

# CORPORATE GOVERNANCE PRACTICES IN SELECTED INDIAN FINANCIAL INSTITUTIONS

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## ABSTRACT

It has been realized that Corporate Governance is vital for better management of any organization. Financial reporting and disclosure of any information are the key factors of corporate governance. Financial Institutions are no exceptions and there has been increasing demand for transparency in functioning of these Institutions in view of several scams.

In this paper a modest effort is made to discuss the reporting pattern of India's twelve financial institutions namely SBI, IDBI, SIDBI, IFCI, NABARD, PNB, UBI, BOB, BOI, KMB, NHB and HDFC. Top Six commercial banks namely (SBI, BOB, PNB, KMB UBI & BOI), six development banks viz. SIDBI, IFCI, HFDC, IDBI, NHB, and NABARD are selected under study. The rationale for selection of these institutes is that being incorporated organizations, they should have same Corporate Governance standards. In view of transparency in functioning, the role of different Committees has a vital role to play. Six parameters have been chosen for comparison of various corporate governance practices in all these twelve financial institutions namely, Company's philosophy on Corporate Governance, Formation of Board of Directors, Composition of Board of Directors, Particulars of Director's, Organizational Committees, and Additional Information supplied in CG report or in the Annual report.

## JEL CLASSIFICATION & KEYWORDS

■ G30 ■ OECD ■ CACG ■ Board of directors ■ Corporate governance ■ Transparency ■ Financial institutions

## INTRODUCTION

Indian economy itself is in the take-off stage with the growth rates averaging in excess of 8% for the last two decades, a stock market that has risen over three fold in as many years and a steady inflow of foreign investment. The long term sustainability of the Indian economy 'success' story depends critically on the state of corporate governance in the country.

The Indian legal system is built on English common Law and provides one of the highest levels of investor protection in the world. India has a Shareholder Rights Index of 5 (out of a maximum possible of 6), the highest in the rankings presented by Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Rob Vishny (1998) in terms of Creditors Rights, the Indian legal system also seems to provide excellent protection for lenders, according to the La Porta, et al (1998) metric. On the corruption dimension, India has been ranked 72<sup>nd</sup> out of 180 countries in the Corruption Index 2007, Published by Transparency International. Red tape and regulations are among the main draw backs for business and foreign investment in India, leading to its latest ranking of 120 out of 178 in the 'World Bank's Doing Business 2008' publication. It also gives India an Investor Protection Score of 6, ahead of each of the other BRIC (Brazil, Russia, India, and China) countries. In comparing the regulatory powers and performance of the SEBI with those of Securities and Exchange Commission in the US, Suchismita Bose concludes that while the scope of Indian securities laws are quite pervasive, there are significant problems in enforcing compliance, particularly in areas like Price manipulation and insider trading.

Economic growth and development of any country depends upon a well-knit financial system. Indian Financial Institutions are enriched with the presence of both banking and non-banking financial institutions namely Commercial Banks, Co-operative Banks, RRB's, Development Banks, Insurance and Investment Institutions including Non-Banking Financial Institutions. In fact, Indian Financial system is strong, broad based, diversified and also reached in the stage of 'take off'.

Ensuring effective governance in financial sector is sine qua non for any economy's growth and development. It assumes more significance because of its greater dominance as well as the magnitude of repercussions on the economy, in case of their failure. Special emphasis is given to this sector because of the unique character of financial intermediaries and the added complexity of standard governance problems among financial institutions. The banking sector in general, is highly sensitized to public scrutiny and is more vulnerable to the risk of attracting adverse publicity through failings in governance and stakeholder relationships. It is a special sub-set of CG with much of its management obligations enshrined in law or regulatory codes. In the light of the above statement governance issues in banks, more particularly in PSBs are assumed immense significance, but unfortunately these are less discussed and deliberated.

## Corporate governance on international perspectives

The real genesis of the corporate governance lies in the business scams and failures. The Junk Bond Fiasco in USA and the failure of Maxwell, BCCI and Polypeck in UK resulted in the Treadway Committee in USA and the Cadbury Committee in UK on corporate governance. A number of committees were set up to look into various aspects of corporate governance, which included Sir Adrian

Table: International scenario: at a glance		
Year	Name of Committee/Body	Areas/Aspects Covered
1992	Sir Adrian Cadbury Committee, UK	Financial Aspects of Corporate Governance
1994	Mervyn E. King's Committee, South Africa	Corporate Governance
1995	Greenbury Committee, UK	Directors' Remuneration
1998	Hampel Committee, UK	Combine Code of Best Practices
1999	Blue Ribbon Committee, US	Improving the Effectiveness of Corporate Audit Committees
1999	OECD	Principles of Corporate Governance
1999	CACG	Principles for Corporate Governance in Commonwealth
2003	Derek Higgs Committee, UK	Review of role of effectiveness of Non-executive Directors
2003	ASX Corporate Governance Council, Australia	Principles of Good Corporate Governance and Best Practice Recommendations

Source: Economic India info services, cited from 'The regulatory norms of corporate governance in India'

Cadbury Committee (1992), Greenbury Committee (1995), Hampel Committee (1998), Blue Ribbon Committee (1999), OECD Principles of Corporate Governance (1999) etc. across the globe.

#### Corporate governance on Indian perspectives

Corporate governance in India is evident from the various legal and regulatory frameworks and Committees set relating to corporate functioning comprising of the following:

- Companies Act, 1956,
- Monopolies and Restrictive Trade Practices Act, 1969 (replaced by new Competition Law),
- Foreign Exchange Management Act, 2000,
- Securities and Exchange Board of India Act, 1992,
- Securities Contract Regulation Act, 1956,
- The Depositories Act, 1996,
- Arbitration and Conciliation Act, 1996,
- SEBI Code on Corporate Governance,
- CII Code of desirable corporate governance (1998),
- UTI code of governance (1999),
- Kumar Mangalam Birla Committee on Corporate Governance (2000),
- Naresh Chandra Committee (2002),
- N.R. Narayanamurthy Committee (SEBI-2003).

One of the sweeping changes in Indian legislation was the introduction of clause 49 of the Standard Listing Agreement by SEBI incorporating most of the suggestions of the Kumar Mangalam Birla Committee's report. This was followed by the constitution of N.R. Narayanamurthy Committee by SEBI in 2002 to further analyze clause 49 of the standard listing agreement that has been amended with the recommendations of the committee's report. Recent amendments to Clause 49 of the Listing Agreement SEBI have announced a complete revision of clause 49 in the listing agreement of stock exchanges vide circular dated October 29, 2004. This circular supersedes all other earlier circulars issued by SEBI on clause 49 of the Listing Agreement. SEBI has further extended the date for ensuring compliance with the revised clause 49 up to December 31, 2005 vide circular no. SEBI/CFD/DIL/CG/1/2005/29/3 dated March 29, 2005.

#### Corporate governance in Indian public financial institutions

In India, the public sector banks are functioning with a safe wall around them provided by government ownership. The perception of the government owing the liability of bank failure prevails and attention to know the strength does not receive importance. Government being the controlling shareholder yields special influence on governance of public financial institutions as it selects almost all directors in the case of unlisted public financial institutions. On the contrary, being a government organization, their operations are regulated by rules and procedures prescribed by Ministry of Finance and by RBI, hence board does not have any scope to exercise its powers.

Government ownership is one of the primary issues that can have a direct impact on the quality of corporate Governance. In public sector banks, the rights of the private shareholders are considerably curtailed as their approval is not required for paying dividend or formalizing the annual accounts. Several issues pertaining to the composition of the board has also plagued the Corporate Governance framework. These issues relate to the appointment of directors, fixing of remuneration, professional qualification required etc.

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The objective of the government as the major stakeholder of the public sector banks has been to balance the constraints imposed by its accountability to parliament on behalf of these institutions, with the statutory mandate to nominate the board of these institutions in such a manner as to ensure effective management.

#### Policy framework of corporate governance in Indian banking

The global policy formulation on this issue can be traced to the industrialized countries. Blue Ribbon Commission of US, Cadbury Committee from UK, and many stock exchanges around the world started flouting governance principles and the World Bank and OECD tried to give all the principles in a comprehensive framework. India started its ground work for CG principle implementation after many years of the implementation of Codes of Best Practices developed the Cadbury Committee, 1991. Considerable attention has been given to CG in India in recent years. In addition to the Advisory Group chaired by Dr. R.H. Patil (RBI, 2001) and Consultative Group of Directors of Banks/ Financial Institutions (Ganguly Group, RBI, 2002), several official Committees have already gone into the issues relating to CG and have given their Reports. These include the Committee chaired by Shri Kumar Mangalam Birla (SEBI, 1999), the Task Force on Corporate Excellence through Governance (GOI, 2000), Naresh Chandra Committee on Corporate Audit and Governance (SEBI, 2002), Naresh Chandra Committee-II on Regulation of Private Companies and Partnership (GOI, 2003) and Narayana Murthy Committee on Corporate Governance (SEBI, 2003). Malegam Committee has gone into disclosure norms for offer documents (SEBI, 2004) that would also contribute towards improving CG in the country. Preceding these official committees, the industry association, CII, had itself provided a Code in 1998 /2009. Governance principle formulation exclusively for banking came little late. Although some regulations were issued by the Basel Committee on Banking Supervision (BCBS) way back in 1988, these were not considered as exclusive CG principles. The Basel banking regulations issued in 1999, however, brought an array of principles over a broad spectrum of banking activities. The OECD principles also tried to fulfill some of the requirements of banking industry. Keeping in view the widely accepted Basel recommendations in the background many countries framed their own set of governance principles for their banking industries. For Indian banking, the RBI has taken the sole responsibility of framing policy in this regard.

#### Scope of the study

The scope of this study is confined with Governance procedures followed by Indian Public Financial Institutions namely SBI, IDBI, SIDBI, IFCI, NABARD, PNB, UBI, BOB, BOI, KMB, NHB and HDFC. Top six commercial banks namely SBI, BOB, PNB, KMB UBI & BOI, six developments banks viz. SIDBI, IFCI, HFDC, IDBI, NHB, and NABARD as our study area. The rationale for selection of these institutions is that being incorporated organisations; they should have same Corporate Governance standards. These twelve institutions have been compared on the basis of company's philosophy on corporate governance, requirement and number of Director's on Board, various committees formed for effective Corporate Governance.

#### Objective of the study

The basic objectives of this study are as follows:

- To compare the corporate governance practices in various commercial banks,

Table: Indian scenario: at a glance		
YEAR	Name of Committee / Body	Areas / Aspects Covered
1998	Confederation of Indian Industry (CII) - Desirable Corporate Governance – A Code	Protection of Investor Interest, Promotion of transparency, Building International standards in terms of disclosure of information
May 1999	Report of the Committee (Kumar Manglam Birla) on Corporate Governance Governance (SEBI, May 7, 1999)	Responsibilities and Obligations of the board and the management in instituting the systems for good corporate governance. Disclosures to be made mandatory and to be published in the annual report.
November 2000	Report of the task force on Corporate Excellence through Governance	Corporate Governance in India: A status report
		Best Practices in Corporate Governance : An Indian and International Position Review
		Corporate Citizenship and Social Responsiveness
		Legislation, Regulation and Voluntary Initiatives : Recommendations relating to Corporate Governance matters
March 2001	RBI – Report of the advisory group on Corporate Governance: Standing Committee on International Financial Standards and Code	The comparison of the status of corporate governance in India vis - a vis the internationally recognized best standards.
April 2002	RBI – Report of the consultative Group of Directors of Banks/Financial Institutions	Supervisory Role of Board of Banks and Financial Institutions Feedback on the functioning of the boards vis – a –vis compliance, transparency, disclosures, audit committee etc.
December 2002	Report of the committee (Naresh Chandra) on Corporate Audit and Governance Committee	The statutory auditor company relationship, rotation of statutory audit firms/partners, procedure for appointment of auditors and determination of audit fees, true and fair statement of financial affairs of companies.
February 2003	N. R. Narayan Murthy – SEBI report on Corporate Governance	Audit Committees, Audit Reports, Independent Directors, Risk Management. Directorships and Financial Disclosures.
July 2003	Naresh Chandra Committee II: Report of the committee on regulation of private companies and partnerships	The companies Act, 1956, The Indian Partnership Act, 1932
November 2009	Recommendations for voluntary adoption , Report of the CII Task Force on CG, Chaired by Naresh Chandra	The report is structured according to the different elements of corporate governance: <ul style="list-style-type: none"> <li>· Non-executive and independent directors</li> <li>· Committees of the board</li> <li>· Significant related party transactions</li> <li>· Independence of Auditors</li> <li>· Rotation of Audit Partners</li> <li>· Legal and regulatory standards</li> <li>· Effective and credible enforcement</li> <li>· Institutional investors</li> <li>· Media</li> </ul>
December 2009	CG Voluntary Guidelines Ministry of Corporate Affairs, Government of India.	The report is structured according to the different elements of corporate governance: <ul style="list-style-type: none"> <li>Board of Directors</li> <li>Responsibilities of the Board</li> <li>Audit Committee of Board</li> <li>Auditors</li> <li>Secretarial Audit</li> <li>Institution of mechanism for Whistle Blowing</li> </ul>

Source: Economica India Info Services, Cited from 'The Regulatory Norms of Corporate Governance in India'

- to compare the corporate governance practices in various Indian public financial institutions,
- to know the company's philosophy on Corporate Governance in various financial institutions,
- to know the formation of Board of Directors,
- to analyze the composition of Board of Directors,
- to know the Particulars of Director's,
- to find out various organizational Committees.

#### Analysis of different parameters of corporate governance

Six parameters have been chosen for comparison of various corporate governance practices in SBI, IDBI, SIDBI, IFCI, NABARD, PNB, UBI, BOB, BOI, KMB, NHB and HDFC namely:

1. Company's philosophy on Corporate Governance
2. Formation of Board of Directors

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3. Composition of Board of Directors
4. Particulars of Director's
5. Committees
6. Additional Information

Company's philosophy on corporate governance

All the twelve financial institutions follow different philosophy on corporate governance. But all concentrate on basic philosophy of transparency and accountability. SBI has additional philosophy of integrity in communication technique. HDFC has assured its shareholders that there is well performing management to take care of their assets. Financial institutions like SBI, IDBI, PNB, KMB and NHB narrated corporate governance as means to protect the interest of shareholders/stakeholders. The financial institutions like BOB and BOI made a commitment to follow the best international practices and assure high disclosure standards and transparency. The details of

Name of the financial Institutions	Philosophy on Corporate Governance
1.SBI	The Bank believes that proper corporate governance facilitates effective management and control of business, which enables the Bank to maintain a high level of business ethics and to optimize the value for all its stakeholders.
2.IDBI	Long term enhancement of all stakeholders value and providing a transparent atmosphere in business dealings. The Bank's policies and practices are not only in line with the statutory requirement but also reflect its commitment to operate in the best interest of its stakeholders.
3.SIDBI	The bank has been following the tenets of business fairness transparency, accountability and responsibility.
4.IFCI	Corporate Governance is based on the principle of fairness, equity, transparency, accountability and dissemination of information. It believes in maintaining highest standards of Corporate Governance as a part of its legacy and constitution.
5.HDFC	Best board practices, transparent disclosures and shareholder empowerment are necessary for creating shareholder value. The philosophy on corporate governance is an important tool for shareholder protection and maximization of their long term values.
6.PNB	Corporate Governance is ensured by the Bank by adhering to high standards of accountability, transparency, social responsiveness, operational efficiencies, best ethical business practices for maximizing the shareholders' value and to protect the interest of all stakeholders besides complying with Regulatory requirement.
7.BOB	The Bank shall continue its endeavor to enhance its shareholders' value by protecting their interest by ensuring performance at all levels, and maximizing returns with optimal use of resources in its pursuit of excellence. The Bank believes in setting high standards of ethical values, transparency and a disciplined approach to achieve excellence in all its sphere of activities. The Bank is also committed to follow the best international practices.
8.BOI	Commitment to ethical practices in the conduct of its business, high disclosure standards and transparency and enhancement shareholders' value are the key of CG. The interrelation between the Board, the executives and other functionaries is so configured as to have distinctly demarcated roles and improved corporate performance.
9.UBI	Corporate governance stands for responsible and value creating management and control of the bank. It believes in high standard of ethical values, transparency and disciplined approach to achieve in all fields of activities.
10.KMB	The Bank believes in adopting and adhering to the best standards of corporate governance to all the stakeholders. Guiding principles of Cg includes i) Appropriate composition, size of the Board and commitment to adequately discharge its responsibilities and duties. ii) Transparency and independence in the functions of the Board.iii) Independent verification and assured integrity of financial reporting., iv) Adequate risk management and Internal Control, v) Protection of shareholders' rights and priority for investor relations., and vi) Timely and accurate disclosure on all matters concerning operations and performance of the Bank.
11.NHB	The Bank has committed to follow the best practices on corporate governance and has laid down emphasis on the cardinal values of fairness, transparency and accountability for performance at all levels in dealing with its stakeholders.
12.NABARD	Corporate Governance is mandatory and hence incorporated in the Annual Return.

Source: Author

philosophy of individual institutions are as categorically explained in Table 1.

It is observed that all the financial institutions under study have shows the same philosophy on CG on transparency, accountability and fairness for performance and enhancing the shareholder's value except SIDBI, UBI and NABARD who remains salient about that aspect of CG in enhancing shareholder's value. HDFC has taken special responsibility to take care of their assets and also emphasized on shareholder's empowerment. SBI emphasized on effective management and control of business through CG. Some financial institutions namely PNB, BOB and BOI also explain the philosophy of CG as the means to develop ethical values in banking business. The PNB also stress on implementing best practices in corporate governance as they believe in full transparency in all their business operations and policies, and Zero tolerance for any malpractices. Thus, PNB is ahead of others followed by HDFC and NABARD has lowers value for CG.

#### Formation of Board of Directors

Composition of Board of all the twelve financial institutions under study is constituted according to the Act under which these organisations are incorporated. The information disclosed under this category is compiled in Table 2. Financial institutions like BOB, BOI and NABARD is having 12 members each on its Board of Directors. The financial institutions like NHB, IFCI and HFDC has 11 members on its Board, while KMB has 9 members in its Board, UBI has only 7 members on its Board of Directors. The SBI and PNB

are the leader in the group under study having 13 members each on their Board of Directors.

#### Composition of Board of Directors

The composition of Executive Directors and Non-executive Directors along with the number of independent and nominee directors of all the selected financial institutions under study are shown in Table 3. All the twelve financial Institutions under study except SIDBI and NHB does not clearly mention in their Annual Report about the composition of executive, non-executive and independent directors which is against the recommendation of Ganguly Committee and Advisory Committee on Corporate Governance . SIDBI has 15 numbers of directors on its board but does not disclose the clear sub-division about the number of non-executive, executive and independent directors. Similarly, NHB have 11 numbers of directors on its Board but do not disclose the clear sub-division about the number of non-executive, executive and independent directors. IDBI has six independent directors out of 10 directors on the Board including 8 non-executive directors. IFCI has 9 numbers of non-executive directors out of 11 directors, but they do not disclose about the number of independent directors. SBI and PNB are the leaders in this study group in respect of appointing non-executive directors (10 non-executive directors out of 13 directors) but do not disclose the number of independent directors. HFDC has 9 non-executive directors out of its 11 directors and also disclose the number of independent directors (5 independent directors out of 11 directors). BOB and BOI have equal number of directors i.e. 12 directors on their Board and equal number of



Table 2: Formation of the board

Name of the Financial Institutions	Formation of the Board
1.SBI	A central Board of directors was constituted as per the provisions of the State Bank of India Act 1955. There are 16 members of Board, i.e. 1 Chairman of bank, 2 MD, and 10 other whole time directors. There are 4 directors nominated by shareholders, 5 nominated by Central Government and one nominated by RBI. However, there are 3 executive directors including the Chairman and 10 non-executive directors. Number of independent directors is not mentioned in the Annual report.
2.IDBI	Composition of Board of Directors is provided in IDBI Act 1964. At present there are 10 members on Board of which 2 are executive directors including Chairman and 8 Non Executive Directors and six Independent Directors.
3.SIDBI	The SIDBI Act provides for 15 members B.O.D. comprising Chairman, MD, 2 directors nominated by G.O.I., 4 elected by shareholders and rest are nominated by G.O.I. on behalf of various institutions.
4.IFCI	The Board of the Company governed by IFCI Act, consisted of 11 (eleven) Directors, out of whom 9 (nine) Directors were Non-Executive while one was Managing Director and Chief Executive Officer and one was Whole Time Director.
5.HDFC	The Composition of the Board of Directors of the Bank is governed by the Companies Act, 1956, the Banking Regulation Act, 1949 and the listing requirements of the Indian Stock Exchanges where the securities issued by the Bank are listed. The Board has strength of eleven (11) Directors. Out of which 3 are executive directors. The Bank has five independent directors and six non-independent directors.
6.PNB	The Board is constituted in accordance with Section 9(3) of Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 having 13 directors, of which 10 are non executive and 3 are executive. No mentions are found in the annual report about the number of independent directors. In the Board, there are 3 directors appointed by GOI, 3 directors appointed by Shareholder, one each as officer nominee, GOI nominee, RBI nominee and workmen nominee.
7.BOB	The composition of Board of Directors of the Bank is governed by the provisions of the Banking Regulation Act, 1949, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, as amended and the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970, as amended, There are 12 directors, of them 9 are non executive directors and 3 are executive directors including Chairman. In the Board, there are 3 directors nominated by GOI, 3 directors appointed by Shareholder, one each as officer- employee nominee and workmen-employee nominee.
8.BOI	The Bank is constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 as amended from time to time. The general superintendence, direction and management of the affairs and business of the Bank is vested in the Board of Directors presided over by the Chairman and Managing Director. There are 12 directors, of them 3 are executive directors and 5 are independent directors. In the Board, there are 3 directors appointed by Shareholder, one each as workmen employee nominee, GOI nominee, RBI nominee and non-workmen employee nominee.
9.UBI	The board has been constituted in accordance with sec 9 (3) of the Banking Cos (Acquisition and Transfer of undertaking) Act, 1970, and as per the central Govt Gazette Notification. There are 7 Directors in BOD, 2 executive directors, 5 non-executive and 1 independent director only
10.KMB	The composition of the Board of Directors of the Bank is governed by the Banking Regulation Act, 1949 and Clause 49 of the Listing Agreement. The Board of Directors, comprising a combination of executive and non executive Directors, presently consists of nine (9) members, of who six (6) are non-executive Directors. The Chairman of the Board is a non-executive Director and five out of nine Directors are independent.
11.NHB	The Board of Directors has been constituted in accordance with the provisions of the National Housing Bank Act, 1987 (Central Act No. 53 of 1987). The composition of eleven Directors includes four Independent Directors, two nominated by Reserve Bank of India, three officials of the Central Government, and two officials of the State Governments. In the Board, there are 2 directors appointed by RBI, 3 central Govt Officials and 2 State Govt Officials.
12.NABARD	The Board is governed by NABARD Act, 1982. There is clear bifurcation about mode of Board of Directors appointed, but no mention about the number of dependant and independent directors. There are total 12 Directors in the Board of them 4 are executive directors.

Source: Author

Table 3: Composition of Board of Directors

Name of the Financial Institutions	Composition of Board of Directors
1.SBI	3 executive directors and 10 non-executive directors =13
2.IDBI	2 executive directors and 8 non executive directors =10
3.SIDBI	15 directors
4.IFCI	2 executive directors and 9 non-executive directors =11
5.HDFC	3 executive directors and 9 non-executive directors =11
6.PNB	3 executive directors and 10 non-executive directors =13
7.BOB	3 executive directors and 9 non executive directors =12
8.BOI	3 executive directors and 9 non executive directors = 12
9.UBI	2 executive directors and 5 non executive directors =7
10.KMB	3 executive directors and 6 non –executive directors =9
11.NHB	11 directors
12.NABARD	4 executive directors and 8 non-executive directors=12

Source: Author

representation of non-executive directors but BOB does not disclose the number of independent directors on the Board. UBI and KMB have also mention the number of executive and non-executive directors and also having requisite number of independent directors. Further, the financial institutions like SIDBI, NHB and NABARD have disclosed the number of nominee directors on their Board. Lastly, KMB have appointed non-executive directors as its chairman of the Board and also fulfilled the regulatory norms regarding the appointment of at least half of the Board as independent directors (5 out of 9 as independent directors).

#### Particulars of director's

In this paper, the particulars of directors are studied under three distinct heads viz. information about the salary and sitting fees of directors, brief resume of directors and information about the attendance of directors in the Board / committee meetings. All these information are tabulated in the Table 4. SIDBI, UBI, NHB and NABARD do not disclose brief information about the salary and sitting fees of the directors. Except them all other financial institutions under study disclose the amount or provision relating to salary and sitting fees payable to non-executive directors. Some of the institutions also mentioned the government rules regarding the salary and perquisites to be paid to the directors/Managing directors and do not mention the exact amount to be paid to directors as salary and perquisites.

SBI mention only the brief resume of non-executive directors. KMB and HFDC mention the brief resume of all the existing directors in its Annual Report. IFCI, IDBI, and SIDBI do not disclose the brief resume of their directors. NABARD, PNB, BOB, BOI, UBI and NHB also does not disclose the brief resume of their existing directors but only newly appointed director's resume in mentioned in their Annual Reports.

It is also observed that almost all the selected financial institutions except SIDBI and NHB has disclosed the information about the names of director's, their directorship, Chairmanship, or membership in other company and other committees of the institution and also their attendance on the meetings either on Board or committee meetings. It is observed that in case of all most all financial institutions except HDFC, IFCI, BOB and UBI, the regulations in respect of directorship in other company or chairmanship in the other committee's of the institutions or membership in other committees of the institutions are not strictly followed. (See Table 6 - Point20, Multiple Board Seats). SBI mention all these information as a separate annexure while others (except SIDBI and NHB) disclosed the fact in the corporate governance report. Further, only NHB disclose the directorship and committee membership of board member but does not disclose their attendance on either board or committee meetings. SIDBI disclose only the total number of board meeting held during the year.

#### Committees

Cadbury Committee (UK-1992) has prescribed 3 committees namely Audit Committee, Remuneration Committee and Nomination Committee. In India, no statutory requirement is placed for the number of committees to be framed by any statutory organization except clause 49 of listing agreement (Birla Committee-1999) which mandates Audit Committee, Remuneration Committee and Shareholders Committee.

All the twelve financial institutions under study constituted a number of committees for Corporate Governance. The details of committees constituted by these institutions are depicted in the Table 5.

SBI has framed eight (8) committees except nomination committee. SIDBI constitutes seven (7) major committees except nomination committee, remuneration committee and shareholder's committee. IDBI constitutes eight (8) committees including all mandatory committees. HDFC does not constitute remuneration committee though they constituted nine (9) major committees. UBI has constituted eight (8) committees except nomination committee. BOI have also constituted three (3) committees except nomination and remuneration committees. Similarly, NHB and NABARD have also failed to constitute remuneration committee, nomination committee and shareholders committee. In fact, PNB has constituted the largest number of committees i.e. 16 committees followed by KMB which framed 14 committees and BOB constituted 10 committees and both of them fulfilled the regulatory norms regarding the formation of different committees.

#### Additional information

Comparison has been made on the additional information about AGM of Shareholders, Market Price Data, Distribution pattern of Shareholders, Address for Correspondence, Details of Dematerialization etc as disclosed in the corporate governance report and the Annual Report of these twelve financial Institutions under study and shown in the Table 6.

RBI instructed all the banks and financial institutions to include separate section on CG on their Annual Report. Most of the financial institutions under study made a separate section on CG in their Annual Report except BOI and NABARD. All most all the financial institutions under study except BOI, SIDBI and NABARD do not provide any separate section on the CG. But all of them either incorporated a separate section on CG in its Annual Report or included a paragraph about CG on its Director's report.

SIDBI, NHB and NABARD do not provide any particulars about Annual General Meeting or shareholder's information in the Report.

It is observed that those financial institutions are listed in the stock exchanges are disclosed the information about the market price of shares and shareholder's/ Stakeholders pattern. Information about details of dematerialization are disclosed by allotment all the financial institutions except SBI, SIDBI, KMB, NHB and NABARD. Further, information about the details of employee stock option is also incorporated by some financial institutions like IDBI, IFCI, HFDC and KMB. Except IFCI and HFDC, no financial institutions under study disclose the information about the system of review of Chairman on the functioning of different committees. This need to be considered as one of the positive aspects on good corporate governance practices of IFCI and HDFC.

All most all financial institutions under study except SIDBI, NHB and NABARD specifically mention the Director's Report and Auditor's compliance Report on CG and which are duly incorporated as one section in the Annual report. However, in the annual report of SIDBI, NHB and NABARD, the facts about CG is also articulated prudently in the Director's / Chairman's Report.

All the commercial Banking institutions including HDFC under study like SBI, KMB, PNB, BOB and BOI has disclose their maintenance of Basel II norms, while UBI is able to maintain the Basel III norms. Other financial institutions under study (except the earlier specified commercial banks) do not disclose the matter relating to Basel norms.

All the selected financial institutions under study have disclosed both the accounting policies and standards and

Name of the Financial Institutions	Particulars of Director's
1.SBI	1) Information about Salary & Perquisites paid to Chairman and Managing Director is given and Sitting Fees paid to other Directors is also mentioned. 2) Brief resume of only Non executive Director is given. 3) Table regarding number of directors attended the various board meetings is shown in annual report. Particulars of the directorships/memberships held by them in other Boards/Committees are presented in a separate Annexure.
2.IDBI	1) Information about Salary & Perquisites paid to CMD and DMD is given and Sitting Fees paid to other directors is not mentioned. 2) No brief Resume of Exec. & Non executive director is given. 3) Table regarding number of directors attended the various board meetings is shown along with Directorship and Committee Membership of board members.
3.SIDBI	1) No information about Salary & Perquisites paid to Chairman and Managing Director is given and Sitting Fees paid to Other Directors is also not mentioned. 2) No brief Resume of Exec. & Non executive director is given. 3) No Table regarding number of directors attended the various board meetings is shown and no information on Directorship and Committee Membership of board members is given. Total number of board meeting held is only given.
4.IFCI	1) Information about Salary & Perquisites paid to CMD is given and Sitting Fees paid to other Directors is also mentioned. 2) No brief Resume of Exec. & Non executive director is given. 3) Tables regarding the names of individual directors describing their category along with attendance particulars and Committee Membership of board members are given.
5.HDFC	1) Aggregate Salary & Perquisites paid to Executive Directors is given and Sitting fees paid to other Directors is mentioned. 2) Brief Resume of Exec. & Non executive director is given. 3) Tables for Attendance of individual members are shown according to various committees and Directorship & Committee Membership of board members is also given.
6.PNB	1) Information about salary and sitting fees of directors is given, 2) No brief Resume of Exec. & Non executive director is given but profile of newly appointed Directors is given, 3) Tables for attendance of directors in the meeting is given.
7.BOB	1) Information about salary and sitting fees of directors is given .2) No brief Resume of Exec. & Non executive director is given, only newly appointed directors profile is given, 3) Tables for Attendance of individual members are shown according to various committees and Directorship & Committee Membership of board members is also given.
8.BOI	1) Information about salary and sitting fees of directors is given, 2) Brief resume of newly appointed MD/Chairman is given, 3) Tables for Attendance of individual members are shown according to various committees and board meeting and Directorship & Committee Membership of board members is also given.
9.UBI	1) No information about salary and sitting fees of directors is given, 2) Brief resume of newly appointed director's are given, 3) Tables for Attendance of individual members are shown according to various committees and board meeting and Directorship & Committee Membership of board members is also given.
10.KMB	1) Information about salary, perquisites and sitting fees of directors is given, 2) Brief resume of director's are given, 3) Tables for Attendance of individual members are shown according to various committees and board meeting and Directorship & Committee Membership of board members is also given.
11.NHB	1) No information about salary and sitting fees paid to directors, 2) No brief resume of director's are given but profile of newly directors are given, 3) No information about attendance of individual members are shown according to various committees and board meeting and Directorship & Committee Membership of board members is also given.
12.NABARD	1) No information about salary and sitting fees of directors is given, 2) Brief resume of newly appointed director's are given, 3) Tables for Attendance of individual members are shown according to various committees and board meeting and Directorship & Committee Membership of board members is also given.

Source: Author

related party disclosure (AS 18). Every financial institution under study has also disclosed the total number of Board meeting held during the financial year except SIDBI, NHB and NABARD. SBI and KMB is the leading Bank in holding Board meeting (10 Board meetings). PNB conducted only three (3) Board meeting during the period of study which is against the regulatory norms regarding number of Board meeting.

Regarding the Multiple Board Seats, HDFC only declares that none of the members on board who are a member of more than ten committees and chairman of more than five committees. However, after due observation from the CG report and Director's report, it is seen that IFCI, BOI and UBI also maintains the due regulatory norms regarding Multiple Board Seats. SIDBI, NHB and NABARD do not disclose any information about multiple Board seats. Thus, it is concluded that HDFC is the only financial institutions under study which disclose another positive aspects of good governance.

Another non-mandatory requirement of CG is the Whistle Blower Policy which is duly maintained by all most all the financial institutions under study except SIDBI, IFCI, NHB and NABARD. In fine, only IFCI and UBI disclose the information about the names of directors who are seeking appointment/ reappointment as director/s on the Board,

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while other financial institutions under study fails to disclose these facts in their annual report. Lastly, all the financial institutions except SBI, SIDBI, IFCI, KMB, NHB and NABARD under study also mention the fact of external credit rating and some of them also accredited by some specialized external credit rating institutions (Domestic and overseas credit rating agencies). However, BOI and UBI is the voluntary member of BCSBI. BOB and PNB has also awarded with the CG rating.

#### Conclusion

Thus, it is observed that both HDFC and PNB are in the keen competition in maintaining best practices with regard to CG practices. The positive aspects of HDFC's CG practices includes Broad Corporate Governance philosophy, requisite and sufficient number of Board members with large representation of independent directors, and disclosure of information relating to profile of existing directors. Another positive aspect of HDFC governance practices is the declaration of multiple Board seats and it is claimed that 'none of the members on board who are a member of more than ten committees and chairman of more than five committees'. Moreover, HDFC supplies 19 additional information out of 21 queries which also signifies the best practices on CG from their end. Lastly, it is also reported

Name of the Financial Institutions	Organizational Committees
1.SBI	The Central Board has constituted Eight Committees of Directors, namely, (1) Executive Committee, (2) Audit Committee, (3) Shareholders'/Investors' Grievance Committee, (4) Risk Management Committee of the Board and (5) Special Committee of Directors for Monitoring Large Value Frauds (Rs.1 Crore and above) Meetings of the Central Board and the Committees, (6) Customer service committee, (7) Technology committee, (8) Remuneration Committee.
2.IDBI	The Board has in total eight committees, namely, i) Executive Committee, ii) Audit Committee, iii) Shareholder's/Investor's Grievance Committee, iv) Frauds Monitoring Committee, v) Risk Management Committee, vi) Customer Service Committee, vii) Information Technology Committee and viii) Remuneration Committee.
3.SIDBI	Seven major types of committees are framed by BOD's namely 1) Executive committee, 2) Audit Committee, 3) Central and Regional Credit committee, 4) Central and Regional settlement Committee, 5) Venture Capital Screening Committee 6) Asset Liability Management Committee and 7) Advisory Committees.
4.IFCI	Three committee are framed as per lines with code of corporate Governance by the BOD's of IFCI namely 1) Audit Committee, 2) Remuneration Committee and 3) Investors Grievance Committee.
5.HDFC	Nine major types of committees are framed by BOD's viz, i) Audit and Compliance Committee, ii) Compensation Committee, iii) Investor Grievance (Share) Committee, iv) Risk Monitoring Committee, v) Fraud Monitoring Committee, vi) Credit Approval Committee, vii) Premises Committee, viii) Nomination Committee and ix) Customer Service Committee.
6.PNB	There are sixteen committees in the bank viz, 1. Management Committee 2. Audit Committee of Board 3. Risk Management Committee 4. Share Transfer Committee 5. Shareholders' /Investors' Grievance Committee. 6. Customer Service Committee 7. I.T. Committee 8. PA Committee 9. Director's Promotion Committee 10. Appellate Authority and Reviewing Authority 11. Special Committee of Board to monitor and follow up fraud cases involving Rs.1.00 Cr. and above. 12. Committee of Directors to Review Vigilance and Non Vigilance cases 13. HRD Committee of Directors 14. Remuneration Committee 15. Nomination Committee 16. Steering Committee for Vision 2013
7.BOB	Ten committees are constituted by the board viz. i) Management Committee of the Board, ii) Audit Committee of Board (ACB), iii) Shareholders' / Investors' Grievances Committee, iv) Share Transfer Committee, v) Asset Liability Management & Risk Management Committee vi) Customer Service Committee vii) Remuneration Committee, viii) Nomination Committee, ix) Committee of Directors, x) Committee on High Value Frauds.
8.BOI	Three committees are constituted by the board namely , i) Management Committee of the Board, ii) Audit Committee of the Board, and iii) Shareholders'/Investors' Grievance Committee.
9.UBI	There are 8 committees in the bank viz, i) Management Committee, ii) Audit Committee iii) Risk Management Committee , iv) Special Committee of the Board for monitoring large value Frauds, v) Customer Service Committee ,vi) High Power Committee vii) Remuneration Committee, and viii) IT Sub- Committee.
10.KMB	The Board has constituted 14 committees to deal with specific matters and delegated powers for different functional areas. i) The Audit Committee, ii) Shareholders'/Investor Grievance Committee iii) ESOP/Compensation Committee, iv) Share Transfer and Routine Transactions Committee (START), v) Management Committee, vi) Premises Committee, vii) Asset Liability Committee (ALCO), viii) Nomination Committee, ix) Investment Committee, x) Risk Management Committee, xi) Information Technology Committee, xii) First Tier Audit Committee, xiii) Customer Services Committee and xiv) Committee on Frauds.
11.NHB	The Board has constituted two Committees, viz., (a) Executive Committee of Directors [EC] and (b) Audit Committee of the Board [ACB] to enable better and focused attention on the affairs of the Bank. In addition to above, the Board has constituted a Committee of Directors (C-BSOS) to review the Business Strategy and Organization Structure of the Bank. Therefore only three committees are there in the bank.
12.NABARD	The Board has constituted four Committees viz, i) Executive Committee, ii) Audit Committee, iii) Sanctioning Committee, and iv) Risk Management Committee.

Source: Author

that the HDFC maintains CG voluntary guidelines 2009 and also ensures 'disclosure & transparency' in financial statements as per section 29 of Banking Regulation Act, 1949; RBI guidelines; section 49 of the Listing Agreement; Accounting Standards and Guidelines issued by the Institute of Chartered Accountants of India, etc. In addition to the statutory disclosures, the Bank discloses voluntarily additional information by way of Directors' Report about the bank's overall performance, business strategies, products & services, Risk Management etc. The only negative aspect of CG practices which is found in HDFC's Annual Report is the non-constitution of remuneration committee.

The positive aspects of good and effective CG in PNB includes ethical and value based corporate philosophy, large number of Board of Directors, large number of committee for effective functioning, PNB ensures 'disclosure & transparency' in financial statements as per section 29 of Banking Regulation Act, 1949; RBI guidelines; section 49 of the Listing Agreement; Accounting Standards and Guidelines issued by the Institute of Chartered Accountants of India, etc. Disclosures as per RBI guidelines & ICAI Accounting Standards (AS) include Segment reporting,

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Related Party Disclosures, Lending to sensitive sectors, etc. In addition to the statutory disclosures, the Bank discloses voluntarily additional information by way of Directors' Report about the bank's overall performance, business strategies, products & services, Risk Management etc. In fact, PNB gives high priority to good Corporate Governance. The Bank has complied with the guidelines of Reserve Bank of India and SEBI on the matters relating to Corporate Governance, which has been examined by the Statutory Central Auditors. The Bank is guided (to the extent possible/applicable) by the acclaimed OECD (Organization for Economic co-operation and Development) principles of corporate governance as far as responsibilities of the Board of Directors, governance infrastructure, rights of shareholders, equitable treatment of shareholders, role of shareholders in governance and disclosures and transparency are concerned. The negative points in respect CG practices by PNB includes non-disclosure of number of independent directors on the Board, lack of information about profile of all the existing directors, less number of Board meetings, and the bank supply only 18 additional information out of 21 specified questions.



Table 6:

Other Information	1	2	3	4	5	6	7	8	9	10	11	12
	SBI	IDBI	SIDBI	IFCI	HDFC	PNB	BOB	BOI	UBI	KMB	NHB	NAB
												ARD
1. Separate Report on Corporate Governance	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	N
2. Information of AGM of Shareholders/Shareholder information	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N
3. Market Price Data	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N
4. Shareholding Pattern	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
5. Address for Correspondence	Y	Y	N	Y	Y	Y	N	N	Y	N	N	N
6. Details of Dematerialization	N	Y	N	Y	Y	Y	Y	Y	Y	N	N	N
7. Acknowledgement	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
8. Details of Employee Stock Option	N	Y	N	Y	Y	N	N	N	N	Y	N	N
9. Review of Chairman of Various Committees	N	N	N	Y	Y	N	N	N	N	N	N	N
10. Directors report on Corporate governance	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N
11. Auditors report corporate governance	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N
12. Promotion of Official Language	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
13. Disclosure under Basel Norms	BS II	N	N	N	BS II	BS II	BS II	BS II	BS III	BS II	N	N
14. Accounting Policies and Standards	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
15. Whistle Blower Policy	N	Y	N	N	Y	Y	Y	N	Y	Y	N	N
16. External credit rating (Domestic, Overseas and CG Rating/BCSBI)	N	Y (Both D & O)	N	N	Y (Both D & O)	Y (Both D & O)	Y (Both D, O & CG)	Y	Y	N	N	N
17. Information about Director seeking appointment / reappointment as directors	N	N	N	Y	N	N	N	N	Y	N	N	N
18. Nos of Board Meeting Held	10	8	0	4	6	3	8	6	4	10	0	0
19. Details of composition and functions of committees	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y
20. Multiple Board seats (Directors in other Cos/ Directors as members in other committees/ Directors as Chairperson in other committees) /Max	21*/9	13*/*	0	8.6.2002	13*/*	*/13/8	9/7/*	5.4.2003	8.6.2005	11.2.2004	0	0
21. Related Party Disclosure AS -18	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
TOTAL SCORE	15	14	5	17	19	18	17	15	18	15	Y	Y
Source: Author										15		

Thus, it is observed from the above that HDFC takes the lead in Corporate Governance practices because it able to disclose more information in its report than others followed by PNB.

However, from the analysis, it is concluded that among all the selected financial institutions, there is no common and uniform system of CG practices. Therefore, Government and RBI should prescribe a format for reporting of Corporate Governance for these Public Financial Institutions and Governance Audit should be made compulsory. It is also realized that in Indian Public Financial Corporations, Corporate Governance is still at nascent stage. No fixed format and rigid rules have been framed for Corporate Governance Reporting and various committees have been constituted by Statutory Authorities to suggest best Corporate Governance procedures but all these recommendations are not uniform and still at implementation stage.

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  - <http://www.oecd.org/> -Organisation for Economic Co-operation and Development
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