the required information.
• The shareholding patterns of banks in the public and private sectors differ significantly. The type of bank determines the shareholding pattern.
• The governance frameworks of banks in the public and private sectors are essentially the same.
• The participation of a board in banks in the public and private sectors does not significantly differ from one another.
• The committee structures of banks in the public and private sectors are essentially the same. All financial institutions, whether they are in the public or private sector, have largely embraced the committee structure that is outlined in the Corporate Governance rules.
• The channels of communication used by banks in the public and private sectors are essentially the same.

In both public and private sector banks, subcommittees are established to supervise the crucial areas. Public sector banks' annual reports fail to include comprehensive member information, one of the fundamental needs of corporate governance. In comparison to financial information disclosures, non-financial data disclosures are observed at lower levels in both institutions. Both banks have lately established two newer subcommittees: the Information Technology Strategy Committee and the Corporate Social Responsibility subcommittee.

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