CORPORATE GOVERNANCE AND PROFITABILITY OF SELECT COMMERCIAL BANKS

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Abstract

The present paper purports to assess the impact of corporate governance practices on profitability of the banks. It is fact that good corporate governance always reflects on enhancement of profitability, increase the confidence levels of investors, shareholders and stakeholders, creation of conducive investment environment which is dire need of the day. In order to understand the governance practices referred to in this study, a discussion on the important aspects of corporate governance practices and firm performance is required. A banking institution is indispensable to a modern society. It occupies an important place in a nation's economy and plays a pivotal role in the economic development of a country. It forms that core of the money market in an advanced country. To conclude Most of the existing governance framework is generally adequate and should remain intact. But the devil is in the details of implementation. A key priority is to increase the capacity of boards to oversee strategic risk taking and to accurately judge institutional performance. Improving board capacity will require upgrading the skills, experience, and leadership of nonexecutive directors and rebalancing the productive tension that should come with a high-performing board.

Key words: *corporate governance disclosure (CGD) Financial Performance, Private and Public banks, Return on assets, Return on equity.*

Introduction

The present Paper aims to assess the impact of corporate governance practices on profitability of the banks. It is fact that good corporate governance always reflects on enhancement of profitability, increase the confidence levels of investors, shareholders and stakeholders, creation of conducive investment environment which is dire need of the day. In order to understand the governance practices referred to in this study, a discussion on the important aspects of corporate governance practices and firm performance is required. Cadbury (1992) defined corporate governance as "the system by which companies are directed and controlled". It is concerned with the duties and responsibilities of a company's board of directors to successfully lead the company, and their relationship with its shareholders and other stakeholder groups (Pass 2004). It is also defined as a "process through which shareholders induce management to act in their interests, providing a degree of investor confidence that is necessary for the capital markets to function effectively" (Rezaee 2009).

In general, corporate governance is considered as having significant implications for the growth prospects of an economy, because proper corporate governance practices reduce risk for investors, attract investment capital and improve performance of Banks (Spanos 2005). In the Indian Banking sector, effective corporate governance is considered as ensuring corporate accountability, enhancing the reliability and quality of public financial information, therefore enhancing the integrity and efficiency of Banks, which in turn will improve investor confidence (Rezaee 2009). Managers and owners of banks showing efforts and intention to implement good corporate governance will increase market credibility. Subsequently, they will collect funds at lower cost and lower risk. It can be argued that better corporate governance will lead to higher performance. Some empirical evidences support this argument.

There are similarities and differences between type and structure of bank ownerships. Both type and structure of bank ownership explain the parties controlling the banks. They basically concern the major party which has more power to influence the policies and strategies of the bank. However, structure of bank ownership is more concerned about the shareholder proportion of control. (Eduardus Tandelilin, Hermeindito Kaaro, 2007).

In many developing economies, the issue of bank corporate governance is complicated by extensive political intervention in the operations of the banking system. This issue is related to government ownership of banks or state-owned bank and restrictions on foreign bank entry. State-owned firms, especially in banking sector, are commonly found in many developing countries (La Porta et al. 2002). This phenomenon refers to the economic history of each country, that both goods and financial markets have not been well established. Currently, many private-owned firms have good serving and financial market in almost all economic sectors. Hence, it leads to the recent practical and conceptual issue. The special nature of banking institutions necessitates a broad view of corporate governance where regulation of banking activities is required to protect depositors.

In developed economies, protection of depositors in a deregulated environment is typically provided by a system of prudential regulation, but in developing economies such protection is undermined by the lack of well-trained supervisors, inadequate disclosure requirements, the cost of raising bank capital and the presence of distributional cartels. Due to special nature of the activities carried on by the banks, they face a lot of problems as far as the area of corporate governance is concerned. Also, in the Indian scenario, due to the peculiar nature of bank holdings there are a lot of embedded conflicts. There exists a doubt as to what standard should be applied while enforcing corporate governance in banks. Central banks play an important role in this regard. The guidance paper issued by the Basel Committee is of paramount significance in enforcing corporate governance standards in various countries across the world.

As far as best corporate governance practices for banks are concerned, they may include realization that the times are changing, establishing an effective, capable and reliable board of directors, establishing a corporate code of ethics by the banks for themselves, considering establishing an office of the chairman of the board, having an effective and operating audit committee, compensation committee and nominating/ corporate governance committee in place, considering effective board compensation, disclosing the information and recognizing their duty to establish corporate governance procedures that will serve to enhance shareholder value.

The main reason for emerging economies to consider introducing corporate governance is their need to build investor confidence to attract foreign and local investment and expand trade (Abhayawansa & Johnson 2007). International donor agencies such as the IMF and World Bank as well as organizations such as the OECD indirectly influence developing countries to improve their corporate governance mechanisms and regulatory infrastructure (Athukorala & Reid 2002). The adoption of corporate governance was also stimulated by the belief that the economic crisis that hit the South East Asian stock markets in 1997-1998 was partly due to weak corporate governance in the region (Mobius 2002). This resulted in governance reforms in the emerging markets to restore investor confidence by providing a secure institutional platform on which to build an investment market (Monks & Minow 2004, p.305).

In India RBI has done some remarkable work in ensuring a clean and healthy banking system in the last couple of decades. The policy of Prompt Corrective Action' in particular is being increasingly seen as one of the possible reasons for the hearty performance of the Indian banking sector in the backdrop of recent worldwide meltdown. It continues to stress on growth with inclusion, urging the financial sector to focus on making their services more attractive and viable for the small customer, to continue adopting more cost-effective technology and practices that would very naturally lead to increase in its reach. (Mridushi Swarup. 2011).

Does Good Governance Influence Financial Performance?

Several studies focusing on developed and emerging markets have concluded that well governed companies have registered better performance in financial terms. Adoption of best practices in Governance has led to:

a) Improved access to external financing resulting in greater efficiencies due to greater knowledge of investors with regard to the company's strategies

b) Lower cost of capital

c) Improved operational performance through more efficient management and better asset allocation

d) Better financial performance and company valuation as seen in:

i. Improved Economic Value Added (EVA)

ii. Improved Profitability

iii. Higher Returns on Assets

This issue of corporate governance and its impact on the performance of the firm has not been researched well in the Indian context though abroad innumerable studies have been carried out on this subject. The Satyam episode and the resultant financial mismanagement which went against the interests of the investors and minority shareholders had triggered a serious debate on the lacuna in the shareholders' awareness of good governance practices and the deficiencies in the monitoring mechanisms of regulatory agencies with respect to compliance of the governance norms and provisions. Our focus on corporate governance and its relationship with the company's financial performance attempts to examine this oft debated issue of corporate governance its impact on the overall financial performance of the banks and in particular the returns to the minority shareholders . Effective implementation of corporate governance practices in a long term sustainable manner is expected to benefit all stakeholders including the controlling shareholders and would result in higher firm valuations in the long run.

Firm Performance

Firm performance is affected by corporate governance practices of firms, because their success or failure is dependent on the extent to which they are managed efficiently. Good corporate governance practices enhance firm performance through better management and prudent allocation of firms' resources. Earnings resulting from increased performance, contribute significantly to share prices. Therefore, good corporate governance practices can increase the demand for shares as well as increase the price of shares of a bank (Mobius 2002). Conversely, stakeholder views regard firm performance as being the total wealth generated by the firm before distribution to the various stakeholders rather than the accounting profit allocated to the shareholders (Riahi-Belkaoui 2003).

To evaluate performance, it is necessary to determine the constituents of good performance using performance indicators. To be useful, a performance indicator must be measurable, relevant and important to the performance of the organization. It must be meaningful and the cost of obtaining the information must not outweigh its value (Oakland 1989). There are many measures of firm performance. Financial measures of firm performance are used in empirical research on corporate governance. The financial firm performance measures in the study, namely, Return on Equity (ROE), Return on Assets (ROA) are considered as proxies for accounting returns. ROE is an accounting measure used to assess rates of return on shareholder equity and has been used in previous studies to measure firm performance (Epps & Cereola 2008; Leng 2004), whereas ROA which is also an accounting measure, is used to assess the efficiency of assets employed to measure firm performance in prior studies (Bonn, Yoshikawa & Phan 2004; Haniffa & Hudaib 2006). This compares the value of a company as given by financial markets with the value the company's Assets. (Tobin 1969).

Growth and Performance evaluation is an important pre-requisite for the development of an institution, be it commercial banking or any other. In the following pages an attempt has been made to analyse the growth and performance of the sample banks on the following important parameters: ROA, ROE, Deposits, Investments, Loans and Advances, Total Assets, Interest Income, Other Income, Total Income, Operating Expenditure, Total Expenditure, Total Profit, etc,.

Objectives of the study

1. To assess the impact of Corporate Governance on profitability of select Commercial Banks.

Research Methodology

The present study is based on the secondary data for analysis and to draw concrete inferences. The secondary data has been collected from various publications of the Reserve Bank of India, both audited and un-audited reports and other publications of the banks. This know measure impact of the Corporate Governance on profitability of select Commercial Banks, annual reports of select banks are collected and tabulated from 2002-2003 to 2011-2012. To analyse scientifically and interpret the collected data, financial tools and techniques and various statistical tools are applied wherever necessary.

Return on Assets

Return on assets (ROA) is a measure of performance widely used in the governance literature for accounting-based measures (Finkelstein & D'Aveni 1994; Kiel & Nicholson 2003; Weir & Laing 2001). It is a measure which assesses the efficiency of assets employed (Bonn, Yoshikawa & Phan 2004) and shows investors the earnings the firm has generated from its investment in capital assets (Epps & Cereola 2008). Efficient use of a firm's assets is best reflected by its rate of return on its assets. ROA is an indicator of short-term performance which is calculated as net income divided by total assets (Finkelstein & D'Aveni 1994). Since managers are responsible for the operation of the business and utilization of the firm's assets, ROA is a measure that allows users to assess how well a firm's corporate governance system is working in securing and motivating efficiency of the firm's management (Epps & Cereola 2008).

$$\text{ROA} = \frac{\text{Profit after tax}}{\text{Total Assets}}$$

Table 1 : Return on Assets of Sample banks

(As on March 31) (%)

Year	SBI	Andhra Bank	ICICI	HDFC
2002-03	0.86	1.63	1.13	1.52
2003-04	0.94	1.72	1.31	1.45
2004-05	0.99	1.59	1.48	1.47
2005-06	0.89	1.38	1.30	1.38
2006-07	0.84	1.31	1.09	1.33
2007-08	1.01	1.16	1.12	1.32
2008-09	1.04	1.09	0.98	1.28
2009-10	0.88	1.39	1.13	1.53
2010-11	0.71	1.36	1.35	1.58
2011-12	0.88	1.19	1.50	1.77
Mean	0.90	1.38	1.24	1.46
SD	0.10	0.21	0.17	0.15
CV	10.65	15.18	14.10	10.05
Linear growth rate	0.26	0.74*	0.10	0.39

Source: Various issues Statistical Tables Relating to Banks and Report on Trend and Progress of Banking in India, Indian Bankers Association Bulletins.

The Mean value of SBI (0.90) is lower than that of A.B, ICICI and HDFC. And its mean values are 1.38, 1.24 and 1.46 respectively. The CV (10.05) of HDFC is low. So the performance is good and also more consistent than that of other select banks. But the growth rate (0.39%) is not significant. It is found that the HDFC had high ROA than other sample banks. But Andhra Bank had better growth rate than other sample banks.

Return on Equity

Another important measure of firm performance used in corporate governance research is Return on Equity (ROE), which is also an accounting-based measure (Baysinger & Butler 1985; Dehaene, De Vuyst & Ooghe 2001). The primary aim of an organization's operation is to generate profits for the benefit of the investors. Therefore, return on equity is a measure that shows investors the profit generated from the money invested by the shareholders (Epps & Cereola 2008). It is defined as the net income divided by common equity.

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Capital + Reserves and Surpluses}}$$

Table.2 : Return on Equity (ROE) of Sample Banks

(As on March 31) (%)

Year	SBI	Andhra Bank	ICICI	HDFC
2002-03	45.22	67.71	35.30	17.27
2003-04	47.21	64.00	29.68	18.93
2004-05	45.66	54.06	22.91	14.73
2005-06	40.88	26.58	20.79	16.43
2006-07	31.95	29.50	23.82	17.74
2007-08	26.73	32.53	17.00	32.75
2008-09	30.92	35.32	18.01	35.35
2009-10	27.78	41.02	18.86	29.88
2010-11	38.99	37.17	16.42	30.44
2011-12	37.25	37.64	17.20	29.91
Mean	37.26	42.55	22.00	24.34
SD	7.59	14.37	6.20	7.95
CV	20.36	33.77	28.20	32.65
Linear growth rate	0.61*	0.63*	0.86*	0.79*

Source: Various issues Statistical Tables Relating to Banks and Report on Trends and Progress of Banking in India, Indian Bankers Association Bulletins.

The mean values of ROE of select public sector banks are 37.26% and 42.55%. Their performance is better than that of select private sector banks. The CV of SBI, AB, ICICI and HDFC are 20.36, 33.77, 28.20 and 32.65 respectively. The SBI CV result shows that consistent performance than others during the study period. The Linear growth rates of all select banks are statistically significant.

Table.3: Descriptive statistics

Variables	Public banks			Private banks		
	Min	Max	Mean	Min	Max	Mean
ROA	0.71	1.72	1.1430	0.98	1.77	1.3510
BOD	9.00	15.00	11.5500	9.00	19.00	13.0500
AUBOD	5.0	9.0	6.850	3.0	7.0	4.950
RIBOD	3.00	10.00	7.0000	3.00	7.00	4.4211
GBOD	3.00	9.00	5.7000	2.00	5.00	3.4500
ROE	26.58	67.71	39.9060	14.73	35.35	23.1710
NONEXE	6.00	12.00	8.9000	6.00	16.00	10.5000
TA	19852	1340000	330960	30425	474000	223060

Return on Assets

The mean value for ROA was 1.14%, with a minimum of 0.71% and a maximum of 1.72% for public sector sample banks. In private sector sample banks, the mean value was 1.35%, with a minimum of 0.98% and a maximum of 1.77%. Results report that the profitability is based on total assets. It is found that the private sample banks had higher ROA than Public sector sample banks.

Return on Equity

ROE averaged around 39.91% in public sector banks with a minimum value of 26.58% to a maximum value of 67.71%. The mean value of return on equity decreased in private sector banks to 23.17% with a minimum value 14.73 of % and a maximum value of 35.35%. Results of descriptive statistics show performance based on shareholders equity is better in public sector banks than in private sector banks.

Board of Directors

Board of Directors (BOD) as reported in descriptive statistics, varies significantly in Public and private sector banks in terms if size. The minimum size of a board reported in public sector sample banks was 9.0 and maximum size was 15. The minimum size of a board reported in Private sector was 9 and maximum size was 19. The average size of a board in Public and private sector banks was 11.55 and 13.05 respectively.

Non-Executive Directors

Board composition, which is the proportion of non-executive directors on the boards, shows that there is a variation in the percentage of non-executive directors on the boards in Sample banks. In Public sector banks, the number of non-executive directors ranged from a minimum mean of 6.0% to a maximum mean of 12.0%, and in private sector sample banks it ranged from a minimum mean of 6.0% to a maximum mean of 16.0% The mean of proportion of the non-executive directors on the boards was 8.90% in public sector and 10.50% in private sector banks, which shows that non executive directors proportion in the board was higher in private sector sample banks, than in public sector sample banks.

Total assets (TA)

Total assets (TA) of the companies in the sample shows a minimum value of 19852 Crores, a maximum value of 1340000 Crores and a mean value of 330960 Crores for Public Sector Banks. The minimum for Private Sector banks is 30425 Crores, the maximum is 474000 Crores and the mean value is 223060 Corers**.**

Table.4 : Correlation Matrix for Public banks

Variables	ROA	BOD	AUBOD	RBOD	GBOD	ROE	NON EXE	Total Assets
ROA	1							
BOD	.127	1						
AUBOD	-.054	.030	1					
RBOD	.461*	.322	.290	1				
GBOD	.297	.362	.253	.836**	1			
ROE	.529*	.070	-.098	.061	-.077	1		
NONEXE	.251	.902**	.032	.466*	.430	.039	1	
Total Assets	-.567**	.342	.031	-.201	.065	-.399	.218	1

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Correlation Matrix for Private Banks

Variables	ROA	BOD	AU BOD	RBOD	GBOD	ROE	NONEXE	Total Assets
ROA	**1**							
BOD	**.469***	**1**						
AUBOD	**-.158**	**-.541***	**1**					
RBOD	**.481***	**.541***	**-.051**	**1**				
GBOD	**.130**	**.636****	**-.582****	**.048**	**1**			
ROE	**.092**	**-.076**	**-.097**	**.356**	**-.319**	**1**		
NONEXE	**.438**	**.972****	**-.540***	**.474***	**.590****	**-.122**	**1**	
Total Assets	**-.210**	**-.717****	**.151**	**-.589****	**-.213**	**-.125**	**-.724****	**1**

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Table 6.4 presents Spearman’s correlation for all the variables in the study. It examined the association between the corporate governance variables and firm performance variables. Overall, the correlations were low for both public and private banks. But there are a number of statistically significant relationships.

The results suggested that Return on Assets correlation was significant with Risk Board of Directors, Return on Equity and Total Assets in select Public sector banks. But it is not significantly correlated with performance variables of Board of Directors, Audit committee Board of Directors, Grievance committee Board of Directors and Non-Executive Directors. On the other hand, but Return on Assets and Total Assets have negative association with significant result.

Return on Assets was significantly correlated with Board of Directors and Risk Board of Directors in select Private sector banks, suggesting that board independence is associated with Return on Assets. But it is not significantly correlated with total assets in select private sector banks.

Board of Directors is significantly correlated only with the Non-Executive Directors of the firm in select public sector banks, but it is not correlated with other select variables. Whereas in select Private Banks Board of Directors has significantly negative correlation with Audit committee Board of Directors, and Total Assets but it has positive association with Risk management Board of Directors, Grievance Board of Directors and Non Executive Directors.

The presence of Audit committee Board of Directors is not significantly correlated with select variables in the study in the public sector banks but it has significantly negative correlation with Grievance Board of Directors and Non Executive Directors in select private banks.

The presence of Risk Board of Directors significantly correlated with Grievance Board of Directors and Non Executive Directors but in case of Private sector banks it is significantly correlated with Grievance Board of Directors and Total assets. It is positive association with Grievance Board of Directors and negative association with Total assets.

Return on Equity, Non-Executive Directors and Total Assets does not have any association with select variables in public sector banks. In case of private banks Non-Executive Directors have significant negative association with Total Assets.

However in case of private sector sample banks correlation test results support firm performance. Based on Return on Assets are significantly correlated with Board of Directors, Risk management Board of directors and Non Executive directors. Hence there was Corporate Governance impact on firm performance, in private sector banks only

Deposits of Sample Banks

Deposits are the main resources for banks to carry on their lending operations. (S.N.Maheswari 2001).The RBI fixed the interest rates both on deposits and lending, until the deregulation of interest rates took place partially and in phased manner since October 1994. Banks make profit from the difference between the lending rates and the deposit rates. Beginning 1992, a progressive approach was adopted towards deregulating the interest rate structure on deposits. Since then, the rates have been freed gradually. Currently, the interest rates on deposits stand completely deregulated (with the exception of the savings bank deposit rate). The deregulation of interest rates has helped Indian banks to gain more control on the cost of their deposits, their main source of funding. Besides, it has given greater flexibility to them in managing their Asset-Liability positions. The entry of new generation banks has started showing its impact on the market share of public sector banks. The increase in deposits has been mainly due to economic development, deficit financing, increased currency, and expansion of banking facilities in the country. The table 6.5 presents details of the deposits of sample banks.

Table No 5 : Deposits of Sample Banks during 2002-2012

(As on March 31) (Amount in Crores)

Year	Public Sector Banks		Private Sector Banks	
	SBI	Andhra Bank	ICICI Bank	HDFC Bank
2002-2003	296123	21062	48169	22376
2003-2004	318619	22941	68109	30409
2004-2005	367048	27551	99819	36354
2005-2006	380046	33922	165083	55797
2006-2007	435521	41454	230510	68298
2007-2008	537404	49437	244431	100769
2008-2009	742073	59390	218347	142209
2009-2010	804116	77688	202016	167404
2010-2011	933933	92156	225602	208586
2011-2012	1043647	105851	255500	246707
Mean	585853	53145.2	175759	107891
SD	273519.27	29921.65	76600.14	79508.78
CV	46.69	56.30	43.58	73.69
Linear Growth Rate	97%*	97%*	86%*	97%*

Source: Various issues, Statistical Tables, relating to Banks and Report on Trend and Progress of Banking in India, Indian Bankers Association Bulletins.

The Mean value of SBI (585853%) is higher than the deposits of A.B, ICICI and HDFC. Andhra Bank has very low deposits as it show the mean value of 53145.2%. The C.V (73.94%) of HDFC shows inconsistency in deposits during the study period of 2002-12. Selected Public and private sector banks Linear Growth rate is statistically significant.

Basically, Deposits movement of a bank in a developing country depends on many factors. However, public sector banks are government owned and their performance is quite heavy. The growth of private sector banks is good and is being reflected in the movement of deposits. The trends reflect how investors accept the bank and corporate governance has indirect impact on the movement of Deposits.

The table 6.5 reveals Deposits movement of both private and public sector banks. It is quite clear that the Deposits of public sector banks are high when compared with those of the private sector banks. The SBI and HDFC banks registered growth in terms of Deposit movements. It is observed that the sample banks' deposits are gradually increasing. Among Public sector banks, in the year 2002-03 SBI deposits were Rs. 296123 Crores, and in the year 2011-12, the deposits of SBI had increased to 1043647 Crores. Andhra Bank deposits in the year 2002-03 were Rs.21062 Crores and in the year 2011-12 the bank deposits increased upto Rs. 105851, Crores. In HDFC bank the bank deposits in the year 2002-03 were Rs. 22376 Crores, in 2011-12 the bank deposits increased to Rs. 246707 Crores. The sample banks are ensuring good transparency and disclosures in terms of the bank's financial and non-financial information effectively for effective governance disclosure practices. And also the banks network and public faith also has influenced the deposits mobalisation of banks,

Investments of Sample Banks

Despite the large decline in the statutory liquidity ratio (SLR) in the 1990s, the sharp increase in investments by banks is reflective of their attempt to turn treasury operations into profit earners. The reduction in Cash Reserve Ratio (CRR) and improved inter-office adjustments in a substantially computerized and networked environment, inter alia, did free substantial amounts of bank resources, which enabled banks to concentrate on investment operations with greater vigor. (G.Ramathilagam.2005) Commercial bank's investments are of three types: a) Government of India securities; b) other approved securities; and c) non-approved securities. While the first two types are known as SLR securities, the third one is known as non-SLR securities. (L.M. Bhole. 2005). The below table 6.6 presents details of investments of sample banks.

Table No 6 : Investments of Sample Banks during 2002-2012

(As on March 31) (Amount in Crores)

Year	Public Sector Banks		Private Sector Banks	
	SBI	**Andhra Bank**	**ICICI Bank**	**HDFC Bank**
2002-2003	172348	10518	35462	13388
2003-2004	185676	10317	43436	19363
2004-2005	197098	10646	50487	19350
2005-2006	162534	11444	71547	28394
2006-2007	149149	14300	91258	30565
2007-2008	189501	14898	111454	49393
2008-2009	275954	16911	103058	58817
2009-2010	295785	20880	120892	58607
2010-2011	295600	24203	134686	70929
2011-2012	312197	29628	159560	97482
Mean	223584.2	16374.5	92184	44628.8
SD	63409.73	6600.75	41390.83	27119.65
CV	28.36	40.31	44.90	60.77
Growth Rate	84%*	94%*	99%*	96%*

Source: Various issues Statistical Tables Relating to Banks and Report on Trends and Progress of Banking in India, Indian Bankers Association Bulletins.

The mean value of SBI, A.B, ICICI and HDFC are 223584.2%, 16374.5%, 92184% and 44628.8% respectively. The SBI C.V value is 28.36%. So it has high investments with greater consistency than others. The HDFC S.D is 0.27% and C.V is 60.77%. So the investments are inconsistent during the study period. ICICI Investments Linear growth rate is very high (99%) and statistically significant. SBI investments growth rate is 84% and also statistically significant.

The table 6.6 reveals that investments movement of both private and public sector banks. It is quite clear that, investments of private sector banks are doing better than those of public sector banks. But in SBI investments consistence is there. In Private sector banks like ICICI, HDFC, investments growth is high. In the year 2002-03 the ICICI bank had investments to the time of Rs. 35462 Crores; it has increased upto Rs.159560 Crores, by the year 2011-12. At HDFC, in the year 2002-03, the bank investments were worth Rs. 13388, Crores, and they have increased up to Rs.97482 Crores by 2011-12. Public sector Andhra Bank is very much on the growth path as reflected from its investments movements. Private sector banks have concentrated more on speculative activities to get maximum profits than public sector banks. A greater investment in third-party information provision would certainly generate more information on which shareholder and supervisor governance arrangements could be predicated.

Increased investment either through the creation of new operating plants or through extensions of existing operations, mean top managers do appear to benefit from a very special form of company growth: a large and very well paid white-collar staff.

Loans /Advances of sample banks

Commercial Banks have introduced many innovative schemes for the disbursement of credit, such as village adoption, agriculture development branches, and equity fund for small units. Recently, most of them have introduced attractive educational loan schemes for pursuing studies at home or abroad. They provide mainly short-term credit for financing working capital needs although, as will be seen subsequently, their term loans have increased over the years. The various types of advances provided by them are: a) loans b) cash credit, c) overdrafts, d) demand loans, e) purchasing and discounting of commercial bills, and f) installment and hire-purchase credit. The credit of Indian commercial banks has been increasing significantly over the years. The below table 6.3 presents details of that loans/advances of sample banks.

Table No 7 : Loans/Advances of Sample Banks during 2002-2012

(As on March 31) (Amount in Crores)

Year	Public Sector Banks		Private Sector Banks	
	SBI	Andhra Bank	ICICI Bank	HDFC Bank
2002-2003	137758	11513	53279	11755
2003-2004	157934	12885	62648	17745
2004-2005	202374	17517	91405	25566
2005-2006	261642	22100	146163	35061
2006-2007	337336	27889	195866	46945
2007-2008	416768	34238	225616	63426
2008-2009	542503	44139	218310	98883
2009-2010	631914	56113	181205	125830
2010-2011	756719	71435	216365	159982
2011-2012	867578	83641	253727	195420
Mean	431252.6	38147	164458	78061.3
SD	258193.58	25138.78	72240.38	64136.35
CV	59.87	65.90	43.93	82.16
Growth Rate	98%*	97%*	91%*	96%*

Source: Various issues Statistical Tables Relating to Banks and Report on Trend and Progress of Banking in India, Indian Bankers Association Bulletins.

The advances of select public sector banks have continuously been increasing during the study period from 2002-03 to 2011-12. HDFC bank also shows the same trend but the ICICI advances show continuous increases from 2002-02 to 2007-08.Later it decreases and again it shows the increasing trend only. The SBI has high (431252.6%) mean and A.B has low mean (38147%). The C.V (82.16%) is inconsistent with low mean (0.78%). The Linear growth rates of SBI, AB, ICICI and HDFC are 98%, 97%, 91% and 96% respectively.

The table 6.7 reveals advances movement of both private and public sector banks. It is quite clear that the advances of public sector banks are doing better than those of private sector banks. The advances of SBI in the year 2002-03 had amounted to Rs. 137758, Crores, and they increased by the year of 2011-12, Rs. 867578, Crores. At AB in the year 2002-03 the bank had advances of Rs. 11513, Crores, and they increased to Rs. 83641 Crores in 2011-12. In Public sector, SBI and Andhra Bank, and in Private sector banks like HDFC, are very much on growth path as reflected from their advances movements. The reason behind the high advance/Loans in public sector is the public sector banks are over linked with the Government of India in the aspect of social activities.

As the credit quality of loans decreases, so the amount of [required] risk-weighted assets and, therefore, [required] capital increases … as a bank writes off its trading assets, so its profits will diminish and, therefore, the amount of capital it generates will diminish and, if that is at the same time, as it is at the moment, as its risk weighted assets are rising because credit quality falling.

In particular, and given the fact that the choice on the size and composition of bank boards may be made on the basis of better risk management, we are very much interested to control for credit risk when evaluating the impact of board size and composition on bank performance.

Table No 8 : Total Assets of Sample Banks during 2002-2012

(As on March 31) (Amount in Crores)

Year	Public Sector Banks		Private Sector Banks	
	SBI	Andhra Bank	ICICI Bank	HDFC Bank
2002-2003	21456	19852	106812	30425
2003-2004	29874	25149	125228	42307
2004-2005	39765	32728	167659	51429
2005-2006	47643	40669	251389	73506

2006-2007	566565	47540	344658	91235
2007-2008	721526	56592	399795	133176
2008-2009	964432	68469	379300	183270
2009-2010	1053413	90342	363399	222458
2010-2011	1223736	108900	406233	277352
2011-2012	1335519	124964	473647	337909
Mean	600392.9	61520.5	301812	144307
SD	533649.08	36042.48	129705.32	106854.60
CV	88.88	58.59	42.98	74.05
Growth Rate	97%*	97%*	95%*	97%*

Source: Various issues Statistical Tables Relating to Banks and Report on Trend and Progress of Banking in India, Indian Bankers Association Bulletins.

Total assets of select banks are continuously increasing except those of ICICI during the study period. The mean value of SBI is high 600392.9% and A.B has low (61520.5%) mean value. The C.V is 88.88% and 74.05% shows high inconsistency in SBI and HDFC. The growth rate is same (97%) in SBI, AB and HDFC. ICICI has 95% significant growth.

Interest income

Interest income from core activities including loans and advances and investments in outstanding terms are the dominant components, accounting for more than 80 per cent of the total income of banks.

Table No 9 : Interest Income of Sample Banks during 2002-2012

(As on March 31) (Amount in Crores)

Year	Public Sector Banks		Private Sector Banks	
	SBI	Andhra Bank	ICICI Bank	HDFC Bank
2002-2003	31087	2195	9368	2022
2003-2004	30460	2227	9002	2549
2004-2005	32428	2282	9410	3093
2005-2006	35796	2674	13784	4475
2006-2007	37242	3315	21996	6648
2007-2008	48950	4209	30788	10115
2008-2009	63788	5374	31092	16332
2009-2010	70993	6372	25706	16172
2010-2011	81394	8291	25974	19928
2011-2012	106521	11339	33542	27286
Mean	53865.90	4827.80	21066.20	10862.00
SD	25981.79	3065.21	9823.13	8671.64
CV	48.23	63.49	46.63	79.83
Growth Rate	94%*	92%*	89%*	96%*

Source: Various issues Statistical Tables Relating to Banks and Report on Trend and Progress of Banking in India, Indian Bankers Association Bulletins.

The SBI is earning more interest followed by ICICI, HDFC and A.B, as the mean value shows 53865.90%, 21066.20%, 10862.00% and 4827.80% respectively. And the HDFC and A.B show inconsistency in the interest earnings. The Linear Growth Rate of all selected banks earning interest is statistically significant. HDFC Linear growth rate is high (96%) and ICICI Linear growth rate is low (89%).

Other Income of Sample Banks

Non-Interest Income (other income) is earned by banks through rendering ancillary services like issue of drafts, mail transfers, and telegraphic transfers for remittance of funds, realization of cheques, providing safe deposit lockers etc. The income from commission, exchange and brokerage is classified as 'other income'. It comprises a secondary component of total income of banks. To improve the profitability position of a bank, it has to concentrate on non-interest items.

Table No 10 : Other Income of Sample Banks during 2002-2012

(As on March 31) (Amount in Crores)

Year	Public Sector Banks		Private Sector Banks	
	SBI	Andhra Bank	ICICI Bank	HDFC Bank
2002-2003	5740	604	3159	466
2003-2004	7612	678	3065	480
2004-2005	7120	753	3416	651
2005-2006	7389	458	4983	1123
2006-2007	6765	447	6928	1516
2007-2008	8694	626	8810	2283
2008-2009	12690	765	7603	3290
2009-2010	14968	964	7477	3983
2010-2011	15824	897	6647	4335
2011-2012	14351	859	7502	5243
Mean	10115.30	705.10	5959.00	2337.00
SD	3883.97	175.85	2122.97	1763.73
CV	38.40	24.94	35.63	75.47
Growth Rate	91%*	62%*	81%*	98%*

Source: Various issues Statistical Tables Relating to Banks and Report on Trend and Progress of Banking in India, Indian Bankers Association Bulletins.

The selected public sector banks have more other incomes than private sector banks. The SBI, AB and ICICI, Coefficient of variation is 38.40%, 24.94% and 35.63% respectively. It shows consistency in other incomes. The SBI has more other incomes than others because the mean value is 10115.30% followed by ICICI, HDFC and AB.HDFC has more growth rate (98%) and AB has very low (62%) linear growth rate.

Table No 6.11 : Total Income of Sample Banks during 2002-2012

(As on March 31) (Amount in Crores)

Year	Public Sector Banks		Private Sector Banks	
	SBI	Andhra Bank	ICICI Bank	HDFC Bank
2002-2003	13997	2799	12526	2496
2003-2004	24678	2904	11958	3028
2004-2005	31890	3035	12825	3744
2005-2006	39253	3066	18766	5599
2006-2007	44007	3762	28921	8164
2007-2008	57645	4871	39597	12398
2008-2009	76479	6139	38696	19622
2009-2010	85962	7337	33184	20155
2010-2011	97218	9188	32620	24263
2011-2012	120872	12198	410454	32530

Mean	59200.10	5529.90	63954.70	13199.90
SD	34762.07	3191.83	122226.55	10418.43
CV	58.72	57.72	191.11	78.93
Growth Rate	99%*	92%*	59%*	96%*

Source: Various issues Statistical Tables Relating to Banks and Report on Trend and Progress of Banking in India, Indian Bankers Association Bulletins.

The ICICI bank has high (63954.70) mean value and SBI has low (59200.10) mean value. So ICICI bank has high total income with inconsistency. The HDFC total income is also inconsistent as the C.V shows 78.93%. The Linear growth rate of SBI total income is 99% and that of ICICI is 59%.

Operating Expenses of Sample Banks

Operating Expenses comprise broadly wage expenses and non-wage (other) expenses. The largest expense item in a commercial bank is salaries and allowances of officers and employees. In this category of expenditure are included salaries, allowances and other benefits, such as provident funds, bonus, etc. The importance of this category of expenditure to banking or to any other industry depends upon the number of persons it employs for efficient operations and on the wage rate. In a service industry like banking, it is obvious that this expenses item would increase because most of the services offered by it are of a personal nature, performance of which calls for the use of individuals rather than of machines. Other items of expenditure are rent, taxes, establishment expenses, advertisement, insurance, postage, telegrams, stamps and stationery, directors' fees and allowances and legal charges. (RBI, Report 2003-04)

Table No 12 : Operating Expenses of Sample Banks during 2002-2012

(As on March 31) (Amount in Crores)

Year	Public Sector Banks		Private Sector Banks	
	SBI	Andhra Bank	ICICI Bank	HDFC Bank
2002-2003	7942	602	2012	577
2003-2004	9245	658	2571	810
2004-2005	10074	829	3299	1085
2005-2006	11725	858	4480	1691
2006-2007	11824	933	6691	2421
2007-2008	12608	909	8154	3745
2008-2009	15648	1104	7045	5532
2009-2010	20318	1349	5859	5939
2010-2011	23015	1704	6617	7152
2011-2012	26069	1804	7850	8590
Mean	14846.80	1075.00	5457.80	3754.20
SD	6226.86	415.79	2220.12	2882.63
CV	41.94	38.68	40.68	76.78
Growth Rate	95%*	95%*	85%*	98%*

Source: Various issues Statistical Tables Relating to Banks and Report on Trend and Progress of Banking in India, Indian Bankers Association Bulletins.

The SBI bank has more operating expenses as its mean value is 14846.80. The Andhra Bank mean value is 1075.00 and ICICI, HDFC mean values are 5457.80 and 3754.20 respectively. The HDFC, C V is 76.78%. It shows inconsistency. The Operating Expenses of both public and private banks linear growth rate is statistically significant.

Table No 13 : Total Profit of Sample Banks during 2002-2012

(As on March 31) (Amount in Crores)

Year	Public Sector Banks		Private Sector Banks	
	SBI	Andhra Bank	ICICI Bank	HDFC Bank
2002-2003	1307	530	1206	2108
2003-2004	1827	570	1637	2519
2004-2005	2411	595	2005	3079
2005-2006	3277	560	2728	4728
2006-2007	4544	614	3404	7022
2007-2008	6729	651	5156	10807
2008-2009	9121	729	6194	17378
2009-2010	9166	1198	6835	17319
2010-2011	8264	1467	8615	20336
2011-2012	11713	1637	11483	27362
Mean	5835.90	855.10	4926.30	26565.80
SD	3646.07	416.44	3370.52	51233.77
CV	62.48	48.70	68.42	192.86
Growth Rate	97%*	87%*	97%*	44%

Source: Various issues Statistical Tables Relating to Banks and Report on Trend and Progress of Banking in India, Indian Bankers Association Bulletins.

The ICICI bank has earned more profit than other selected banks because the mean value is 26565.80 with inconsistency as the C V shows 192.86%. But the linear growth rate is 44% only and it is not significant. The AB has very less profits only as its mean value is 855.10. Except HDFC remaining banks have significant growth rate.

Total Expenditure of Sample Banks

Banking is a highly personalized service industry. The expenses of commercial banks are, to a large extent, fixed, particularly in the short run. Generally, bank expenditure may be divided into three broad groups: i) interest on deposits; ii) salaries, allowances, provident fund and bonus; and iii) other expenses, including stationery, depreciation and repairs and other overheads, etc.

Table No 6.14 : Total Expenditure of Sample Banks during 2002-2012

(As on March 31) (Amount in Crores)

Year	Public Sector Banks		Private Sector Banks	
	SBI	Andhra Bank	ICICI Bank	HDFC Bank
2002-2003	17598	2395	12526	2108
2003-2004	19987	2441	11958	2519
2004-2005	25813	2513	12826	3079
2005-2006	31789	2645	16227	4728
2006-2007	39466	3222	25813	7022
2007-2008	50916	4294	35441	10807
2008-2009	67357	5485	34938	17378
2009-2010	76796	6290	29159	17031
2010-2011	88954	7920	27470	20336
2011-2012	109165	1219	34580	27362
Mean	52784.10	3842.40	24093.80	11237.00
SD	31515.10	2109.42	9810.81	8821.08
CV	59.71	54.90	40.72	78.50
Growth Rate	98%*	49%	85%*	96%*

Source: Various issues Statistical Tables Relating to Banks and Report on Trend and Progress of Banking in India, Indian Bankers Association Bulletins.

The SBI has more expenditure followed by ICIC, HDFC and A.B. The C.V value for HDFC is 78.50%. So it is inconsistent in total expenditure during the study period. The Linear Growth Rate of AB is 49%. It is lower than those others. The SBI growth rate is 98%. It is higher than that of others. HDFC growth rate is 96% and ICICI growth rate is 85%.

Conclusion

Corporate governance is a mechanism to enhance corporate performance, shareholders' confidence and wealth maximization to the shareholders. In this context it is a dire need to strengthen corporate governance mechanism and corporate variables as well by following sound corporate governance policies and guidelines which are in vogue in the world. Most of the existing governance framework is generally adequate and should remain intact. But the devil is in the details of implementation. A key priority is to increase the capacity of boards to oversee strategic risk taking and to accurately judge institutional performance. Improving board capacity will require upgrading the skills, experience, and leadership of nonexecutive directors and rebalancing the productive tension that should come with a high-performing board. The current environment for corporate governance in many countries can be described as co-regulatory, where there is a mix of principles and mandatory requirements. There are strong incentives to continue this stance worldwide as increasing globalization of capital markets sees a growing recognition and desire to achieve uniformity and harmonization in the areas of auditing and good principles of corporate governance in banking institutions.

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