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Corporate Governance Best Practices: An Examination Through the Lens of State Bank of India

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Abstract

Corporate governance is a term that has gained a portion of care in the corporate world, particularly after the unexpected collapse of Enron, WorldCom, Xerox, Lehman Brothers, and the Satyam disaster. Poor transparency and inadequate disclosures in annual reports have made it difficult for stakeholders to regulate the overall health of corporations. The banking and financial organizations are the pillars of any economy, and their sound functioning is critical to maintaining a healthy economic condition. This research study is mostly engrossed in assessing the CG practices followed by the SBI on various parameters and examining the consequence of CG on financial performance.

Key Words: Corporate governance, transparency, State Bank of India and financial organizations

INTRODUCTION

CG is basically about how organizations are directed, managed, controlled, and held answerable to their stockholders. In India, With the hasty stride of globalization, several companies have been involuntary to tap international financial markets and subsequently aspect larger rivalry than earlier. Both legislators and business managers have become progressively attentive to the reputation of enhanced standards of CG. India has one of the best CGX laws, but the pre-reform era's poor implementation and socialistic policies have pretentious corporate governance. Focused ownership of shares, pyramiding, and tunneling of resources among group companies mark the Indian corporate landscape**.** The concept of corporate governance has developed due to huge corporate failures. The non-existence of transparency and deprived revelations in the annual reports are hindering the stakeholders from discovering the well-being of the corporate houses. Consequently, the investor community urged for improvements in governance practices which led to the execution of corporate governance codes. In topical days, there has been a special focus on corporate governance, particularly after the global financial crisis. Numerous nations have restructured their corporate governance codes.

CG is a framework that guides the functioning of an organization. One of the primary benefits of corporate governance is that it addresses skirmishes of interest within the organization and ensures that everyone's goals and interests are aligned towards the betterment of the organization. It also clearly defines the rights and responsibilities of those elaborate in the daily operations of the organization.

REVIEW OF LITERATURE

Hossain Mohammed (2007) has analyzed the close and range of CG disclosure among banking companies in India. The research study was conducted on 38 banks. The outcomes exposed that variables such as assets, ownership, and financial performance were noteworthy in explaining the level of corporate governance disclosure, while other variables such as age and panel composition were originating to be insignificant.

Gowd et al. (2013) attempted to examine the corporate governance practices of SBI and scrutinize the connection between market valuation and operating performance with the corporate governance score of SBI. The information was inspected using correlation analysis, multiple regression, and t-test. The outcomes show that there is a positive correlation between sales, market value, dividend policy, and profits of SBI. The sales and CG of SBI also have a substantial optimistic correlation. However, the influence of CG on market value, PAT, and DPR are not statistically significant. Hence, it is concluded that SBI should focus on enhancing its sales income, profits after taxes, and market capitalization while maintaining an optimal dividend policy to maximize corporate superiority, which finally enhances corporate governance.

Objectives of the study

The research study will conduct an in-deepness analysis of CG practices in the Indian banking segment with the primary objective of providing critical insights that can enable industry leaders to make knowledgeable decisions that will influence their organizations.

RESEARCH METHODOLOGY

Sample Selection

we have deliberately selected the SBI, a public sector bank, for our research study. With its inveterate track record of stability, reliability, and extensive network across the country, we are confident that the SBI is the ideal choice for obtaining the necessary data to successfully complete our research study.

Data Sources

This particular research study involved a comprehensive data collection process, with a foremost focus on gathering information from the yearly reports of the SBI. The timeframe of the investigation spanned a period of five years, covering the fiscal year from 2017-18 to 2021-22.

STATE BANK OF INDIA

The Bank of Calcutta was founded in 1806 by the British East India Company, making it the first bank to be established in India. Initially, it provided banking services to British soldiers and civil servants but later expanded its facilities to the general public. In 1921, the bank was renamed as the Imperial Bank of India, and it continued to function under this name until 1955 when it was nationalized and became the SBI.

Today, SBI is the major commercial bank in India, with over 24,000 branches across the country. It has a ridiculous history that distances more than 200 years and is a testament to the bank's resilience and capability to adapt to changing times. SBI offers an extensive variety of banking and financial services to its customers, as well as personal and business banking, loans, insurance, and investment products.

Despite facing inflexible struggles from private and foreign banks, SBI has remained a trusted name in Indian banking and continues to play an indispensable role in the country's monetary development. Its legacy as the primary commercial bank in the Indian subcontinent is a source of pride for its workforce and customers alike.

The Bank's Philosophy on Code of Governance

State Bank of India is fully committed to upholding the best possible standards of Corporate Governance, both in principle and in practice. We believe that Corporate Governance is greatly supplementary to simply following lawful and regulatory requirements. Rather, it is a crucial aspect that allows us to manage and control our business effectively, sustain high standards of business ethics, and safeguard that all our investors enjoy the optimal value. The objectives can be concise as follows:

- To protect and intensify the worth of the company for its shareholders.
- To safeguard the welfares of entirely other stakeholders, including customers, employees, and society.
- To guarantee the transparency and honesty of communication and to provide complete, precise, and vibrant information to all those concerned.
- To safeguard responsibility for performance and customer service and to attain excellence at all levels.
- To offer exceptional corporate direction as an example for others to follow.

The Bank is Committed to:

The following are important responsibilities of the Bank's Board of Directors:

- Holding regular meetings, and providing effective management and perceptions into business and purposeful matters, while monitoring the Bank's performance.
- Launching an outline of strategic control and uninterruptedly reviewing its efficiency.
- Creating standard and transparent management procedures for policy development, implementation and examination, decision-making, monitoring, control, and reporting.
- Providing the Board with free access to all appropriate information, advice, and resources essential for it to convey its role efficiently.
- Safeguarding that the Chairman has accountability for all facets of executive management and is answerable to the Board for the final performance of the Bank and execution of the policies laid down by the Board.
- Guiding the role of the Chairman and the Board of Directors as per the SBI Act, 1955, along with all relevant amendments.
- Making a senior policymaking responsible for obedience issues with all valid statutes, principles, other measures, and strategies as placed miserably by the GOI/RBI and other officials and the Board, and reporting deviations.

Board of Directors/ Board Issues

The Board of Directors is a crucial aspect of any organization, and its usefulness can significantly impact the company's success. In the subsequent paragraphs and Table No. 1, we will examine several facets of the Board of Directors, including its structure, strength, size, diversity, meetings, and other relevant particulars. By studying these aspects, we can gain a better understanding of what way the Board operates and its influence on the company's overall performance.

Table 1: Board Structure, Strength, and Size of State Bank of India

Particulars	2021-22	2020-21	2019-20	2018-19	2017-18
Total no. of directors	13	14	14	15	16
Non-Executive (excluding Chairman)	6	6	9	7	7
Independent Non-Executive	4	4	4	4	4
Women Non-Executive	0	0	0	0	0
Foreign Non-Executive	0	0	0	0	0
Executive (excluding Chairman)	4	4	5	6	3

Women Executive	0	0	0	1	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	13	14	16	16	13
Is the Chairman Executive?	Yes	Yes	Yes	Yes	Yes

Source: Annual Reports of SBI

Composition of the State Bank of India

Chart. 1 Number of directors of State Bank of India

The Central Board of the SBI is the uppermost governing body accountable for managing the bank's operations and making major decisions. The board typically comprises of 14 to 16 members, with the Chairman and Managing Director, Executive Directors, and other non-executive members. This number is in mark with Section 149 (1) of the Companies Act, 2013, which governs the appointment of directors in Indian companies.

As per the act, A company is limited to having no more than 15 directors on its board, ensuring a streamlined and effective governance structure, but it can employ more than 15 directors after filing a special resolution. The act also mandates that at least one-third of the directors should be independent directors, and the board must have at least one woman director.

The Central Board of SBI comprises a group of experienced and qualified personalities who are answerable for the bank's strategic direction and overall performance. The board's composition and appointment of directors adhere to the guidelines specified in the Companies Act, 2013.

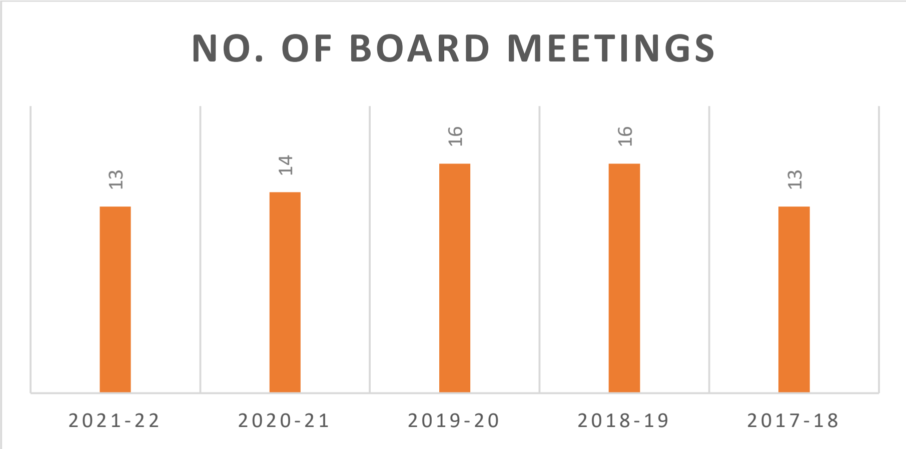

Chart. 2 Number of meetings held by the State Bank of India

Board Structure, Strength, and Size Central Board of SBI

The SBI remained established in 1955 through an Act of Parliament known as SBI Act, 1955. The Act constituted a Central Board of Directors, which exercises its powers and performs its functions by the provisions of the SBI Act and Guidelines 1955. The Bank's major typoscripts include, but are not limited to: overseeing the Bank's risk profile; monitoring the truthfulness of its business and control mechanisms; guaranteeing efficient management; and maximizing the welfares of its stakeholders.

The State Bank of India's Central Board is composed of a Chairman, who is selected under section 19(a) of the SBI Act, and four Managing Directors, who are selected members of the Board under section 19(b) of the SBI Act. Both the Chairman and Managing Directors are whole-time Directors, meaning they work full-time for the bank. The Chairman is the head of the board, responsible for leading the bank's strategic direction, while the Managing Directors assist in managing the bank's operations and financial performance

Committees of the Board

To ensure that the board is able to carry out its responsibilities efficiently, it has been granted the authority to form various committees comprised of its members. These committees are designed to focus on specific areas of the organization and provide recommendations and advice to the board. The Audit Committee, for instance, is accountable for reviewing and monitoring the company's financial reporting and internal controls. The Nomination and Remuneration Committee, on the other hand, is answerable for identifying and appointing new board members and determining their compensation. The Risk Management Committee is tasked with assessing and handling various types of perils associated with the company's operations. The Stakeholders Relationship Committee focuses on maintaining positive relationships with the company's stakeholders, while the CSR Committee is accountable for overseeing the company's corporate social responsibility initiatives.

CONCLUSION

Effective corporate governance practices play a vital role in facilitating the rapid evolution and progress of the banking sector. This is because good governance practices help to safeguard that organizations run smoothly, maintain a positive corporate image, increase transparency and accountability in all corporate affairs, and safeguard the benefits of their stakeholders. Therefore, all organizations must adhere to these moral practices. As such, I implore the policymakers to take the necessary measures to implement sound governance practices in the banking sector, which will ultimately benefit the industry and all its stakeholders.

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