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MEASURING THE ASSOCIATION BETWEEN CORPORATE GOVERNANCE POSTULATES AND BANKS BUSINESS PERFORMANCE

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ABSTRACT

The present paper investigated the relationship between corporate governance postulates and its association between business performance of selected public, private and foreign sectors banks. The study employed the EFA and CFA on corporate governance dimensions. The data has been analysed with the help of SPSS and AMOS on 600 sample size. It is observed that CG postulates has a direct impact on corporate performance. The findings also denote that loyal long tenure customer, customers satisfaction, timely return on assets, involvement of new shareholders in banks investment policy and qualitative product and services only achieve when bank has a sound CG framework in their business operations.

Keywords: *Corporate Governance, Corporate Principles, Business Performance, Foreign Sectors Banks, Corporate Performance.*

Introduction

Banks are the organisations that not only responsible for the economic development of any nation, but the individual growth of each sector depends on transparent and responsive functions of the banking industry. Banks are that development roots of the country, which demands high governance and good business ethics. As they fulfil the agenda of principal resource mobilisation in developing economies. Lack of underdeveloped capital and money market, absence of good financial instrument and lack of public confidence raised several questions on banking developments. In 2002, Jalaan remarked that the characteristics of markets are comp and complicated. These complexities directly associated to banks at a volatile incidence with instantaneous effect. The banking system is entirely different from other industrial system that distinction made corporate governance concept for banking corporations different as well as critical. If there is failure happens in the industrial sector large stakeholders group influenced with these undesired changes but if the failure occurs in banking sector the impact spread to other banking industry as well as the uncountable groups of the stakeholders that lead serious consequences for the whole financial sector (Chokshi, 2015). Hence, the bank needs to vitalize the perpetual curiosity of stakeholders. Whether they are employees, customers, investors, fund managers etc, faith that banking companies through qualitative CG principles would provide them secure platform to play with their investments/savings and give fair and better return. Therefore, to retain the customers, investors and employees' banks need the strong disclosure regulation and ensure the large group of stakeholders with the same.

Governance structure is critical in banking industry due to ownership issues. Generally, the concept of CG is well played in public sector banks as they are listed under the SEBI regulations as governance is a necessary agenda in their business operations. Other sector banks are following the mandatory principles of disclosures if they are listed under any of the stock exchange in India.

In financial institutions and banking corporations, CG standard has come into limelight with the universal economic crisis flashed by the downfall of the globally governing financial corporations. The breakdown of world com, Lehman brothers, JP Morgan, Arthur Andersen etc. leading the deliberation of governance into the fore front of policy makers. (Jalaan, 2002 & Banerjee, 2007).

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In Indian context, first statement related to CG was formed by Dr. Bimal Jalan, who was the governor of RBI in 2001. A panel of advisory experts on CG was made under the leadership and guidance of Dr. R.H. Patil. Hence, the group put a glance into affairs relate to corporate governance in Indian banks. Further, the recommendations were made to put the CG standards in India identical with the terrific international protocols. In contrast, under the leadership of Dr. A.S. Ganguly a consultative panel was then exhibit in November 2001. The group was incorporated with the objective to validate the fundamental official character of the board. Afterwards, under the guidance of Mr. M. S. Verma the advisory group on banking supervision also presented its report on corporate governance for banks in January 2003. Later, the RBI takes in the lead to enhance the CG structure and codes in the banking corporations of India and attempt to transport the international norms at equality. In contrast, department of company affairs (MCA) on 21 August 2002 constituted a commission to analyse the various CG questions in the favour of nations. Keeping in mind all recommendations and global experiences the RBI regulated various compulsory disclosure practices for banking sectors related to bank board structure, composition, different committees, transparency, responsibility, fairness, integrity, code of conduct etc. State Bank of India defines CG is beyond transparency, responsiveness, fairness and strong culture. It's about thinking good for stakeholders at the same time focusing on business performance.

The above thought further raised by HDFC bank who recognises the significance of qualitative CG help in achieving the fairness for key stakeholders and effectiveness for corporations. On the other side Standard Chartered Bank (SCB) called good CG gives sustainable success to a corporation, establishing faith and engagement between associations and with all stakeholders. Further, the bank enables themselves on the track of right culture and good business practices. The word of Royal Bank of Scotland (RBS) is also remarkable that "Governance is a work in progress".

H_{01}: CG postulates has no impact on business performance of selected banks

Data and Research Design

- **Population of the Study**

The universe of the study is the Indian banking corporations (public, private and foreign banks). By the use of market capitalisation private, foreign and public (10) bank from each sector has been selected:

- **Sample Size was 1200**

Out of which 600 was the customers and remaining 600 was the managers of the bank selected for study considered to evaluate their perception in terms of CG practices and antecedents adopted by a bank.

- **Data Source**

The study covers both primary and secondary data. The secondary data was collected from the bank scope, prowess database, official websites of respective banks, magazines, journals, RBI bulletin to gather the information related to corporate governance practices, corporate culture, corporate ethical values, corporate business performance etc. of selected banks and with the help of standardized questionnaire.

Impact of CG Postulates on Business Performance of Selected Banks

This part dealt with the implementation of SEM on overall sample size of the study. The overall model result summarises in (table 1.1.)exemplify that corporate governance is the principal task that sample bank of India follows and implement in their business operations. The result also epitomizes that there is an eloquent kinship between CG dimensions, CG antecedents and consequences. Further, the findings showed that corporate performance is the positive outcome of corporate reputation. On the other hand, corporate ethical value and corporate cultural value enhance together CG of selected sector banks, which means higher the ethical and cultural standards better the governance structure. The model fit indices (x^2/df=3.505, GFI=.970, AGFI=.975, NFI=.965, RFI= .968, TLI=.986, CFI=.993, RMSEA=.050) results in good model fitness. To make the model fit better one modification have been done between accountability and CSR (MI= 25.643). It might be the reason that accountability and CSR predict collusion with each other to bring governance propaganda more valid. The results of the corporate governance dimensions namely, accountability (CR=12.665, SRW=.852), transparency (CR=13.772, SRW=.856), effectiveness (CR=12.520, SRW=.788), responsiveness (CR=10.687, SRW=.851), fairness (CR=11.671, SRW=.766), ISO 2600 (CR=9.998, SRW=.943), CSR (SRW=.834), Integrity (CR=7.429, SRW=.850) contributes significantly towards corporate governance. The SRW and critical ratio values of corporate ethical value (SRW=.890) and corporate cultural value (CR=10.884, SRW=.788) also signifies its influence on corporate governance.

However, corporate reputation (CR=13.678, SRW=.861) and business performance (CR=12.408, SRW=.842) shows significant relationship with overall model. The results indicated that the public, private and foreign sector banks implemented successfully principles of corporate governance in their business operations

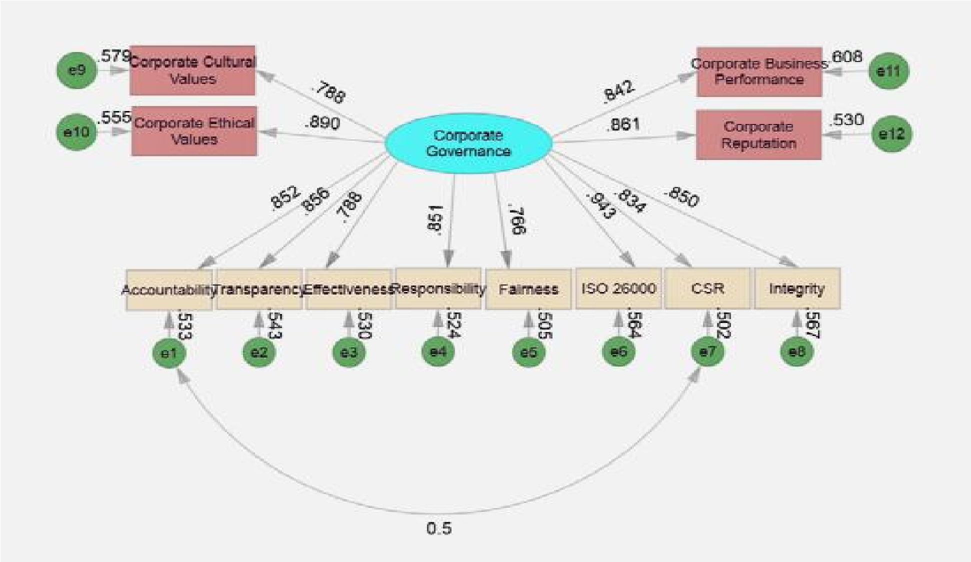

Fig. 1 Key: CG (corporate governance) Accountability, Transparency, Effectiveness, Responsiveness, Fairness, ISO26000, CSR, Integrity are the indicators of CG, Corporate Reputation (CR) and Ethical Aspects (EA), Social Aspects (SA) are the indicators of CR, Business Performance (BP), Financial Goal (FG) and Customer Goal (CG) are the indicators of Business Performance, CEV (corporate ethical values), CEP (corporate ethical practices) and (corporate protective ethical standards) are the indicators of CEV, Corporate Cultural Practices (CCP), CEV and CCP are the antecedents of CG, e1 to e14 are error variances for observed variables

Table 1: Overall SEM Result

CG Dimensions	Hypo-theses	p-value	CR	SRW	SMC	Model-Fitness	Accept/Reject
Accountability ← CG	H_{01a}	.020	…….	.850	.530	x^2/df=2.558, GFI=.986, AGFI=.955, NFI=.985, RFI= .955, TLI=.980, CFI=.989, RMSEA=.054	Reject
Transparency ← CG			10.123	.830	.544		
Effectiveness ← CG			11.999	.821	.645		
Responsiveness ← CG			10.452	.811	.612		
Fairness ← CG			6.543	.965	.622		
ISO 26000 ← CG			9.777	.850	.549		
CSR ← CG			…….	.804	.500		
Integrity ← CG			10.456	.833	.529		
Relationship between CG and CEV							
Corporate Ethical Values ← CG	H_{01b}	.030	……	.800	.582	x^2/df=2.004, GFI=.958, AGFI=.968, NFI=.972, RFI= .982, TLI=.988, CFI=.962, RMSEA=.050	Reject
Accountability ← CG			14.099	.765	.543		
Transparency ← CG			11.910	.984	.469		
Effectiveness ← CG			8.098	.765	.600		
Responsiveness ← CG			11.500	.832	.508		
Fairness ← CG			10.560	.800	.444		
ISO 26000 ← CG			11.220	.695	.540		
CSR ← CG			10.037	.778	.412		
Integrity ← CG			11.550	.889	.632		
CEP ← CG			------	.854	.550		
CPES ← CG			13.534	.792	.632		

Relationship between CG and CCV							
Corporate Cultural Values ← CG			10.778	.732	.491		Reject
Accountability ← CG			11.605	.865	.531	x^2/df=2.577, GFI=.969, AGFI=.976, NFI=.974, RFI= .985, TLI=.989, CFI=.995, RMSEA=.041	
Transparency ← CG	H_{01c}	.076	11.067	.693	.481		
Effectiveness ← CG			……	.834	.596		
Responsiveness ←CG			13.011	.973	.547		
Fairness ←CG			10.531	.701	.461		
ISO 26000 ←CG			10.019	.799	.576		
CSR←CG			10.560	.752	.458		
Integrity←CG			10.521	.890	.408		
Relationship between CG and BP							
Business Performance←CG			10.078	.850	.560		
Accountability←CG	H_{01d}	.033	------	.770	.500	x^2/df=2.992, GFI=.979, AGFI=.976, NFI=.975, RFI= .958, TLI=.980, CFI=.970, RMSEA=.047	Reject
Transparency←CG			10.288	.723	.574		
Effectiveness ←CG			16.718	.864	.319		
Responsiveness←CG			9.555	.814	.364		
Fairness ←CG			8.566	.755	.599		
ISO 26000←CG			10.552	.876	.487		
CSR←CG			……	.800	.462		
Integrity ←CG			11.671	.651	.540		
Financial Goal ←BP			……..	.826	.632		
Customer Goal←BP			10.172	.761	.521		
Relationship between CG and CR							
Corporate Reputation←CG			11.326	.861	.555		
Accountability ←CG			……..	.849	.558		
Transparency← CG	H_{01e}	.019	17.888	.827	.422	x^2/df=2.989, GFI=.976, AGFI=.966, NFI=.984, RFI= .975, TLI=.980, CFI=.991, RMSEA=.071	Reject
Effectiveness ← CG			11.543	.751	.502		
Responsiveness ← CG			10.826	.834	.629		
Fairness ← CG			9.890	.790	.643		
ISO 26000← CG			10.307	.881	.512		
CSR ← CG			……	.635	.499		
Integrity ← CG			7.602	.793	.533		
Ethical Aspects ←CR			------	.840	.534		
Social Aspects ← CR			13.335	.857	.560		
IntegratedRelationship between CG, CR and BP							
Accountability ← CG		.	…….	.890	.574		
Transparency ← CG			11.336	.752	.503		
Effectiveness ← CG			12.706	.851	.595		
Responsiveness ← CG			11.239	.884	.470		
Fairness ← CG	H_{02a}	.024	9.367	.744	.549	x^2/df=2.889, GFI=.969, AGFI=.979, NFI=.972, RFI= .969, TLI=.976, CFI=.978, RMSEA=.050	Reject
ISO 26000 ← CG			9.120	.635	.435		
CSR ← CG			9.043	.833	.522		
Integrity ← CG			9.453	.707	.505		
Ethical Aspects ← CR			-----	.771	.559		
Social Aspects ← CR			9.549	.882	.578		
Corporate Reputation ← CG			-----	.899	.478		
Business Performance ← CG			11.679	.730	.502		
Business Performance ←Corporate Reputation			12.772	.898	.521		

Integrated Relationship between CG, CC, CEV, BP and CR							
Accountability ← CG	H_{02b}	.009	12.665	.852	.533	x^2/df=3.505, GFI=.970, AGFI=.975, NFI=.965, RFI= .968, TLI=.986, CFI=.993, RMSEA=.050	Reject
Transparency← CG			13.772	.856	.543		
Effectiveness ← CG			12.520	.788	.530		
Responsiveness ← CG			10.687	.851	.524		
Fairness ← CG			11.671	.766	.505		
ISO 26000 ← CG			9.998	.943	.564		
CSR ← CG			…….	.834	.502		
Integrity ← CG			7.429	.850	.567		
Corporate Ethical Values ← CG			-----	.890	.555		
Corporate Cultural Values ← CG			10.884	.788	.579		
Corporate Reputation← CG			13.678	.861	.530		
Business Performance ← CG			12.408	.842	.608		
Integrated Relationship between CG, CC and CEV							
CG←Corporate Ethical Values	$H0_{2c}$	0.043	------	.850	.552	x^2/df=2.350, GFI=.977, AGFI=.978, NFI=.973, RFI= .979, TLI=.979, CFI=.988, RMSEA=.050	Reject
CG←Corporate Culture			11.228	.892	.578		
Accountability ← CG			11.976	.880	.563		
Transparency ← CG			12.899	.755	.489		
Effectiveness ← CG			11.890	.862	.653		
Responsiveness ← CG			12.602	.737	.559		
Fairness ← CG			8.230	.890	.479		
ISO 26000 ← CG			11.772	.872	.655		
CSR ← CG			-------	.853	.554		
Integrity ← CG			13.989	.812	.455		
CEP ←CEV			11.456	.899	.509		
CPES ← CEV			10.878	.820	.558		

Source: Calculated

Conclusion and Policy Implications

India and Indians rooted with strong principles of ethics, Bhagwat Geeta, Vedas and virtue of Karma and similarly governance initiatives in the India appears to be driven from banking sector. Each nation banking sectors are the place where more risk involves, higher responsibility attached, more chances of losses or greater range of potential required. Similarly, financial and capital assets are allocated with banking system. The results indicated that the public, private and foreign sector banks implemented successfully principles of corporate governance in their business operations. As we have small capital market and the major responsibilities on Indian banks to keep the national savings safely. The process and principles followed by bank to manage the task denotes their governance style and this responsibility ultimately depend upon the banking regulators (RBI), supervisors (SEBI), officials (Government). The study further found that managers of selected banks believes that sometimes their bank sacrifices the roots of ethics and most of the time did not disclosed unethical behaviour of the members. Accordingly, the study recommended for the appointment of ethical officers (EO) in every bank branch, whose responsibility is to co-ordinate with ethical policies and protocols. The EO is also responsible for imparting ethical training within the banks, helping managers for the regulation of a disciplinary action that can be flawless from unethical morals.

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