

COMPOSITION OF BOARD IN PUBLIC SECTOR COMMERCIAL BANKS

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Abstract: Corporate governance is a key element in improving the economic efficiency of a bank. It should be fair and transparent to its customers and stakeholders in all its transactions. Sound corporate governance also contributes to the protection of depositors of the bank. It also involves the manner in which the business and affairs of banks are governed by their board of directors and senior management, which reflects how they function. This paper is descriptive in nature conferred about the composition of the board of directors in the Public sector commercial banks. The finding of this paper exemplify that the Public sector commercial banks have 'Fit and Proper' board in their respective banks.

Key Words: Directors, Board composition Public bank, Fit and Proper.

Introduction:

The concept of Corporate Governance (CG) in India, more particularly in banks, is essential to get insight into Administration and Governance as distinct from CG. Banks are large institutions with a range of delivery models with interplay of products and services which imply economical development of the nations. Banks, in a board sense, are in institutions whose business is handling other people's money¹. Banks are thus a critical component of any economy. The importance of banks to national economies is underscoring by the fact that banking is virtually universally a regulated industry and that banks have access to government safety nets. It is crucial & important, therefore, that banks should have strong corporate governance.

Corporate governance for an emerging market economy has an added dimension. After all, From the late 1980s / early 1990s, the financial sector of a number of EMEs have seen a wave of liberalization and deregulation. Greater deregulation in markets and in bank operations require better governance as more responsibility rests with the Board and the management. It is because banks are a critical component of the economy that it is universally a regulated industry and banks have access to safety nets. It would, however, be erroneous to conclude that regulatory oversight is a substitute to corporate governance. There exists a relationship between regulation and corporate governance in banking.

Fit and proper' criteria for directors of banks

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 and on being satisfied that it is necessary and expedient in the public interest to do so, the Reserve Bank of India hereby directs, with immediate effect that:

- In the Public sector the appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other fit and proper criteria.
- Banks should obtain necessary information and declaration from the proposed or existing directors for the purpose.

¹ Greener, Michael The Penguin Dictionary of Commerce, (1973) Reprints.

- The process of due diligence should be undertaken by the banks in Public sector at the time of appointment or renewal of appointment.
- The boards of the banks in Public sector should constitute Nomination Committee to scrutinize the declarations.
- Banks should obtain annually a simple declaration that the information already provided has not undergone change and if there is any change, requisite details are furnished by the directors forthwith.
- The board of the bank must ensure the public interest that nominated / elected directors execute the deeds of covenants as recommended by Dr. Ganguly Group every year.

The broad principles underlying the framework of policy relating to ownership and governance of Public sector banks would have to ensure that:

- The ultimate ownership and control of Public sector banks is well diversified.
- Important Shareholders (i.e., shareholding of 5 per cent and above) are 'fit and proper', as laid down in the guidelines dated February 3, 2004 on acknowledgement for allotment and transfer of shares.
- The directors and the CEO who manages the affairs of the bank are 'fit and proper' and observe sound corporate governance principles.
- To avoid conflict of interest, RBI will not appoint its nominee on the Boards of Public sector banks unless there are exceptional circumstances.
- Public sector banks have minimum capital / net worth for optimal operations and systemic stability.
- The policy and the processes are transparent and fair.

Sound corporate governance also contributes to the protection of depositors of the bank and permits the supervisor to place more reliance on the bank's internal processes. From a banking industry perspective, corporate governance involves the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which reflects how they function. In this regard, supervisory experience underscores the importance of having the appropriate levels of accountability and checks and balances within each bank. As the functions of the board of directors and senior management with regard to setting policies, implementing policies and monitoring compliance are key elements in the control functions of a bank, effective oversight of the business and affairs of a bank by its board and senior management contributes to the maintenance of an efficient and cost-effective supervisory system.

The Indian banking system consists of Public and Private sector banks having a basic difference between them as far as the Reserve Bank's role in governance matters relevant to banking is concerned. The approach of RBI has been to ensure, to the extent possible, uniform treatment of the Private sector banks and the Public sector banks in regard to prudential regulations. In regard to the governance aspects of banking, the Reserve Bank prescribed its policy framework for the Public sector banks. It also suggested to the Government the same framework for adoption, as appropriate, consistent with the legal and policy imperatives in PSBs as well. Hence the endeavor is to maintain uniformity in policy prescriptions to the best possible extent for all types of banks.

Taking cue from the recommendations of the Ganguly Committee Report, the concept of 'Fit and Proper' criteria for directors of banks was formally enunciated in November 2003. It included the process of collecting information, exercising due diligence and constitution of a Nomination Committee of the Board to scrutinize the declarations made by the bank directors. Accordingly, all the banks in the Public sector have carried out, through their nomination committees, the exercise of due diligence in respect of the directors on their Boards. In the case of Nationalized banks, they are also required to form a committee consisting of minimum three directors (all independent and non-executive directors) from amongst the Board of Directors to examine and certify that none of these directors disqualify from being "Fit and proper". Moreover, in some banks, directors are also exposed to high level of training to fine tune their expert domains to enable them to more effectively contribute to the governance of banks.

Objective of the study:

To study the composition of board of directors of select Public sector banks.

Methodology:**Research design**

The study is descriptive in nature and mainly based on secondary data only.

Data

The data is collected from the selected banks in India. The data collected for corporate governance reports from selected banks in India is from “Centre for Monitoring Indian Economy” (CMIE), Indiastat and Capital line database.

Sample unit

The universe of study comprises of 87 banks in which, 26 public sector banks, 20 Public sector banks and 41 foreign banks. The sample size is, however, limited to eight banks of Public sector commercial banks only.

Sample size

The sample size is limited to eight Public sector commercial banks, namely State Bank of India, Bank of Baroda, Canara bank, Syndicate bank, Corporation bank, Allahabad bank, Vijaya bank and Dena bank.

Variables used in the study

The variables taken for the study includes number of directors on the board, age of director's, educational qualification, director's experience, number of meetings attended by the directors, directors holding directorship in other companies' board and number of complaints attended by directors.

Tools used for analysis

The summary statistics and per cent analysis are used to analyze the composition of the board of directors in select Public sector commercial banks.

Period of the Study

The study period consists of ten years from 2006 to 2015 for all eight Public sector commercial banks.

Composition of Board of Directors in Public Sector Commercial Banks:

The composition of the board of directors in public sector commercial banks is analyzed with the help of the selected variables like number of directors on the board, age of director's, educational qualifications, director's experience, number of board meetings attended by directors, directors holding directorship in other companies' board and number of complaints attended by directors in the board. The results of the analysis are presented below.

Number of board of directors:

The number of board of directors of public sector commercial banks during the period of study is presented in the table.1.

Table.1 Number of Board of Directors and Composition of Directors

Name of public sector commercial banks	Total no. of board of directors	Total no. of inside directors	Per cent of inside directors	Total no. of outside directors	Per cent of outside directors	Ratio of composition of inside and outside directors
State Bank of India	15	3	20	12	80	1:4
Bank of Baroda	14	3	19	11	81	1:4
Canara bank	11	2	22	9	78	1:4
Syndicate bank	11	3	23	9	77	1:3
Corporation bank	13	2	17	11	83	1:5
Allahabad bank	11	3	22	9	78	1:3
Vijaya bank	11	2	18	9	82	1:4
Dena bank	13	2	17	11	83	1:5
Avg	12	2	20	10	80	1:4

Source: Data compiled from corporate governance reports of banks in CMIE Prowess.

Public sector banks: SBI, BOB, CNB, SYB, COB, ALB, VIB and DNB

The above table illustrates that the total number of directors and the ratio of composition of inside and outside directors in select public sector commercial banks. It is observed that number of inside directors are more in Allahabad bank (22 per cent), Syndicate bank (23 per cent), and Canara bank (22 per cent). Corporation bank (17 per cent) and Dena bank (17 per cent) are having less number of inside directors. The number of outside directors is more in Dena bank (83 per cent), Corporation bank (83 per cent), and Vijaya bank (82 per cent). The Allahabad bank (78 per cent) and Syndicate bank (77 per cent) are having less number of outside directors. The Clause 49 of corporate governance insists that a minimum of 50 percent of outside directors should be present on the board. It is observed from above that, the ratio of composition of the board of directors in the select public sector commercial banks is at an average of 1:4. Hence, it is concluded that all the public sector commercial banks followed the Clause 49 of corporate governance and appointed more than 50 per cent of outside directors on the board.

Gender of board of directors:

The gender of the board of directors in public sector commercial banks is given in the table. 2.

Table. 2 Gender of board of directors

Name of public sector commercial banks	Total no. of board of directors	Male directors in the board	Per cent of male directors in board	Female directors in the board	Per cent of female directors in board
State Bank of India	152	141	93	11	7
Bank of Baroda	136	122	90	14	10
Canara bank	111	105	95	6	5
Syndicate bank	110	101	92	9	8
Corporation bank	134	129	96	5	4
Allahabad bank	112	105	94	7	6
Vijaya bank	109	100	92	9	8
Dena bank	130	123	95	7	5
Total	994	926		68	
Avg	124	116	93	9	7

Source: Data compiled from corporate governance reports of banks in CMIE Prowess.

Public sector banks: SBI, BOB, CNB, SYB, COB, ALB, VIB and DNB

The above table depicts the gender of board of directors the per cent of male directors is seen more in Corporation bank (96 per cent), Canara bank and Dena bank (both 95 per cent). But the per cent of female directors is very less in all the public sector commercial banks compare to the male directors in the board.

Age of board of directors:

The age of the board of directors in public sector commercial banks is given in table. 3.

Table. 3 Age of Board of Directors

Age	No. of Directors	Per cent
26-35	-	-
36-45	134	13
46-55	328	33
56-65	433	44
66-75	76	8
76 & above	23	2
Total	994	100

Source: Data compiled from corporate governance reports of banks in CMIE Prowess.

Public sector banks: SBI, BOB, CNB, SYB, COB, ALB, VIB and DNB.

The above table reveals that out of 994 directors, 433 (44 per cent) are in the age group of 56 to 65 years, 328 (33 per cent) directors in the age group of 46 to 55 years, 134 (13 per cent) directors are found in the age group of 66 to 75 years, 76 (Eight per cent) directors are in the age group of 36 to 45 years and the balance of 23

(two per cent) directors lie in the age group of 75 years and above. Hence, it is understood that most of the directors in the public sector commercial banks belong to the age group of 56 to 65 years.

Educational qualifications of board of directors:

The educational qualification of the board of directors in public sector commercial banks is described in the table. 4.

Table. 4 Educational Qualifications of Board of Directors

Education qualification	No. Of Directors	Per cent
Doctorates	89	9
Post Graduates (M. Come, M.S.W, M. ScAgri, M.A Eco etc.,)	198	20
Technical Graduate (B.E, B. TECH, M.B.B.S, L.L.B)	71	7
Professional (M.B.A, CA, ACS, CAIIB)	497	50
General graduates (B.A,B.Com,etc.,)	139	14
Total	994	100

Source: Data compiled from corporate governance reports of banks in CMIE Prowess.

Public sector banks: SBI, BOB, CNB, SYB, COB, ALB, VIB and DNB

It is found that out of 994 directors, 497 (50 per cent) directors' are professionals, 198 (20 per cent) directors are postgraduates, 139 (14 per cent) directors are graduates, 89 (9 per centage) directors are doctorates and 71 (7 per cent) directors are technical graduates. It is observed from the above that, more number of directors are professionally qualified in public sector commercial banks.

Experience on board of directors:

The experience of the board of directors in public sector commercial banks is shown in table. 5.

Table. 5 Experience of Board of Directors

No of year of Experience	No. Of Directors	Per cent
1-15	110	11
16-30	417	42
31-45	447	45
46 & above	20	2
Total	994	100

Source: Data compiled from corporate governance reports of banks in CMIE Prowess.

Public sector banks: SBI, BOB, CNB, SYB, COB, ALB, VIB and DNB

The above analysis conveys that out of 994 directors, 447 (45 per cent) directors are having 31 to 45 years of experience, 417 (42 per cent) directors are having the experience of 16 to 30 years, 110 (11 per cent) directors having 1 to 15 years of experience and 20 (2 per cent) directors are found to be more than 46 years of experience. Therefore, it is observed that most of the directors in the public sector commercial banks are having experience of above 30 years on the board.

Board meetings conducted and attended by the board of directors:

The number of meetings held during the year and number of directors attended the board meeting in public sector commercial banks are represented in the table. 6.

Table.6 Board Meetings Attended by Directors

Name of public sector commercial banks	Total no. of board of directors	No meetings held during the year	No of directors attended the meeting	Per cent of directors attended the meeting
State bank of India	152	99	85	56
Bank of Baroda	136	163	115	85
Canara bank	111	121	100	90
Syndicate bank	110	113	84	76

Corporation bank	134	146	110	82
Allahabad bank	112	134	107	96
Vijaya bank	109	111	85	78
Dena bank	130	144	96	74
Total	994	1031	782	
Avg	124.25	128.87	97.75	80

Source: Data compiled from corporate governance reports of banks in CMIE Prowess.

It is observed that among the select banks, the number of directors attended the board meetings are found more in Allahabad bank (96 per cent), Canara bank (90 per cent), and Bank of Baroda (85 per cent). Less number of directors attended the board meetings in State bank of India (56 per cent) as compared to other banks mentioned above. Hence it is seen that per cent of board of directors attended the meeting is more in Allahabad bank and less in State Bank of India among the public sector commercial banks.

Directors holding directorship in other companies' board:

The table.7 represents the directors holding directorship in other companies' board in public sector commercial banks.

Table. 7 Directors Holding Directorship in Other Companies' Board

Name of public sector commercial banks	Total no. of directors	Directors holding directorship in other company's board	Per cent of directors holding directorship in other companies board
State bank of India	152	111	73
Bank of Baroda	136	88	65
Canara bank	111	45	41
Syndicate bank	110	43	39
Corporation bank	134	62	46
Allahabad bank	112	65	58
Vijaya bank	109	76	70
Dena bank	130	55	42
Total	994	545	
Avg	124.25	68.12	54

Source: Compiled data collected from Corporate Governance reports of banks from CMIE Prowess.

Public sector banks: SBI, BOB, CNB, SYB, COB, ALB, VIB and DNB.

From the above it is observed that the board of directors belong to State Bank of India (73 per cent) and Vijaya bank (70 per cent) are holding more number of directorship in other companies. Board of directors belongs to Dena bank (42 per cent), Canara bank (41 per cent) and Syndicate bank (39 per cent) are holding less number of directorship than others banks. It is concluded that among the select public sector commercial banks board of directors in State bank of India holding more number of directorship and less number of directors holding directorships in Syndicate bank.

Number of complaints attended by the board of directors:

The table. 8 explains the number of complaints received, resolved and kept pending by the board of directors of public sector commercial banks.

Table. 8 Number of Complaints Attended by the Board of Directors

Name of public sector commercial banks	No. of the complaints received by the bank	No. of complaints resolved	No. of complaints Pending	Per cent of complaints resolved
State Bank of India	28245	28191	54	99
Bank of Baroda	118354	117889	465	99

Canara bank	43846	43846	-	100
Syndicate bank	37807	37807	-	100
Corporation bank	2088	2083	5	99
Allahabad bank	33764	33666	98	99
Vijaya bank	30975	30972	3	100
Dena bank	8152	7909	243	97

Source: Compiled data collected from Corporate Governance reports of banks from CMIE Prowess.

Public sector banks: SBI, BOB, CNB, SYB, COB, ALB, VIB and DNB.

The Bank of Baroda board receives the highest number of complaints (118354) and least number of complaints received by Corporation bank (2088). The number of complaints pending is more at Bank of Baroda (465) and least number of complaints pending in Vijaya bank (3). It is observed that the board of directors resolved almost all the complaints effectively in public sector commercial banks.

Conclusion:

The composition of the board of directors in Public sector commercial banks has concluded that they followed the Clause 49 of Corporate governance by appointing more than 50 per cent of outside directors on the board. Most of the directors in Public sector commercial banks are in the age group between 46-55 years old, professionally qualified in the board and they are found to have an experience above 16 years in the board. The Public sector commercial banks have followed the Ganguly committee recommendation of the composition of the board of directors. It also emphasis that effectiveness is reflected based on the experience and the way complaints are addressed with great problem solving skills possessed by the board of directors in Public sector commercial banks.

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