UNIT V

SUBJECT: CORPORATE SOCIAL RESPONSBILITY

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UNIT V

Corporate governance board and its power – responsibility – disqualification, board committee and their functions – remuneration committee – nomination committee, compliance committee – share holder grievance committee – investor relation committee – investment committee – risk management committee – and audit committee – regulatory framework of corporate governance in India; SEBI guidelines and clause 49; reforms in the company act 2013 – corporate governance in PSU; and banks.

INTRODUCTION

Governance is a word that barely existed 30 years ago. Now it is in common use not just in companies but also in charities, universities, local authorities and National Health Trusts. It has become shorthand for the way an organization is run, with particular emphasis on its accountability, integrity and risk management.

Corporate Governance is the system by which companies are directed and controlled. Board of directors is responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in its place. The responsibilities of the board include setting up of the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in a general meeting.

OECD Principles on Corporate Governance state that together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation.

Responsibilities cast upon directors are quite onerous and multifarious. The duties of directors are partly statutory, partly regulatory and partly fiduciary. Board is responsible for direction, control, conduct management and supervision of the company's affairs. They have to establish effective corporate governance procedures and best practices and whistle blower mechanism. Ultimate control and management vests with the Board.

BOARD OF DIRECTORS AND BOARD COMMITTEES

Board of Directors:

Before proceeding to the topic, we need to have a basic idea about the Board of Directors.

At the core of corporate governance practices is the Board of Directors which oversees how the management serves and protects the long term interests of all the stakeholders of the company. The institution of Board of Directors is based on the premise that a group of trustworthy and respectable people should look after the interests of the large number of shareholders who are not directly involved in the management of the company. The position of board of directors is that of trust as the board is entrusted with the responsibility to act in the best interests of the company.

Board Committees:

Committees appointed by the Board focus on specific areas and take informed decisions within the framework of delegated authority, and make specific recommendations to the Board on matters in their areas or purview. All decisions and recommendations of the committees are placed before the Board for information or for approval.

To enable better and more focused attention on the affairs of the Corporation, the board delegates particular matters to the committees of the board set up for the purpose. Committees review items in great detail before it is placed before the Board for its consideration. These committees prepare the groundwork for decision making and report at the subsequent board meeting.

VARIOUS COMMITTEES OF THE BOARD

The following are some of the important committees of the Board-

- Audit Committee
- Shareholders Grievance Committee
- Remuneration Committee
- Risk Committee
- Nomination Committee
- Corporate Governance Committee
- Corporate Compliance Committee
- Ethics Committee

We shall deliberate on the functions of all the committees in detail.

AUDIT COMMITTEE

The Audit Committee shall assist the Board of Directors in the oversight of

(1) The integrity of the financial statements of the Company,

(2) The effectiveness of the internal control over financial reporting,

(3) The independent registered public accounting firm's qualifications and independence,

(4) The performance of the Company's internal audit function and independent registered public accounting firms,

(5) The Company's compliance with legal and regulatory requirements,

(6) The performance of the Company's compliance function.

***Organization and Membership*:**

The Committee shall be appointed by the Board and consist of at least three Directors, each of whom are independent of management and the Company as defined by the Bylaws of the Company, the SEC and the New York Stock Exchange as well as Clause 49 of the Listing Agreement. Two thirds of the members shall be independent directors.

All Committee members shall be financially literate, or shall become financially literate within a reasonable period of time after appointment to the Committee. The Committee shall aspire to have at least one member who is an "audit committee financial expert" as such term is defined by the SEC.

The Chairman of the Committee shall be an independent director. No Director may serve as a member of the Committee if such Director serves on the audit committees of more than two other public companies unless the Board determines that such simultaneous service would not impair such Director's ability to serve effectively on the Committee. The Board shall designate one member of the Committee as its Chairman. Directors will serve the Committee at the pleasure of the Board and for such terms as the Board may determine. The Committee shall meet at least quarterly and otherwise as the members of the Committee deem appropriate. Minutes shall be kept of each meeting of the Committee.

***Meeting of Audit Committee*:**

The audit committee shall meet at least thrice a year. One meeting shall be held before finalization of annual accounts and one every six months. The quorum shall be either two members or one third of the members of the audit committee, whichever is higher and minimum of two independent directors

***Powers of Audit Committee*:**

The audit committee shall have powers which should include the following:

- To investigate any activity within its terms of reference.
- To seek information from any employee.
- To obtain outside legal or other professional advice.
- To secure attendance of outsiders with relevant expertise, if it considers necessary.

***Role of Audit Committee*:**

The role of the audit committee shall include the following:

- Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with management the annual financial statements before submission to the board, focusing primarily on;
- Any changes in accounting policies and practices.
- Major accounting entries based on exercise of judgment by management.
- Qualifications in draft audit report.
- Significant adjustments arising out of audit.
- The going concern assumption.
- Compliance with accounting standards.
- Compliance with stock exchange and legal requirements concerning financial statements

- Any related party transactions
- Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
- Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discussion with internal auditors any significant findings and follow up there on.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- Discussion with external auditors before the audit commences about nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- Reviewing the company's financial and risk management policies.
- To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of nonpayment of declared dividends) and creditors.

***Review of information by Audit Committee*:**

The Audit Committee shall mandatorily review the following information:

- Financial statements and draft audit report, including quarterly / half-yearly financial information;
- Management discussion and analysis of financial condition and results of operations;
- Reports relating to compliance with laws and to risk management;
- Management letters / letters of internal control weaknesses issued by statutory / internal auditors; and
- Records of related party transactions
- The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee

SHAREHOLDERS GRIEVANCE COMMITTEE

In terms of Clause 49-IV(G)(iii) of the Listing Agreement, a board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non receipt of balance sheet, non receipt of declared dividends etc. This committee shall be designated as "Shareholders/ Investors Grievance Committee".

The terms of reference of our Shareholders'/ Investors Grievance Committee are given below:
"To allot the Equity Shares of the Company, and to supervise and ensure:
Efficient transfer of shares; including review of cases for refusal of transfer transmission of shares and debentures;

- Redressal of shareholder and investor complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc;
- Issue of duplicate / split / consolidated share certificates;
- Allotment and listing of shares;
- Review of cases for refusal of transfer / transmission of shares and debentures;
- Reference to statutory and regulatory authorities regarding investor grievances; and to otherwise ensure proper and timely attendance and redressal of investor queries and grievances."

The Shareholders/ Investor Grievances Committee looks into redressal of shareholder and investor complaints, issue of Duplicate/ Consolidated Share Certificates, Allotment and Listing of shares and review of cases for refusal of Transfer/ Transmission of shares and debentures and reference to Statutory and Regulatory Authorities. The scope and functions of the Shareholders/Investor Grievances Committee are as per Clause 49 of the Listing Agreement.

REMUNERATION COMMITTEE

The role of a Remuneration Committee is:

- To decide and approve the terms and conditions for appointment of executive directors and/ or whole time Directors and Remuneration payable to other Directors and matters related thereto.
- To recommend to the Board, the remuneration packages of the Company's Managing/Joint Managing/ Deputy Managing/Whole time / Executive Directors, including all elements of remuneration package (i.e. salary, benefits, bonuses, perquisites, commission, incentives, stock options, pension, retirement benefits, details of fixed component and performance linked incentives along with the performance criteria, service contracts, notice period, severance fees etc.);
- To be authorized at its duly constituted meeting to determine on behalf of the Board of Directors and on behalf of the shareholders with agreed terms of reference, the Company's policy on specific remuneration packages for Company's Managing/Joint

Managing/ Deputy Managing/ Whole-time/ Executive Directors, including pension rights and any compensation payment;

- To implement, supervise and administer any share or stock option scheme of the Company.
- to review the overall compensation policy, service agreements and other employment conditions to Executive Directors and senior executives just below the Board of Directors and make appropriate recommendations to the Board of Directors;
- to review the overall compensation policy for Non-Executive Directors and Independent Directors and make appropriate recommendations to the Board of Directors;
- to make recommendations to the Board of Directors on the increments in the remuneration of the Directors;
- to assist the Board in developing and evaluating potential candidates for senior executive positions and to oversee the development of executive succession plans;
- to review and approve on annual basis the corporate goals and objectives with respect to compensation for the senior executives and make appropriate recommendations to the Board of Directors;
- to review and make appropriate recommendations to the Board of Directors on an annual basis the evaluation process and compensation structure for our Company's officers just below the level of the Board of Directors;
- to provide oversight of the management's decisions concerning the performance and compensation of other officers of our Company;

RISK COMMITTEE

The committee comprises a minimum of three independent non-executive directors, as well as the chief executive and financial director. The chair of the board may not serve as chair of this committee. Members of the committee are individuals with risk management skills and experience. The committee's responsibilities include:

- Review and approve for recommendation to the board a risk management policy and plan developed by management. The risk policy and plan are reviewed annually.
- Monitor implementation of the risk policy and plan, ensuring an appropriate enterprise-wide risk management system is in place with adequate and effective processes that include strategy, ethics, operations, reporting, compliance, IT and sustainability.

- Make recommendations to the board on risk indicators, levels of risk tolerance and appetite.
- Monitor that risks are reviewed by management, and that management's responses to identified risks are within board-approved levels of risk tolerance.
- Ensure risk management assessments are performed regularly by management.
- Issue a formal opinion to the board on the effectiveness of the system and process of risk management.
- Review reporting on risk management that is to be included in the integrated annual report.
- Review annually the charters of the group's significant subsidiary companies' risk committees, and their annual assessment of compliance with these charters to establish if the Naspers committee can rely on the work of these risk committees.
- Perform an annual self-assessment of the effectiveness of the committee, reporting these indings to the board.

NOMINATION COMMITTEE

The primary role of the Nomination Committee of the board is to assist the board by identifying prospective directors and make recommendations on appointments to the board and the senior most level of executive management below the board. The committee also clears succession plans for these levels. The Nomination Committee is responsible for making recommendations on board appointments and on maintaining a balance of skills and experience on the board and its committees.

Succession planning for the board is a matter which is devolved primarily to the Nomination Committee, although the committee's deliberations are reported to and debated by the full board. The board itself also regularly reviews more general succession planning for the senior management of the group.

CORPORATE GOVERNANCE COMMITTEE

Together with the audit and compensation committees, the nominating/corporate governance committee rounds out the three standing committees of a public company's board of directors. It plays a critical role in overseeing matters of corporate governance for the board, including formulating and recommending governance principles and policies. As its name implies, this committee is charged with enhancing the quality of nominees to the board and ensuring the integrity of the nominating process. Given the recent focus on board composition and diversity, director elections, and proxy access, the role of nominating/corporate governance committee is in the spotlight.

CORPORATE COMPLIANCE COMMITTEE

The primary Objective of the Compliance Committee is to review, oversee and monitor:

- The company's compliance with applicable legal and regulatory requirements.
- The company's policies, programs, and procedures to ensure compliance with relevant laws, the company's code of conduct, and other relevant standards
- The company's efforts to implement legal obligations arising from settlement agreements and other similar documents
- Perform any other duties as are directed by the board of directors of the company.

The committee's specific responsibilities in this area include:

- Overseeing the corporate compliance program, including policies and practices designed to ensure the organization's compliance with all applicable legal, regulatory, and ethical requirements.
- Recommending approval of the annual corporate compliance plan and reviewing processes and procedures for reporting concerns by employees, physicians, vendors, and others.
- Recommending organizational integrity guidelines and a Code of Conduct.
- Reviewing and reassessing the guidelines and Code of Conduct at least annually

ETHICS COMMITTEE

The possible roles for an Ethics Committee are:

- Contribute to the continuing definition of the organization's ethics and compliance standards and procedures.
- Assume responsibility for overall compliance with those standards and procedures.
- Oversee the use of due care in delegating discretionary responsibility.
- Communicate the organization's ethics and compliance standards and procedures, ensuring the effectiveness of that communication.
- Monitor and audit compliance.
- Oversee enforcement, including the assurance that discipline is uniformly applied.

- Take the steps necessary to ensure that the organization learns from its experiences.

But an ethics committee can do much more. The committee can be charged to meet all seven requirements for an effective ethics management process. For each of the above arenas of responsibility there may be several specific roles.

SIGNIFICANCE OF BOARD COMMITTEES

After a detailed discussion regarding the various functions carried out by each committee and their lending of crucial assistance to the harmonious functioning of the company is summed up here.

Committees allow the board to –

- handle a greater number of issues with greater efficiency by having experts focus on specific areas
- develop subject specific expertise on areas such as compliance management, risk management, financial reporting
- enhance the objectivity and independence of the board's judgment

Greater specialization and intricacies of modern board work is one of the reasons for increased use of board committees. The reasons include:

- responsibilities are shared
- more members become involved
- specialized skills of members can be used to best advantage
- inexperienced members gain confidence while serving on matters may be examined in more detail by a committee

The committees focus accountability to known groups. While the board as a legal unit always retains responsibility for the work of its committees, the committees because of its focus on the mandate, the size of the committee being relatively smaller than the board tend to be more effective. However, committees may dilute governance integrity to the extent that they may obscure the direct board to CEO accountability and fragment the board's wholeness. Therefore, it is important that there is clarity of delegation and it should be ensured that committees are not put between the board and the CEO, either by giving committees official instructional authority or by allowing them to evaluate performance using their own criteria.

Corporate Governance: Clause 49 and Companies Act 2013 Provisions

Corporate Governance deals with how a *corporate is governed*. It is all about promoting *corporate fairness, transparency and accountability*. Some of the objectives of Corporate Governance are – attaining disclosure and transparency in the way corporate is governed; fixing accountability of controllers and managers towards other stakeholders; fixing corporate responsibility; integrity and probity in financial reports etc.

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Corporate Governance: Rationale

A corporation includes various stakeholders' viz. investors, share holders, customers, employees, vendor partners, government and society. Its objective should not be confined to maximizing the shareholder value but should be responsible to all stakeholders. Its governance should be fair and transparent to its stakeholders in all its transactions. Thus, corporate governance becomes imperative in today's globalized world where corporations need to access global pools of capital, need to attract and retain the best human capital from various parts of the world, need to partner with vendors on mega collaborations and need to live in harmony with the community.

On the other hand, the Liberalization and related developments such as deregulation, privatization and extensive financial liberalization render the Corporate Governance very crucial. All the fruits of capital market reforms can be lost to corporate frauds, malpractices etc. Thus, Independent and effective corporate governance reforms are necessary to maintain the market credibility confidence.

Corporate Governance in India

Concept of corporate Governance in India is not very old. For the first time, the CII had set up a task force under Rahul Bajaj in 1995. On the basis of this CII had released a voluntary code called "*Desirable Corporate Governance*" in 1998. SEBI had also established few committees towards corporate governance of which the notable are Kumarmanlagam Birla report (2000), Naresh Chandra Committee (2002) and Narayana Murthy Committee (2002). While Kumarmangalam Birla committee came up with mandatory and non-mandatory requirements, **Naresh Chandra committee** extensively covered the statuary 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. Further, **Narayan Murthy Committee** focused on responsibilities of audit committee, quality of financial disclosure, requiring boards to assess and disclose business risks in the company's annual reports.

Clause 49 of SEBI Listing Agreement

As a major step towards codifying the corporate governance norms, SEBI enshrined the *Clause 49* in the Equity Listing Agreement (2000), which now serves as a standard of corporate governance in India. With clause 49 was born the requirement that *half the directors on a listed company's board must be Independent Directors.* In the same clause, the SEBI had put forward the responsibilities of the Audit Committee, which was to have a majority Independent Directors.

Clause 49 of the Listing Agreement is applicable to companies which wish to get themselves listed in the stock exchanges. This clause has both mandatory and non-mandatory provisions. Key Mandatory provisions are as follows:

- Composition of Board and its procedure – frequency of meeting, number of independent directors, code of conduct for Board of directors and senior management;
- Audit Committee, its composition, and role

- Provision relating to Subsidiary Companies
- Disclosure to Audit committee, Board and the Shareholders
- CEO/CFO certification
- Quarterly report on corporate governance
- Annual compliance certificate

Key Non-mandatory provisions include the following:

- Constitution of Remuneration Committee
- Training of Board members
- Peer evaluation of Board members
- Whistle Blower policy

In 2014, the clause 49 was amended to include Whistleblower policy as mandatory provision.

Companies Act 2013

Despite of all the mandatory and non-mandatory requirements as per Clause 49, India was still not in a position to project itself having highest standards of corporate governance. Taking forward, the Companies Law 2013 also came up with a dedicated chapter on Corporate Governance. Under this law, various provisions were made under at least 11 heads viz. Composition of the Board, Woman Director, Independent Directors, Directors Training and Evaluation, Audit Committee, Nomination and Remuneration Committee, Subsidiary Companies, Internal Audit, SFIO, Risk Management Committee and Compliance to provide a rock-solid framework around Corporate Governance.

Summary of Major Provisions

The key provisions in Clause 49 and 2013 act are summarized as follows for quick overview:

ED,NED and ID

There are two kinds of directors in the companies' viz. Executive Directors (ED) and Non-executive Directors (NED). The Non-Executive Directors are divided into two categories viz. Independent Directors (ID) and others. Thus, every listed company has Executive Directors, Non-Executive Directors and Independent Directors on its board.

Rationale behind Independent Directors

The Independent directors are primarily meant to *oversee the functioning of the board and ensure that the decisions it makes do not hurt the interests of minority shareholders*. The current norms demand that the two third members of the Audit Committee and the Chairman should also be Independent.

An independent director can server in the same capacity in maximum seven companies. Further, if a person is whole-time director, he cannot be an independent director in more than three listed firms. An Independent Director who has already served on a company's board for 5 years can serve only one more term of 5 years. Companies are now required to disseminate Independent Director's resignation letter to Stock Exchanges & on company website.

Women Directors

The Companies Act 2013 provides that every listed company has to appoint at least one woman director. Appointment of women directors was hitherto voluntary but making it mandatory in Companies Act would draw have more talented woman on the boards of their companies.

Related Party Transactions (RPTs)

To enhance the transparency, there are rules regarding RPTs (Relative Party Transactions). These rules make sure that in all material dealings by company promoters, business decisions are not against the interests of small and minority shareholders.

Top Level remuneration

To check the tendency of fixing unreasonably high compensations for promoters and top-level executives, the new norms have mandatory constitution of a nomination and remuneration committee with an independent chairman. Moreover, all companies will need to follow enhanced disclosures norms on remuneration. These disclosure norms mandate the company to disclose the ratio of remuneration of top executives to median remuneration.

Audit Committee and whistleblower mechanism

There are rules and norms which expand the role of audit committee in listed firms and direct them to adopt a compulsory whistleblower mechanism to curb unfair business practices and protect the interest of minority stakeholders.

Concluding Remarks

After the Satyam Scandal, SEBI became more and more strict towards disclosure norms and implementation of Clause 49 provisions to bring about sea changes in transparency and accountability in the country. The Companies Act gave these norms a proper statutory backing. Towards transparency and accountability, there are laws regarding compulsory rotation of auditors and audit firms. An auditor cannot perform non-audit services for a company. Auditors are required to report fraudulent acts noticed during performance of their duties. Further, the act mandates that at least one third of board of a company has to consist of independent directors. Independent directors have been prohibited from receiving stock options or remuneration. To ensure greater transparency, additional disclosure norms such as formal evaluation of performance of the board of directors, filing returns with the registrar of companies with respect to any change in share holding positions of the promoters has been mode mandatory. Adoption of new accounting system may also help to check any fraud in accounting. Also statutory status for Serious Fraud Investigation Office (SFIO) has been proposed. Investigation report of SFIO filed with court for framing charges shall be treated as report filed by police officer. With these steps in place, transparency and accountability of corporate governance in India stand at better position than before the Sat yam Scandal.

Corporate governance in PSUs and banks for Corporate Governance Ethics and Social Responsibility of Business

It is the act or process of administering, especially running the management of a government or large institution or a bank by enforcing the codified rules and conditions. It is the activity of a government or state or a bank in the exercise of its powers and duties. Often the Administration also means the management of any office, business, or organization; direction or the duty or duties of an administrator in exercising the executive functions of the position. Administrators, broadly speaking, engage in a common set of functions to meet the organization’s goals. These “functions” of the administrator were described by Henri Fayol as “the 5 elements of administration”. Corporate governance in PSUs and banks for Corporate Governance Ethics and Social Responsibility of Business

- **Planning** – is deciding in advance what to do, how to do it, when to do it, and who should do it. It maps the path from where the organization is to where it wants to be. The planning function involves establishing goals and arranging them in a logical order. Administrators engage in both short-range and long-range planning.
- **Organizing** – involves identifying responsibilities to be performed, grouping responsibilities into departments or divisions, and specifying organizational relationships. The purpose is to achieve coordinated effort among all the elements in the organization (**Coordinating**). Organizing must take into account delegation of authority and responsibility and span of control within supervisory units.

- **Staffing** – means filling job positions with the right people at the right time. It involves determining staffing needs, writing job descriptions, recruiting and screening people to fill the positions.
- **Directing** (**Commanding**) – is leading people in a manner that achieves the goals of the organization. This involves proper allocation of resources and providing an effective support system. Directing requires exceptional interpersonal skills and the ability to motivate people. One of the crucial issues in directing is to find the correct balance between emphasis on staff needs and emphasis on economic production.
- **Controlling** – is a function that evaluates quality in all areas and detects potential or actual deviations from the organization's plan. This ensures high-quality performance and satisfactory results while maintaining an orderly and problem-free environment. Controlling includes information management, measurement of performance, and institution of corrective actions.
- **Budgeting** – exempted from the list above, incorporates most of the administrative functions, beginning with the implementation of a budget plan through the application of budget controls. Corporate governance in PSUs and banks for Corporate Governance Ethics and Social Responsibility of Business

Governance

Governance, in general terms, means the process of decision making and the process by which decisions are implemented (or not implemented), involving multiple actors. Good governance is one which is accountable, transparent, responsive, equitable and inclusive, effective and efficient, participatory and which is consensus oriented and which follows the rule of law

With the faster pace of corporatization, the volumes of market capitalization have globally increased at exponential pace. More and more investors across the globe explore equity markets for investments and profit earning opportunities. Innovative methods of accessing funds and efforts of leveraging capital have accentuated the sensitivity of risk. The corporates are susceptible to the pitfalls of over leveraging their capital resources resulting in imbalanced exposure, sometimes even to the unknown downside risks. Thus the influx of funds into the stock market from various sources has heightened the onus of regulators to protect investor interest thereby making the task much more challenging. Ensuring that the end use of investor funds are prudent and are in conformity with the global best practices is a tough task posing a sustained pressure on regulators to innovate better ways and means.

In this context, corporate governance has come to occupy a prominent position in modulating the conduct of the companies who raise funds through equity market. Public listed companies, financial institutions, banks and other corporate accessing funds from public have to be made to follow rigid discipline in its governance, more so in the application of funds to protect the long term interests of the organizations.

Coming to the specific aspects of bank dominated Indian financial system; effective financial intermediation is the life line of sustainable development of the economy. Though we have multiple segments of banks such as Public Sector Banks (PSBs), New Private Sector Banks (NPSBs), Old Private Sector Banks (OPSBs), Cooperative Banks, Regional Rural Banks (RRBs) and Foreign Banks, about 70 per cent of the banking business is held by PSBs comprising of SBI, its subsidiaries and the nationalized banks.Corporate governance in PSUs and banks for Corporate Governance Ethics and Social Responsibility of Business

Banks access capital market to shore up their capital adequacy needs in terms of the norms set by the Bank for International Settlement (BIS).The banking intermediaries engaged in mobilizing deposits and lending them to the needy sector for sustained growth of agriculture, industry and commerce have a critical role to play in the economy. Therefore the functions of banks are sensitive calling for utmost prudence in governance. This backdrop firms up the significance of corporate governance in banks for sustained growth of financial system.

Crystallization of concept of Corporate Governance:

With this background of genesis of Corporate Governance practices across the globe, it may be pertinent to recall the earliest definition of Corporate Governance by the Economist and Noble laureate Milton Friedman. According to him, Corporate Governance is to conduct the business in accordance with owner or shareholders' desires, which generally will be to make as much money as possible, while conforming to the basic rules of the society embodied in law and local customs. Corporate governance in PSUs and banks for Corporate Governance Ethics and Social Responsibility of Business

Some more established definitions state that “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders and also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined” Corporate governance in PSUs and banks for Corporate Governance Ethics and Social Responsibility of Business

According to Shri Kumar Mangalam Birla “fundamental objective of corporate governance is the ‘enhancement of the long-term shareholder value while at the same time protecting the interests of other stakeholders.”

The spirit of these definitions clearly bring to fore the significant role of Corporate Governance. If the Corporate Governance is implemented in totality in banks, it will have impact on the overall health of the banking system reflected in the form of rise in business levels, profitability ratios, dividends paid, market capitalization, earnings per share, net worth, and book value of the shares and so on. The expression of interest of foreign banks to expand operations in India, their strategic move to join collaborations, joint ventures, tie ups, correspondent relations etc with the Indian financial entities are also a reflection of soundness of stable governance policies. Corporate governance in PSUs and banks for Corporate Governance Ethics and Social Responsibility of Business

Adoption of Corporate Governance practices in banks has begun to reflect changes in the style of governance and their growth pattern. Before we embark on further study of its role in banking system, a quick look at the pace of growth of banking sector will help us crystallize our views. The following sections will provide a snap shot of how the banks have broadly done in the recent years. These sections will also attempt quantification of performance of banks in the capital market which has a better correlation with the policy of corporate governance measures. Corporate governance in PSUs and banks for Corporate Governance Ethics and Social Responsibility of Business

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