

**A STUDY ON CORPORATE GOVERNANCE OF SOMAVAMSHA
SAHASRARJUNA KSHATRIYA CO-OPERATIVE SOCIETY LIMITED,
BANGALORE: WITH SPECIAL REFERENCE TO DEPOSITS AND
LENDING PRACTICES**

Nethravathi K *
Geetha A **

ABSTRACT

Corporate governance would lead to effective and more meaningful supervision and could contribute to a collaborative working relationship between bank management and bank-supervisors. Societies need to ensure good Corporate governance in order to achieve excellence, transparency and for maximization shareholders value and wealth. At present there are several cooperative societies which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system. In brief the cooperative societies have to act as a friend, philosopher and guide to entire society.

The study is based on SSK cooperative society limited in Bangalore. The study of the societies' financial performance along with the lending practices provided to the members is herewith undertaken. The members have taken more than one type of loan from the societies. Moreover they suggested that the society should adopt the latest technology of the banking like ATM's internet/online banking, credit cards etc., so as to bring bank at par with the private sector societies.

The paper aim is to investigate the influence of corporate governance of the bank society that operate in the cooperative credit system on performance and quality of loans over the years 2013-14, 2014-15 and 2015-16. The financial- economic data collected from the annual report of SSK cooperative society limited. The main result refers to the presence of significant relationship between board dimension and the quality of loans and lending practices.

KEYWORDS: *Corporate Governance, Cooperative Society, Lending Practices, Governance Parameters.*

Introduction

The issue of corporate governance has come up mainly in the wake up of economic reforms characterized by liberalization and deregulation. Corporate governance principles and policies in the banking sector have attracted many scholars and researchers. It deals with those issues arise the societies that are needed for the smooth running and proper planning for the operations of the bank. With elements of good corporate governance sound investment policy, appropriate internal control systems, better credit risk management, focus on newly-emerging business, commitment to better customer service, adequate automation and proactive policies, societies will definitely be able to grapple with these challenges and convert them into opportunities.

Evolution of Corporate Governance in Banking System

In May 1991, the London stock exchange set up a committee under the chairmanship of Sir Arian Cadbury to help raise the standards of corporate governance and the level of confidence in financial reporting and auditing by setting out clearly what it sees as the respective responsibilities of those involved and what it believes is expected of them.

* Research Scholar, CMR University, Bangalore, Karnataka, India.

** HOD, Commerce, GFGC, Vijaynagar, Bangalore, Karnataka, India.

Contemporary corporate governance started in 1992 with the Cadbury report in the UK. Cadbury was the result of several high profile company collapses and was concerned primarily with protecting weak and widely dispersed shareholders against self-interested directors and managers.

As prelude to institutionalize corporate governance in societies, an advisory group on corporate governance was formed under the chairmanship of Dr. R. H. Patil, gave the recommendations, in March 2001, under the chairmanship of Dr. A.S. Ganguly with a view to strengthen the internal supervisory role of the boards in societies in India. This move was further reinforced by certain observations of the advisory group on banking supervision under the chairmanship of Shri. M.S.Verma submitted 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.

Review of Literature

Shifler and Vishny(1997) define corporate governance as the methods by which suppliers of finance control managers in order to ensure that they earn return on their investment.

Gopal (1998) argued that the increasing efficiency of capital markets and global mobility of funds across the world means that the opportunity cost of shareholders' funds is increasing

Ciancaneli and Gonzales(2000) in their research paper state that in banking sector the regulation represent external corporate governance mechanism.

Aravan (2001) suggested that corporate governance is basically a system of making directors accountable to the stakeholders for the effective management of the companies, with concerns for ethics and values.

La Porta (2002) studied firms performance from 27 developed countries, they find evidence that there is higher valuation of firms in countries with better protection of minority shareholders.

Nam(2004) suggests some aspects that should be concerned in the internal mechanism of corporate governance, including its independence and structure, function and activity, compensation and other relevant responsibilities of board of directors.

S. bhaskaran (2005) studied the changing faces of Indian Banking. This article mainly speaks about the changes that have taken place in Indian banking sector since the reforms started.

Fernando. A. C.(2006) states in his book "corporate governance, principles, policies and practices". Societies and corporate governance must have following minimum criteria: the objective of governance should be safe guarding depositors money and optimising shareholders' interests.

Sharma Geetha & Kawadia Ganesh (2006) in their research paper "efficiency of Urban cooperative societies of Maharashtra: ADEA Analysis". Discussed the cooperative banking sector in India has received a series of shocks in recent years, resulting in a significant number of bank failures and upsurge in bank merger activities, both voluntary and arranged by RBI. The paper analyses and analyzes and measures the performance and efficiency of the urban cooperative bank of Maharashtra.

Pati, Ambika Prasad, Feb 2006, in his working paper, mentioned that societies being the most influential institutions in the financial sector their governance is of crucial importance.

EduardusTandelilin, hermeinditoKaaro, putuanommahadwartha, Supriyantna,(2007) in this working paper no.34 provides a conceptual model called Triangle Gap Model(TGM) and then test it in an empirical study. The idea of this research is to investigate the relationships among corporate governance, risk management and bank performance in Indonesian banking sector.

Gopinath, shyamala (2008) "corporate governance in the Indian banking industry, this paper makes a case for corporate governance as an internal mechanism in societies, and therefore influenced by cultural issues, to dovetail with the overriding compulsions of prudential regulations, that sets the boundaries for systematic stability.

Shilaja V. Kheni, (2009), defined corporate governance as asset of systems, processes and principles which ensures that a company is governed in the best interest of all the stake holders," this paper also states that corporate governance is a system by which companies are directed and controlled and it is about promoting corporate fairness, transparency and accountability.

Indian societies, 5th May 2010, Urban co-operative societies with strong corporate governance get approval to open approval to open ATM's, this article states that if urban cooperative societies is eligible as per the new norms, they do not have to seek prior approval from RBI to set up offsite ATM's.

Bhagatkishori (2010), in his paper “ issues of urban Cooperative societies in India, has highlighted problems of capital inadequacy, growing NPA's lack of professionalism in the management, etc and made a few open suggestions. Cooperative societies act as a very important channel for credit allocation to the small borrowers.

“Report of the expert Committee on licencing New Urban Cooperative societies” RBI(2011), with a view to increase the coverage of banking services amongst local communities, it was proposed in the annual policy statement for the 2010-11 to set up a committee comprising of all stakeholders for studying the advisability of granting new urban cooperative banking licences under section 22 of the Banking regulation Act 1949.

Dr. K.V.S.N Jawahar & Munirajaselkhar (2012) in their research article “ the emerging urban co-operative societies (UCB's) in India-problems and prospectus” revealed that the urban societies are important purveyors of credit to small borrowers and weak sections of the society but are not coming out with any supportive policies that can strengthen the role of UCB's

Dr. Summet Giram (July 2014) author in his research paper A Study performance of urban cooperative societies in Beed District states that development of a country depends on the industrial and agricultural development of the country depends which requires proper supply of funds at proper time.

Vidhyadaranakr (2015) in his article “cooperativesocieties financial position and RBI actions,” states that RBI cannot take actions immediately, RBI gives sufficient times to societies for development and control the financial position of societies.

Need of Corporate Governance

Corporate governance is gaining centre stage in the recent times due to failure of corporate and wide dissatisfaction among the people with the way corporate works and hence became a widely discussed topic worldwide.

Corporate governance is now recognised as a paradigm for improving competitiveness and enhancing efficiency and thus improving investor's confidence and accessing capital. Now at present corporate governance has become a more dynamic concept and a not a mere static one.

Corporate governance was brought in limelight through series of corporate failures such as Enron, Satyam and World Corn. These companies collapsed because of the corporate mis governance and unethical practices they indulged.

Objectives of the Study

The following are the objectives of the study:

- To measure and compare the efficiency of cooperativesociety.
- To know different type of loans and lending practices preferred by different sets of members.
- To suggest the appropriate measures to improve the efficiency of the cooperative society.

Significance of the Study

Corporate governance aims are the vision, values and visibility. Responsibility, transparency, fairness and accountability are the four pillars for strong corporate governance. Corporate governance helps in establishing a system where a director is showered with duties and responsibilities of the affairs of the company.

Efficient cooperative societies help to create healthy economics as they are back-bone of any financial system and societies are normally responsible for the funds which they move within an economy as they care the keepers of the money of their depositors.

Limitations of the Study

- The study is based on the data of past three years only.
- The data for study mainly based on a single cooperative societies
- As majority of the societies customers belong to the middle class and not aware properly about their different types of deposits and lending options.

Research Methodology

Indian banking sector consist of varieties of societies. Present study has considered the duration of 3 financial years 2013-14, 2014-15 and 2015-16. So all the data collected are based on the annual reports of these duration only.

In this study trend analysis tool has been used to measure the performance of different deposits and lending practices of SSK cooperative society limited. 2013-14 is used as a base year to compare and measure the growth of deposits and lending provisions of society

Hypothesis

- **Ho:** SSK cooperative society is not showing maximum compliance towards corporate governance norms.
- **H1:** SSK cooperative society showing compliance towards corporate governance norms

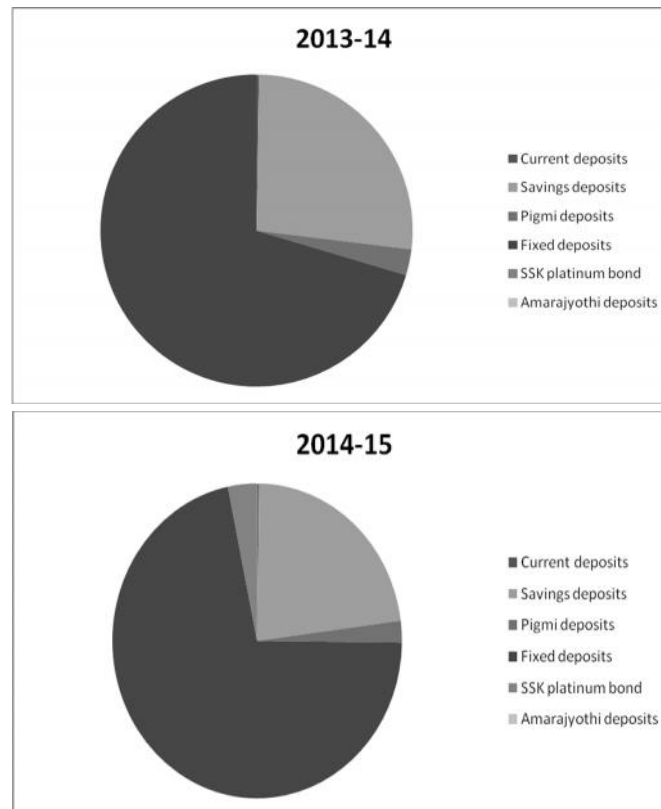
Data Analysis and Interpretation

Table 1: Showing deposits for the financial year 2013-14, 2014-15 and 2015-16

Sl. No	Particulars	2013-14	2014-15	2015-16
01	Current deposits	11,30,029	9,52,516	3,20,896
02	Savings deposits	11,88,62,581	11,14,25,436	12,26,34,697
03	Pigmy deposits	1,20,17,493	1,09,59,586	1,07,07,860
04	Fixed deposits	31,36,25,111	35,08,20,781	44,14,03,926
05	SSK platinum bond	-----	1,58,60,855	3,29,07,353
06	Amarajyothi deposits	-----	-----	1,14,260

Source: annual report of the ssk cooperative society.

It has been found that the rate of deposits was increased by 29.94% in the year 2014-15. But whatever, It may be the table shows the decrease in the contribution towards the current deposits. SSK Cooperative society has to concentrate towards the promotion of the current deposits. It should provide financial support for the business. Middle class people more interested towards the Pigmy deposits, this class cannot deposit huge funds in FD's. so bank should work towards the promotion and mobilize the funds from public



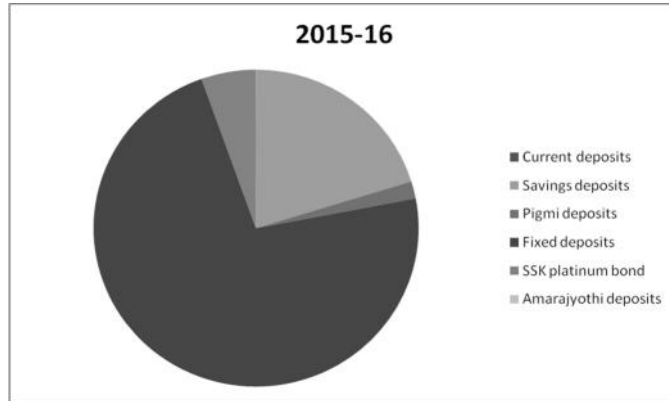
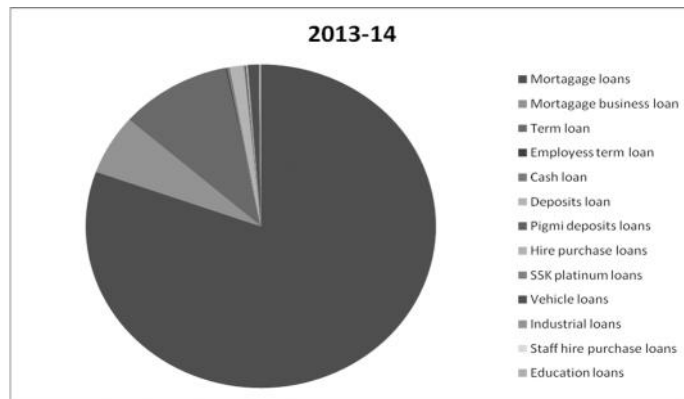


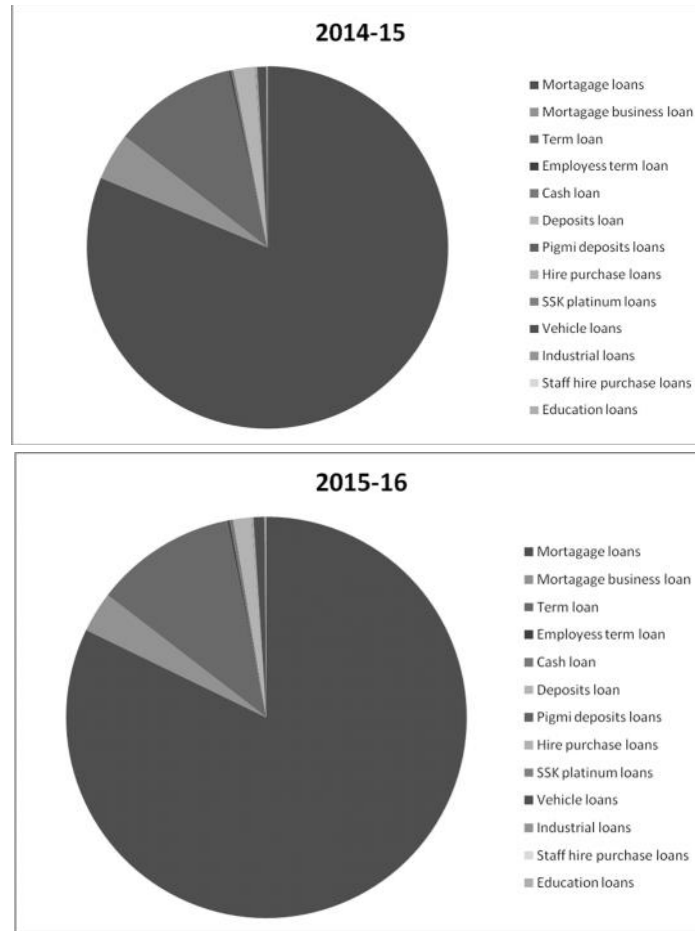
Table 2: showing few lending types of SSK cooperative society

Sl. No	Particulars of loan	2013-14	2014-15	2015-16
01	Mortgage loans	53,71,89,922	70,04,89,540	80,20,38,040
02	Mortgage business loan	3,99,34,246	3,64,40,605	3,17,44,201
03	Term loan	6,85,21,802	9,51,03,539	11,15,24,939
04	Employees term loan	11,72,024	17,43,986	19,43,238
05	Cash loan	16,75,657	19,79,758	27,27,630
06	Deposits loan	86,86,981	1,64,55,367	1,41,14,012
07	Pigmy deposits loans	12,82,296	5,86,180	4,57,201
08	Hire purchase loans	9,75,397	6,14,997	9,02,099
09	SSK platinum loans	-----	3,60,000	3,23,958
10	Vehicle loans	69,01,563	71,57,875	87,51,452
11	Industrial loans	5,56,191	2,20,669	3,02,672
12	Staff hire purchase loans	61,218	32,356	6,103
13	Education loans	477944	5,65,497	10,90,912

Source: annual report of the SSK cooperative society.

Present study reveals that majority of the respondents have taken mortgage loans, term loans, hire purchase loans, vehicle and educations loans and less respondents preferred mortgage business loans pigmy deposits loans, SSK platinum loans and industrial loans.





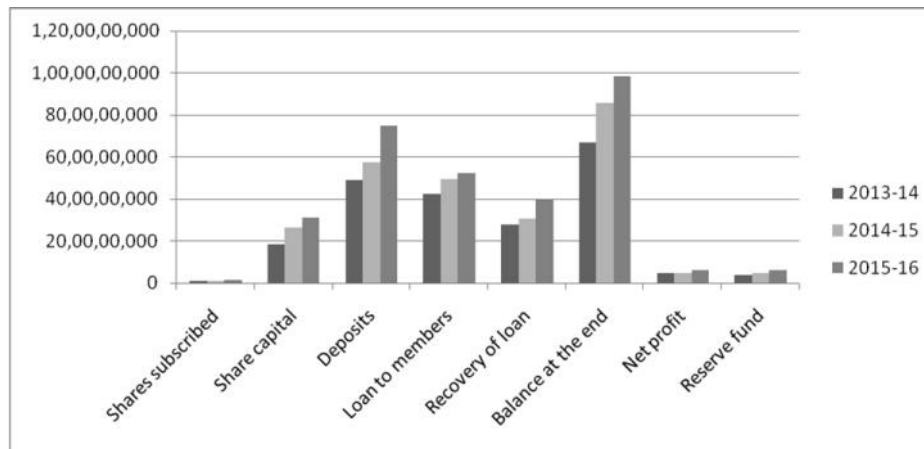
Interpretations and Analysis

The section comprise of comparative analysis of states of corporate governance of SSK cooperative societies limited in the three years. For this purpose societies performance is measured against certain governance parameter. Except mortgage loans no other type loans are common on societies.

Table 3: Showing the total turnover of the SSK cooperative society limited

Sl. No	Particulars	1927-28	2013-14	2014-15	2015-16
01	Number of members	177	10,864	1,120	11,123
02	Shares subscribed	431	73,34,969	1,05,06,624	1,24,13,432
03	Share capital	2,617	18,33,74,225	26,26,65,600	31,03,35,800
04	Deposits	1,595	48,71,33,716	57,45,02,719	74,65,18,286
05	Loan to members	3,006	42,58,07,114	49,20,09,121	52,26,79,183
06	Recovery of loan	534	27,97,76,253	30,35,87,484	39,61,30,737
07	Balance at the end	2,771	66,86,21,808	85,70,43,455	98,35,91,901
08	Net profit	142	4,47,42,256	4,59,92,081	6,00,79,459
09	Reserve fund	2	3,81,18,070	4,93,03,634	6,07,79,154
10	Profit shared to members (dividend)	—	16%	15%	15%

Source: annual report of the ssk cooperative society.



it has been found that there is constant increase in the turnover of the society. The implication of corporate governance in SSK cooperative societies has led to the increase in the rate of deposit. In spite of having good governance and confidence of public societies is failing to introduce new banking products. If bank adopts new products for the members it leads to the overall growth of the members. Also there is a greater requirement of modernization, and innovative banking practices (ATM's, E-Banking, NEFT, debit and credit card, mobile banking, industrial and business loans etc). If not so 20 years down the lane bank will remain as out dated.

Findings

The Corporate governance philosophy of societies has to be based on pursuit of sound business ethics and the society. Strengthening of public confidence in societies is a vital requirement. Staying focused on fundamentals, adoption of utmost professionalism, conformity to prescribed norms of lending and investment, adherence to sound banking principles and ensuring optimum capital efficiency are vital for success and continued also could contribute to a collaborative working relationship between societies management and bank supervisors.

- Societies financial performance is good, due to best corporate governance the rate of deposits were increased periodically.
- In spite of having good governance societies failed to adopt innovative products to provide more comfort to the members.
- Societies offering the good rate of interest on the loans and advances this is motivating the members to borrow loans
- When compared to other nationalized, private, public and other cooperative banks, SSK cooperative societies offering the good rate of dividend i.e., minimum 15% per annum. This attracting the members to deposit more in Societies.
- It has also found that societies undertaken several social responsibility activities like talent award scheme, student welfare fund, honouring meritorious students, interest free education loans, suggestions and counseling, Mahilaabivruddisangha, members death relief fund etc.

Suggestions

- SSK Cooperative societies should develop its own code of corporate governance to ensure that is in line with international best banking practices.
- Societies should initiate massive awareness campaign highlighting the meaning and the business care of good corporate governance and advantages of corporate governance.
- Code of ethics and board charters serve a very important documents for ensuring good corporate governance and can think of developing such documents in the long run
- Societies should initiate the performance evaluation if the board to ensure that the board achieves its purpose as best able to protect the interest of stakeholders
- Societies should conduct seminars, workshops on corporate governance for its board members.

References

Periodicals

- ✘ The Hindu
- ✘ Deccan Herald

Articles

- ✘ AnkithKatrodia, corporate governance practices in the societiesingsectot ISSN 2277-1166,vol no. 1, issue no. 4.
- ✘ Anrewcampell (2007), Societies insolvency and the ;roblem of non-performing loans”, Journal of Bnaking Regulation, 25-45.
- ✘ CMA Dr.meenumaheshwari and sapnameena, corporate governance standards and practices in SBI: an empirical study, Journal of business management & social sciences research (JBM &SSR), vol 3, no 11, nov 2014.
- ✘ Hemalichokshi , corporate governance in societiesing sector-indicating transparency or translucency, Law Mantra Journal.
- ✘ Pisunxu, reiman school of Finance, Hugh glove, lorenzopatelli, Lisa M victoriavish, corporate governance and performance in the wake of the financial crisis: evidence from US commercial societies.
- ✘ SoniSonali, (Oct, 2011), “*Corporate Governance in India*”, India CSR, Retrieved from <http://www.indiacsr.in/en/?p=2630>.
- ✘ West, Andrew. (2006), „Theorizing South Africa’s corporate governance”, *Journal of Business Ethics*, 68, 433-448.

Journal

- ✘ *International journal of managing value and supply chains(IJMVSC) VOL.6. No. 3, September 2015.*
- ✘ Journal of Financial regulation and compliance, ISSN 1358-1988.
- ✘ Indian Journal of finance.
- ✘ IOSR Journal of business and management(IOSR-JBM) E-ISSN:2278-487X VOLUME 8, ISSUE 1(Jan- Feb.2013) pg no 15-20.

Books

- ✘ Cooperative societiesing: innovations and developments- Vittorio bosica, A Caretta, P. Schwizer
- ✘ Corporate governance: global concepts and practices.
- ✘ Cooperative societies in India-new century publications.

Websites

- ✘ <http://shodhganga.inflibnet.ac.in>, www.google.com, www.google.com, <http://old.nass.com.in/nasscom-corporate-governance-report>.
- ✘ Accessed from [http://www.caraandjusticebook.com /category/ governance -accountability](http://www.caraandjusticebook.com/category/governance-accountability) on June12th, 2010.

Reports

- ✘ Nasscom reports related to corporate governance
- ✘ Annual Report, Corporate Governance, The SSK cooperative Societies Ltd.,2013-14, 2014-15, 2015-16.
- ✘ Annual report of different cooperative societies.
- ✘ RBI bulletins- different years.