# AN INQUIRY INTO CORPORATE GOVERNANCE PRACTICES IN INDIAN BANKING SECTORS

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*[The term 'Corporate Governance' conveys about how a corporation is directed and controlled under a set of mission, values, and philosophy. It is a phrase implying greater transparency of management system in corporate entities. Corporate Governance in financial service sector is specially significant since banks have an overwhelmingly dominant position in developing economy financial systems, and are extremely important engines of economic growth [King and Levine 1993; Levine 1997] and banks in developing countries are usually the main depository for the economy's savings. In India, although the issues of corporate governance have not received much attention in the first generation of financial sector reforms, this issue will become a natural choice in the second set of reforms. In this backdrop this paper, after examining the nature and extent of compliance of the leading national and international Corporate Governance Codes/ Guidelines by the listed public and private sector banks in India, responsible for composition of BSE BANKEX, an attempt has been made to examine the relationship between the corporate governance practices of such banks and their financial performance with the help of appropriate financial and statistical tools. Based on the findings, it has been concluded that in some important areas statistically significant relationship between corporate governance practices and financial performance of such banks exist.*

***Keywords :*** *Corporate governance, corporate governance codes/guidelines, financial performance, BSE BANKEX.]*

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**Introduction :**

The term 'corporate governance' is not only regarded as a buzzword in management literature, but also is considered as the much-debated issue that may directly or indirectly influence every walk of public life . Every stakeholder in all kinds of enterprise expects good governance prevailing in the concern. However, the word 'governance' has a latin route 'gubernare', which denotes 'to steer'. Corporate Governance may therefore be interpreted as related to the guidance of a company's affairs. Although the subject has been mooted since 1600 with a Royal Charter being granted to the East Indian Company, which was to be governed by a Court of Directors, it has certainly experienced a significant increase in interest over past decades, with several countries issuing new governance reports or codes, and several countries issuing codes of best practices. The term 'Corporate Governance' conveys about how a corporation is directed and controlled under a set of mission, values, and philosophy. It is a phrase implying greater transparency of management system in corporate entities. In common parlance, it is a relationship among various participants in determining the direction and performance of a corporation. However, in its broadest sense, Corporate Governance is all about the stewardship responsibility of corporate directors to provide oversight for the goals and strategies of a company and to foster their timely implementation, thereby, facilitating the accomplishment of the ultimate mission.

**Objectives of Study :**

In the era of liberalization and globalization, when the world is transforming into a global village and when the concepts of national frontiers and trade barriers are becoming obsolete and terms like Foreign Direct Investment(FDI),Foreign Portfolio Investment(FPI) , Global Depositary Receipts (GDR) and American Depositary Receipts(ADR) got ready references in general discussion at every nook and corner, the companies are seriously thinking about fighting against the foreign competition within the country and at the same time going overseas either through direct route or merger and acquisition route. Therefore, they have to put importance on the way their corporations are governed in this fiercely competitive arena. This observation is supported by a recent survey conducted by internationally acclaimed management consultancy house, McKinsey & Co. (2000) which reveals that more than 2/3rds of Foreign Institutional Investors (FIIs) are putting Corporate Governance high on their agenda at the time of investing their money in any concern. Therefore, for

survival and growth, adherence to Corporate Governance mechanism is a pre-requisite. Although the corporate governance mechanism, in common parlance, is generally being associated with joint stock companies, yet a growing awareness of implementing a good governance mechanism in financial services sector in general and banks in particular may be observed.

Governance scandals in publicly listed banks undermine public confidence in the public equity markets and banking sector, hence poorly governed banks and financial institutions threaten the stability of the banking system or whole financial system. The corporate governance of banks in developing economies is important for several reasons. First, banks have an overwhelmingly dominant position in developing economy financial systems, and are extremely important engines of economic growth [King and Levine 1993; Levine 1997]. Second, as financial markets are usually underdeveloped, banks in developing economies are typically the most important source of finance for the majority of firms. Third, as well as providing a generally accepted means of payment, banks in developing countries are usually the main depository for the economy's savings. Fourth, many developing economies have recently liberalised their banking systems through privatisation/disinvestments and reducing the role of economic regulation. In India, although the issues of corporate governance have not received much attention in the first generation of financial sector reforms, this issue will become a natural choice in the second set of reforms.

In this backdrop, it will be logical to set up the broad objectives of the present paper-

(i) to enquire how far the Indian Banking sectors fare with respect to protection of stakeholders value protection in general and shareholders' value creation in particular in light of recommendations made by some nationally and internationally acclaimed codes/laws of promoting good governance in corporate sector.

(ii) the relationship of corporate governance practices with financial performance of the surveyed banks will also be studied .

## Hypothesis

Keeping the above objectives in mind, the following hypotheses had been framed:

(i) The extent of implementation of Corporate Governance Codes by the Indian banks is satisfactory.

(ii) The implementation of Corporate Governance Codes has helped the Indian banks to improve their financial performance considerably.

**Research Design**

The present study was conducted on listed Indian Banking Companies responsible for constructing BSE-BANKEX. Here, the sample size of the study is 18 major listed Indian banking companies both from Public Sector Undertakings (PSU) and Private Origin as on 01.04.2003 from when the compliance and disclosures of corporate governance state of affairs become mandatory for every listed company, thanks to Clause 49.

For the purpose of the study, the following variables were considered viz. board structure, frequency of meetings of board, nature, formation and effectiveness of different committees e.g. Audit Committees, Remuneration Committees, Investor Grievance Redressal Committees, Nomination or Corporate Governance Committees, Asset management Committee, Risk Assessment Committee, Market Capitalization (M-Cap), employee grievance redressal mechanism, Corporate Social Responsibility (CSR), complaints against the company / SEBI Stricture etc. Moreover, correlations between implementation of corporate governance codes and financial performance of the companies are measured on these variables viz. Profit After Tax (PAT), PAT/Total Assets, Market Capitalization,etc. Besides, the highly acclaimed contemporary business measurement model 'Tobin's Q' will also be used.

**Data Source**

Data were collected mainly from the secondary sources. The secondary data for this present study was based on PROWESS* Corporate Database provided by the Center for Monitoring Indian Economy (CMIE), Mumbai, a nationally acclaimed premiere corporate data mining house. Moreover, corporate annual reports, research publications, books, journals, reports in newspapers, electronic newsletters of different professional institutions as well as corporate houses, websites of the companies, publication of corporation rankings by different Indian as well as different international agencies were also consulted as and when required.

**Research Tools**

As research tools telephonic interview, e-mail, personal interview were used to the extent possible. But the major emphasis was placed on the "India's most reliable" Corporate Database Software Prowess 2.6 (this version contains corporate governance reports of the companies which the latest versions have omitted from their coverage), Prowess 3.0, and 3.1 (the

latest version contains specialized information like stand alone and consolidated data, core business data etc.) produced and manufactured by Centre for Monitoring Indian Economy (CMIE).

After collection of data, they were tabulated, processed, and analyzed by using appropriate statistical tools. Based on such analysis, meaningful inferences were drawn and suitable recommendations were made.

**Study Period**

For the present study, the post-implementation period of clause 49 of the listing agreement of SEBI of 5 years, i.e., from the year ended in 2003-04 to 2007-08 is covered.

**Scheme of Investigation**

The present study was aimed to examine the general degree of compliance of Corporate Governance Codes by selected major Banks operating in India. Here, 61 significant recommendations from 15 nationally and internationally accepted codes of Corporate Governance are selected viz.

CII Charter (1998), K.M. Birla's recommendation/Clause 49 of listing agreement of SEBI (1999), Naresh Chandra Committee's recommendations on Corporate Audit and Governance (2002), Narayana Murthy Committee Report (2003) and Cadbury Report (U.K., 1992), Greenbury Report (U.K., 1995), Viénot II Report (France, 1999), Combined Code of London Stock Exchange (U.K., 2000), Euro shareholders Guidelines (Europe, 2000), Cromme Committee (German), King-II Committee (RSA) Sarbanes-Oxley Act (U.S., 2002), ICGN Corporate Governance Guidelines (ICGN), NYSE Listing Standard (U.S., 2003), Securities Exchange Commission Listing Rules (U.S., 2003), Higgs Report (UK,2003), Smith Report (UK, 2003).

**Literature Survey**

A few studies had been undertaken both home and abroad on governance effectiveness of banks. However, a brief review of sum of the significant studies made on enquiring corporate governance system in Banking Sector is enumerated here.

Anderson and Campbell (2003) investigate corporate governance activity at Japanese banks. The results indicate that there does not exist any relation between bank performance and non-routine turnover of bank presidents, in the pre-crisis (1985-90) period, although there is an observed significant relationship between turnover and performance in the post-crisis (1991-96) period.

In Indian context, Jalan (2000) had examined the issue of corporate governance in public versus private

banks and thereafter. Reddy (2002) has discussed the governance challenges in public sector banking. Reddy had found that corporate governance in PSBs is important, not only because PSBs happen to dominate the banking industry, but also because, they are unlikely to exit from banking business though they may get transformed. To the extent there is public ownership of PSBs, the multiple objectives of the government as owner and the complex principal-agent relationships cannot be wished away. PSBs cannot be expected to blindly mimic private corporate banks in governance though general principles are equally valid. Complications arise when there is a widespread feeling of uncertainty of the ownership and public ownership is treated as a transitional phenomenon. The anticipation or threat of change in ownership has also some impact on governance, since expected change is not merely of owner but the very nature of owner. Mixed ownership where government has controlling interest is an institutional structure that poses issues of significant difference between one set of owners who look for commercial return and another who seeks something more and different, to justify ownership. Furthermore, the expectations, the reputational risks and the implied even if not exercised authority in respect of the part-ownership of government in the governance of such PSBs should be recognised. In brief, the issue of corporate governance in PSBs is important and also complex.

Das and Ghosh (2004) had made a survey on corporate governance practices of Public Sector Banks for the period of 1996 to 2003 and observed that among bank-specific variables, there exists a negative correlation between the dependent variable and performance (as measured by RoA), suggesting CEO turnover is lower in banks with better performance. It is also observed that bigger banks as well as those with higher non-performing loans have lower CEO turnover. Irrespective of whether which measure of bank performance is considered, lagged value of the performance measure has a significant influence on CEO turnover. In other words, bank performance does impinge upon CEO turnover. Second, size is observed to negatively and significantly impact CEO turnover, suggesting that bigger banks tend to have lower probability of rotation of CEOs. It might well be possible that, only with the passage of time, CEOs tend to become fully conversant with the functioning of bigger banks, this would suggest that CEOs in bigger banks tend to get a longer tenure to cover for the lockin period to become fully conversant with the bank's operations. Third, capital is observed to have a significant influence on CEO turnover: inadequate capital

position being associated with higher CEO turnover. Better-capitalised banks are perceived as safer; lower capital, as a consequence, reflects inadequately on CEO performance, thereby possibly engendering higher turnover. In a sample of 27 public sector banks in India, CEOs of poorly performing banks are likely to face higher turnover than CEOs of well-performing ones. Along this dimension, corporate governance is effective. Measures of performance based on return on assets have the strongest association with CEO turnover, while listed firms have a weaker association. Similar results are obtained when the sample is extended to encompass the entire banking system, include a sample of foreign/new private and old private banks.

**Corporate Governance in Banks**

**Reasons for Good Governance in Banks**

There are three reasons for degree of government oversight in this sector.

- Firstly, it is believed that the depositors, particularly retail depositors, cannot effectively protect themselves since they do not possess adequate information, nor are they in a position to coordinate with each other.
- Secondly, bank assets are unusually opaque, and lack transparency as well as liquidity. This condition arises due to the fact that most bank loans, unlike other products and services, are usually customized and privately negotiated.
- Thirdly, it is believed that that there could be a contagion effect resulting from the instability of one bank, which would affect a class of banks or even the entire financial system and the economy (East Asian Crisis in mid 90s of last century and Global Financial Crisis in 1st decade of the new millennium). As one bank becomes unstable, there may be a heightened perception of risk among depositors for the entire class of such banks, resulting in a run on the deposits and putting the entire financial system in jeopardy.

**Initiatives for Promoting good governance in Banks**

At the initiative of the RBI, a consultative group, aimed at strengthening corporate governance in banks, headed by Dr. Ashok Ganguli (2001) was set up to review the supervisory role of Board of banks. The recommendations include the role and responsibility of independent non-executive directors, qualification and other eligibility criteria for appointment of non-executive directors, training the directors and keeping them current with the latest developments. Thereafter, an

Advisory Group on Corporate Governance under the chairmanship of Dr. R.H. Patil had earlier submitted its report in March 2001 which examined the issues relating to corporate governance in banks in India including the public sector banks and made recommendations to bring the governance standards in India on par with the best international standards. There were also some relevant observations by the Advisory Group on Banking Supervision under the chairmanship, Shri M.S. Verma which submitted its report in January 2003. Keeping all these recommendations in view and the cross-country experience, the Reserve Bank initiated several measures to strengthen the corporate governance in the Indian banking sector. As a follow-up of the Ganguly Committee report, in Mid-Term Review of the Monetary and Credit Policy in November 2003, the concept of 'fit and proper' criteria for directors of banks was formally enunciated, and it included the process of collecting information, exercising due diligence and constitution of a Nomination Committee of the board to scrutinise the declarations made by the bank directors. It is heartening to note that based on the guidelines issued by RBI, all the banks in the private sector have carried out, through their nomination committees, the exercise of due diligence in respect of the directors on their Boards. So, Private sector banks, etc. it is unanimously accepted that the most crucial aspect of corporate governance is that the organisation have a professional board which can drive the organisation through its ability to perform its responsibility of meeting regularly, retaining full and effective control over the company and monitor the executive management.

**Measures for better governance in Banks: Initiatives by Apex Bank**

Reserve Bank of India has taken various steps furthering corporate governance in the Indian Banking System. These can broadly be classified into the following three categories: a) Transparency b) Off-site surveillance c) Prompt corrective action Transparency and disclosure standards are also important constituents of a sound corporate governance mechanism. Transparency and accounting standards in India have been enhanced to align with international best practices. However, there are many gaps in the disclosures in India vis-à-vis the international standards, particularly in the area of risk management strategies and risk parameters, risk concentrations, performance measures, component of capital structure, etc. Hence, the disclosure standards need to be further broad-based in consonance with improvements in the capability of market players to analyse the

information objectively.

The off-site surveillance mechanism is also active in monitoring the movement of assets, its impact on capital adequacy and overall efficiency and adequacy of managerial practices in banks. RBI also brings out the periodic data on "Peer Group Comparison" on critical ratios to maintain peer pressure for better performance and governance.

Prompt corrective action has been adopted by RBI as a part of core principles for effective banking supervision. As against a single trigger point based on capital adequacy normally adopted by many countries, Reserve Bank in keeping with Indian conditions have set two more trigger points namely Non-Performing Assets (NPA) and Return on Assets (ROA) as proxies for asset quality and profitability. These trigger points will enable the intervention of regulator through a set of mandatory action to stem further deterioration in the health of banks showing signs of weakness.

**Empirical Findings**

A study was undertaken to enquire the compliance of nationally and internationally acclaimed corporate governance codes by a sample of seven listed Indian banks with a representation of public sector and private sectors. The banks corporate governance practices are measured base on sixty one corporate governance issues namely board composition, independence elements in board, formation of different board committees like audit committee, remuneration committee, nomination committee, asset liability management committee, and investors grievance committee, corporate governance disclosure and certification, frequency of board meeting, frequency of different board committee meetings etc. Based on the company text available on Prowess 2.6 and empirical findings, the state of affairs of corporate governance practices of banking companies responsible for constructing BSE-Bankex are measured under the binary scale-simply assigning '1' for compliance and assigning '0' for non-compliance. Based on this, their relative 'corporate governance score is measured. The findings of the study is presented here-

| Name of Banks | Corporate Governance Score |
|---|---|
| Allahabad Bank | 50.819672 |
| Andhra Bank | 52.45902 |
| AXIS Bank | 70.4918 |
| Bank of Baroda | 60.65574 |
| Bank of India | 62.29508 |
| HDFC Bank | 75.40984 |
| Canara Bank | 55.7377 |
| Centurion Bank of | 91.37329 |

| | |
|---|---|
| Punjab Ltd. | |
| Federal Bank Ltd. | 73.77049 |
| ICICI Bank | 70.4918 |
| Indian Overseas Bank | 54.09836 |
| Karnataka Bank Ltd. | 70.4918 |
| Kotak Mahindra Bank Ltd. | 81.96721 |
| Oriental Bank of Commerce | 49.18033 |
| State Bank of India | 57.37705 |
| Punjab National Bank | 65.57377 |
| Union Bank of India | 67.21311 |
| Yes Bank Ltd. | 78.68852 |

Based on the analysis, it appears that the banking companies responsible for construction of BSE-Bankex reveals the following pattern-

(i) Regarding compliance of mandatory provisions of Clause 49 of listing agreement (originated from the recommendations of Kumar Mangalam Birla Committee) the surveyed companies showed almost cent percent performance; and so far as recommendatory performance was concerned, the surveyed companies had shown commendable performance.

(ii) It was found that 66.67% companies had Audit Committees (AC) composed exclusively of Non-Executive Directors (NEDs) and all the companies' audit committees have formal written charters that are approved by the full board of directors; however regarding composition of audit committee exclusively by Independent Directors (IDs) only 50% of the surveyed banks conformed it. But, it was found that all the surveyed companies had all if not, at least one member with strong background in accounting and financial discipline. Moreover, all the surveyed companies did not appoint any person who was the former member of executive board as the Chairman of AC.

(iii) Regarding meetings of board and audit committee all most all the companies had a minimum four board meetings in each year with a time gap of not more than 4 months between any two Board meetings as well as they had also organized meeting for Audit Committees-once every 6 months and once before finalization of accounts. But, regarding disclosure of minutes of Board meeting and AC meetings in annual reports only 33.33% companies religiously maintained

it. But, 66.67% of surveyed companies had organized a separate meeting for audit committees with the external and internal auditors of the company at least once in a year, without management, to discuss issues arising from the audit;

(iv) Almost all the surveyed companies (93.33%) had disclosed the remuneration of corporate officers by breaking down into fixed and variable part. However, regarding disclosure of pension entitlements earned by each individual director during the year only 72.22% of the surveyed companies follow this issue. But the surveyed companies showed the dismal performance (Only 27.77%) regarding inviting Shareholders specifically to approve all new long-term incentive plans which potentially commit shareholders' funds over more than one year or dilute the equity'.

(v) Regarding composition of Remuneration Committee fully by at least 3 Non-Executive Directors, 66.67% of surveyed companies adhered to the issue. Besides, 72.22% of the surveyed companies' Chairmen of Remuneration Committees were present in Annual General Meeting to respond queries.

(vi) Another significant committee that every alternative code of promoting effective and transparent corporate governance prescribed is nothing but the Nomination/Corporate Governance Committee- the main responsibility of which will be to devise the succession policy of the board, recommend the appointment and/or removal of directors (both executive and non-executive directors) in different committees of the board. However, it was revealed from the study that the only 4 out of 18 India's most reliable BSE-BANKEX companies had such a Nomination/Corporate Governance Committee (only 22.22%). Regarding appointments to the audit committee made by the board on the recommendation of the nomination committee in consultation with the audit committee chairman, only two out of 18 surveyed companies adhered to it. Moreover, in another issue where it was prescribed that appointments committee (or an ad hoc committee or Nomination/ Corporate Governance Committee) should draw up a plan for succession of the executive

directors having the Chairperson of the board as a member of that committee, but not its chairperson, the surveyed companies failed heavily with only 2 out of 18 banking companies followed the norms.

(vii) Regarding offering shareholders rights, the surveyed companies had shown commendable performance. All the banking companies had grown up the habit to communicate through electronic media and disclosure of price-sensitive information. Moreover, for all the listed companies in India, it is mandatory to allow shareholders the right to vote in proportion to their economic stake in the company. Besides, all the banks (100%) had established a separate Investors Grievance Committee under the chairmanship of a non-executive director, thanks to the mandatory provision of Clause 49 of Listing Agreement.

(viii) In respect of promoting independence to the board, it was found that 13 out of 18 surveyed banks had at least ½ of the board composed of Independent Directors (thanks to the mandatory recommendation of Clause 49 of listing agreement that ½ of the board should consist of non-executive independent directors, if its chairman is an Executive Director). But, if we consider the recommendation of J.J.Irani Committee on Company Law, 2005, appointed by Dept. of Company Affairs, that 1/3rd of the board should consist of Independent Directors then 17 out of the 18 surveyed banks had fulfilled such norm.

(ix) So far as Chairmanship was concerned, it was found that among the surveyed banks only 5 had Non-Executive Director as Chairman and the rest 13 banks had Executive Director as Chairman of the Board.

(x) For promoting transparent and effective corporate governance it was prescribed (Review of the role & effectiveness of NEDs, Higgs Report,U.K.,2003) that the non-executive directors should meet as a group at least once a year without the chairman or executive directors present and the annual report should include a statement on whether such meetings had occurred. In that particular issue, a highly discouraging performance by the surveyed Indian Banking Companies had been observed- only 2 out of the 18 companies of BSE BANKEX (11.11%) had organized such a meeting.

(xi) It was believed that in order to

promote good corporate governance, the existence of "Whistle Blower Policy" in terms and conditions of service contract of employees should be there. In the present survey it was found that 13 out of 18 banks (72.22%) had followed such issue, thanks to RBI regulations.

(xii) Regarding the provisions of reporting (called as Integrated Sustainability Reporting) at least annually on the nature and extent of its social, transformation, ethical, safety, health and environmental management policies and practices, only 3 out of 18 banks followed this issue.

(xiii) So far as disclosure of Corporate Governance Guidelines/ Code of business ethics in organizations was concerned, all the surveyed banks strictly adhered to the issue. Moreover, regarding prescribing a separate code of conduct/ethics for the board members, almost all the surveyed companies had such a code in place.

**Individual Bank wise Analysis**

In individual bank wise Corporate Governance Performance, the surveyed banking companies' achievement as measured by "Corporate Governance Score"(CGS) (constructed by simply putting '1' for Compliance of any issue and '0' for Non-compliance/Non-explanation for each of the 61 issues considered for the survey taken from 15 nationally/internationally acclaimed Codes of Corporate Governance/ law/ clause/provisions or recommendations of Committees for Prescribing Best Practices in Corporate Governance) are as follows-

| Name of Banks | CGS |
|---|---|
| **Top 6 Banks** | |
| Centurion Bank of Punjub Ltd. | 91.37329 |
| Kotak Mahindra | 81.96721 |
| Yes Bank | 78.68852 |
| HDFC Bank | 75.40984 |
| Federal Bank Ltd | 73.77049 |
| AXIS Bank Ltd | 70.4918 |
| **Middle 6 Banks** | |
| ICICI Bank | 70.4918 |
| Karnataka | 70.4918 |
| Union Bank | 67.21311 |
| Panjab National Bank | 65.57377 |
| Bank of India | 62.29508 |
| Bank of Baroda | 60.65574 |
| **Bottom 6 Banks** | |
| SBI | 57.37705 |
| Canara | 55.7377 |
| Indian Overseas | 54.09836 |

| | |
|---|---|
| Andhra | 52.45902 |
| Allahabad | 50.819672 |
| Oriental Bank of Commerce | 49.18033 |

**Statistical Analysis of the findings of Survey**

Here an attempt was made to find out the relationship between Corporate Governance and some key performance parameters and different allied factors (through correlation coefficient). After that Pearson's coefficient correlation t-testing was done (at 5% level of significance) at n-2 degree of freedom to find out statistical relevance of the null hypothesis (Ho) [that the corporate governance and respective variables were independent] against the alternative hypothesis (H1) [that the corporate governance and the respective parameters are dependent]. The following significant and interesting observations were made:

(i) The Correlation between Corporate Governance Score and Tobin's Q of the Banking Companies was 0.46128 and there was strong statistically significant association between the variables,

(ii) The Correlation between Corporate Governance Score and P/E Ratio of the Companies was 0.417709 and there was strong statistically significant association between the variables,

(iii) The Correlation between Corporate Governance Score and P/B Ratio of the Companies was 0.532982 and there was strong statistically significant association between the variables,

(iv) The Correlation between Corporate Governance Score and Foreign Institutional Investors (Shareholders)-Non-Promoters(%) in total ownership of the Companies was 0.543207 and there was strong statistically significant association between the variables,

However, it was found that-

(v) The Correlation between Corporate Governance Score and Market Capitalization of the Companies was 0.143955 and there was no statistically significant association between the variables,

(vi) The Correlation between Corporate Governance Score and PAT/Sales ratio of the Companies was 0.198395 and there was no statistically significant association between the variables.

**Limitations of the Study**

However, the present study is suffering from the following lacunae:

(i) A few variables are considered under the study. Study will be more effective if variables like economic value added; market value added etc. is considered.

(ii) In the present case, the survey period is only 5 years. The study will be more fruitful if we measure the correlation between Corporate Governance and firm performance for a considerable period of time.

(iii) The study is conducted only for 18 major Indian Banking Companies responsible for construction of Bombay Stock Exchange BANKEX. Since, it is a meager proportion of whole gamut of companies operating in India is listed or unlisted, so there is no room for complacency. So, a broader survey should be conducted to find out the extent of corporate governance practices in Indian Banking sector.

**Scope for further Research**

Research on corporate governance in India is in primitive stage. Though some of the studies have been made including the present one, there are other important areas that require attention and provide scope for further research.

(i) A comparative study about public sector banking companies' and private sector banking companies' corporate governance performances may be studied.

(ii) A study establishing relationship between chief executive officer turnovers (for example, CEO layoffs or voluntary resignations) and corporate governance may be undertaken in Indian context.

(iii) The role of foreign institutional investors (FIIs) in corporate governance cannot be ignored. Particularly after the Asian crisis, the FIIs have been placing a lot of emphasis on corporate governance. Both from corporate point of view, who want to attract foreign investment and from the macro-economic point of view where India wants capital inflows, the standard of corporate governance assumes importance making it a suitable area for further research.

(iv) The research on the relevance of practicing 'ethical management' in day-to-day operation and decision making may be judged in light of Indian corporate sector and their contribution towards increasing performances of firms should be conducted.

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