International Journal of Business and Management Invention (IJBMI)
ISSN (Online): 2319-8028, ISSN (Print):2319-801X
www.ijbmi.org || Volume 12 Issue 5 || May 2023 || PP 105-108

Banks and Financial Institutions; the backbone of Indian Economic sector

Dr. Yogesh Kumar
Assistant Professor, Department of Commerce
Seth P.C. Bagla P.G. College, Hathras

ABSTRACT
Corporate governance has always been a part of the Indian corporate sector, but the fraud of Satyam Computer Services Limited and other corporate governance failures raised concerns about corporate governance in India. Banks are key drivers of economic reforms, including corporate governance practices. Corporate governance is crucial for protecting the rights of thousands of shareholders who own the company but do not actively participate in running day-to-day operations.
Keywords: *Corporate Governance, Role of Corporate Governance, Airlines*

I. INTRODUCTION

Because of banks' systemic nature, incorporating corporate governance standards into the evaluation of credit risks associated with the lending process will push the corporate sector to enhance its internal corporate governance processes. To attract and retain the commitment of investors, customers, and employees, banks must guarantee that their Corporate Governance Practices align with the global norm. Corporate fraud and governance failures have been more common in the banking sector in recent years, which is why robust corporate governance is required. To administer a corporation, relevant standards and legislation must be in place that are consistent with international criteria. India is looking forward to greater developments through the merger and formation of new banks, such as the merger of Vijaya Bank and Dena Bank with Bank of Baroda, Syndicate Bank with Canara Bank, and the establishment of Kerala Bank, and stakeholders are more concerned about the trustworthiness of banking transactions. So the current study is focused on analysing the role of corporate governance practices for policy making and the protection of the social interest.

II. LITERATURE REVIEW

James Nelson (2005) examined various facts about corporate governance practices and details how governance practices have evolved over time, as well as the relationship between firm performance, CEO characteristics, and changes in corporate governance practices, using an unbalanced panel of 1721 US large firms from 1980 to 1995. According to him, by 1995, the majority of companies had incorporated various forms of charter changes, poison pills, or other governance mechanisms that might be detrimental to shareholders. Most businesses have implemented various, even redundant governance requirements. Shareholders are more inclined to approve an increase in the power of better performing firms' boards of directors, but boards of poorly performing firms are far more likely to undertake governance modifications, such as poison pills, that avoid shareholder approval. I found no correlation between CEO age, duration, or remuneration and governance reforms.

Osma (2008) analysed the different types of earnings manipulation and the effect of independent boards on constraining research and development (R&D) spending manipulation. They surveyed all UK nonfinancial firms and found that independent directors are capable of identifying and constraining earnings management represented by R&D cuts and can see through this type of manipulation.

Siregar and Utama (2008) evaluated the impact of corporate governance procedures on earnings management in Indonesian companies listed on the Jakarta Stock Exchange. They find no indication that companies with independent boards engage in informative earnings management. Adams et al. (2009) conducted a big study to explore outside directors' functions as advisors and monitors of management. He discovered that directors who primarily watch management believe they participate in less boardroom discussions than other directors, and that the CEO frequently seeks their opinion.

Dimitropoulos and Asteriou (2010) investigated the influence of board independence on earnings management for 97 non-financial companies listed on the Athens Stock Exchange in Greece from 2000 to 2004. They employ discretionary current accruals to measure earnings management, and in line with previous Anglo-American studies, they discover that board independence is strongly and negatively connected to their EM proxy.

Hoque et al. (2013) conducted an empirical study of the impact of corporate governance measures on the financial performance of 25 Bangladesh-listed banking companies between 2003 and 2011. According to the study, general public ownership is positively and significantly associated with ROA and ROE, and the presence of independent directors has a considerable favourable effect on bank performance.

III. OBJECTIVES OF THE STUDY

The main objective of the study is to analyse the "Role of Banking Corporate Governance practices for the Policy making , Merging and Acquisition and the security of Social Interest".

3.1CORPORATE GOVERNANCE FOR POLICY MAKING

The banking sector is the investment industry, in which over 99% of citizens invest their hard-earned money through bank accounts. The current fraud uncovered in the sector that causes concern in the hearts of ordinary individuals is "Whether their money is secured in banks?" Recent recommendations and orders from the RBI, SEBI, NABARD, and others have focused on this issue, making it the most relevant marked area in the financial industry. The importance of corporate governance was highlighted in SAARC meetings, international banking conferences, and IMF directives to its members. The Indian judiciary has also issued directives on corporate governance in the banking sector in the recent cases of Kingfisher Airlines and Nirav Modi, as well as directives to the central government and RBI for large-scale corporate funding. As a result, this study contributes to the analysis of present banking corporate governance practices and the development of corporate governance laws in the banking sector through national and state government Acts and Ordinances. For example, large-scale cooperative societies up to district levels are combined for the construction of Kerala Bank, which is significantly harming the labours and farmers of the state, and it is vital to preserve the interests of stakeholders.

IV. Case Study I:- Kingfisher Airlines

4.1Background of the Study:

Kingfisher Airlines was established in the year 2003 and owned by the United Breweries Group which is based at Banglore. The major promoter was India's biggest liquor tycoon Mr. Vijay Mallya. In 2006, the Airlines attained a five-star status and were popular among the business class travelers. By the year 2007, KFA merged with Air Deccan that was a low-cost-carrier that charges low fares while Kingfisher was a high cost carrier. In May 2009, Kingfisher Airlines achieved the highest share in aviation market among all the airlines in India by carrying more than 1 million passengers. In Sept 2010, ex-CEO of SpiceJet, Sanjay Agarwal joined Kingfisher Airlines and Vijay Mallya assumed the role of MD and Chairman of Kingfisher Airlines. By the end of the year 2011, Kingfisher Airlines suffered a huge financial crisis. Kingfisher Airlines, UB Holdings Ltd. was availed loan by many Private and Public sector banks in India. But the CMD was unable to repay loans to many public sector banks; however private banks recovered all loans.

4.2Problem of the case:

In the year 2007, after the company acquired Air Deccan, the situation became worst and this led to the airline faced the financial crisis for long time. After merging with Air Deccan there was an introduction of Kingfisher Red in 2008. But this business strategy made confusion in the mind's of consumer because the KFA passengers were used to the luxury provided like cuisine and lounge access etc. This merging strategy totally degraded the brand image of KFA and lost its premium value. The company incurred a loss of more than 10 billion for 3 years after merging with Air Deccan. When Kingfisher gets to know that they did a big mistake by acquiring Air Deccan, it increased the prices of Kingfisher Red. But Kingfisher Red was also not a good option at that time because it was under loss and this created confusion among the management to call it a low cost or normal carrier. Economic slowdown in 2008 is another external factor for downfall of the Kingfisher. In 2008, first international route from Bangalore to London was set up. Because of downturn, fuel prices of airplanes raised landing charges at international airport which highly impacted Kingfisher airlines. In December 2011, Income Tax Department of Mumbai freeze the bank accounts of KFA because of due of Rs 70 crores. Now KFA is under a total debt of Rs 7057.08 crores (USD 1414 million) and total losses of Rs 6000 crores (USD 1202 million. Kingfisher Red was finally shutdown in February 2012. According to a report generated by"The Indian Express" in November 2015, Mr. Mallya suffered a total loss of Rs 9,091.40 crore. He took loan from 17 banks. His highest debt was with State Bank of India of Rs. 1600 crore. From the above data the airline owes Rs 800 crore each to Punjab National Bank and IDBI Bank. It also owes Rs 650 crore to Bank of India, Rs 550 crore to Bank of Baroda, Rs 410 crore to Central Bank, Rs 320 crore to UCO Bank, Rs 310 crore to Corporation Bank and Rs 430 crore to United Bank of India, among others, data showed.

V. Corporate Governance Issues:

- The frequent change of top level management like CEO for more than in a year and improper functioning of them affected the running of the business. The role f top level management is very important in day to day operations, but in this case, Mr.Vijay Mallya was not intervened in day-to-day operations and after few years, airline was gifted to Siddarth Mallya (son of Vijay Mallya) on his birthday. He couldn't make proper management due to lack of his experience and proficiency in the airline industry also led to downfall of the Kingfisher Airlines.

- The major mistake committed by Mr. Mallya is that he failed to make proper decisions at the right time. As Mallya being a liquor tycoon, he couldn't understand the requirement of consumers of Airlines. He considered the needs of the consumers of both the industries are same. He thought that airlines were considered to be a luxury travels and the consumers may ready to pay more for luxury. But in India, customer might pay extra for alcohol but not for transport because transport is type of necessity than luxury.

- By the year 2011, Kingfisher was struggled to pay the salaries to their employees. Salaries were due for 4 to 5 months. Due to this, the employees started were refused to sign the mandatory "Tech Log" which states that aircraft is fit and ready to fly. This was noticed by Directorate General of Civil Aviation (DGCA) and cancelled the license of KFA.

VI. Conclusion:

Mr. Vijay Mallya's strategy did not last long and proved to be a significant danger to both the sustainability and stability of the aviation sector. Mallya is now the sole board member still holding onto the brand. Furthermore, he is undertaking a trial in America for specific concerns in India. Senior management, lead by the CEO, is in charge of conducting the corporation's day-to-day operations and keeping the board informed of their status. A successful firm should be focused on building an efficient work environment, making accurate decisions at the right time, fostering a healthy competitive atmosphere, enhancing service quality, and working together to discover the best solutions to challenges.

6.1Case Study II:- Nirav Modi Vs PNB

Nirav Modi is an Indian diamond millionaire with an estimated $1.75 billion, according to Forbes. Punjab National Bank (PNB), India's second-largest state-run bank, accuses Mr Modi of being a key suspect in a $2 billion fraud. He left India in early 2018 and has not returned, and PNB is suspected of a Rs 11,300 crore scandal. Diamond trader Nirav Modi and his uncle Mehul Choksi are accused of using a regulatory loophole to get letters of undertaking (LoU) from the bank while lacking the necessary securities and transaction records. According to PNB's reporting, "It was found through SWIFT trail that one 'junior level' branch official unauthorised and fraudulently issued Letter of Undertakings (LoUs) on behalf of some companies belonging to Nirav Modi Group viz. Solar Exports, Stellar Diamonds and Diamond R US for availing buyers credit from overseas branches of Indian banks." Mr Modi was arrested in central London and appeared in court; the arrest was made on behalf of Indian authorities, who had requested his extradition. The judge at Westminster Magistrates Court denied him bail, and he has been remanded in custody. The Indian judiciary is awaiting his extradition to India and prosecution for the scheme, which has yet to take place.

6.2SECURITY OF SOCIAL INTEREST

Corporate governance contributes to the protection of the diverse views and interests of stakeholders in democracy. It is an important aspect in restoring public trust in banks and investments, which has been undermined by major corporate banking crimes in recent years. Corporate governance in the banking sector, whether directly or indirectly, contributes to the country's inevitable development. The massive monetary flow and NRI funding to the banking system have an impact on banking industry management, necessitating the implementation of a strong corporate code of conduct. It also assists the government in developing the country's banking and financial policies, as well as the credit ratio and prime lending ratios established by the RBI. As a result, this study benefits the general public by addressing financial worries and securing deposits and investments, which are critical components of social commitments to the public and vice versa. For example, consider the RBI's policy draughting during COVID-19. The RBI's recent initiatives aim to increase liquidity, lower funding costs, and provide financial support to the people through loan moratoriums and advance pensions, among other measures.

6.3MERGER AND ACQUISITIONS (M&A)

Mergers and acquisitions of banks are primarily focused on improving the Indian financial industry through strong backing from nationalised institutions, and they will result in advanced banking portfolios for consumers as well as the general public. This is primarily dependent on management's capacity to identify important challenges and problems that may develop when merging and acquiring institutions must collaborate. Sound corporate governance must encourage significant increases in bank profitability and adequacy ratios. Good corporate governance systems will ensure that institutions achieve maximum production and efficiency, eliminate corruption and abuse of power, and provide a system of managerial accountability. Corporate governance will ensure the seamless operation of policies and systems that result in good behaviour and protect shareholders.

The recent merger of Bank of Baroda (BOB) with Dena Bank and Vijaya Bank made BOB India's second largest public lender after SBI, and third largest overall after SBI and HDFC Bank. The mega bank now has a balance sheet worth more over Rs 15 lakh crore, including deposits of Rs 8.75 lakh crore and advances of Rs 6.25 lakh crore. The combined firm has 120 million customers, 85,000 workers, over 9,500 locations, and 13,400 ATMs. The merger will improve the operating efficiency of three banks by lowering operational and finance expenses while also strengthening risk management standards. consumers of Dena and Vijaya Bank will now have access to BoB's global reach of over 101 offices, as well as special initiatives from one bank to consumers of the other two. BoB and Dena customers, for example, can now take use of exclusive Vijaya Bank initiatives such as plantation finance and SRTO funding. "The bouquet of products, substantial investments made in technology and Centre of Excellence on Analytics & AI and Technology will help in benefiting a wider customer base," said PS Jayakumar, Baroda's CEO. Following this, Syndicate Bank merged with Canara Bank to become India's fourth largest bank, effective April 1, 2020.

VII. CONCLUSION

It is considered that this study is more significant to both the financial sector and society. The greatest corporate governance policies support the success of corporate banks and the country's economic progress. Furthermore, corporate governance in the banking sector led to the development of many ordinances, bylaws, and statutes in India. Strong policies sustain investor and depositor confidence, allowing the bank to move forward and achieve its efficiency and effectiveness in a focused and objective manner. Good corporate governance practices reduce waste, corruption, risk, and mismanagement while also assisting in the construction and development of the country's branding. It also helps the government develop policies to enable emerging banks in the country compete with global banks and their policies. As a result, India will be able to outperform other growing countries in the future.

REFERENCE:

[1]. Abdul Rahman, R., and Ali, F.H.M. (2006). Board, Audit Committee, Culture And Earnings Management: Malaysian Evidence. Managerial Auditing Journal, Vol. 21, No. 7: pp. 783-804. 134.

[2]. Adams, R., Hermalin, B., and Weisbach, M. (2009). The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey. Journal of Economic Literature, Vol. 22, No. 1: pp. 20-47.

[3]. Business Today AIMS, “Research Survey: Best Boards,” Business Today, 7-21 March 1997, pp. 76-84.

[4]. Balasubramanian, N., “Corporate Governance: New Role for Internal Audit,” The Chartered Accountant, Vol. XLVI, No. 10, April 1998, pp. 11-17.

[5]. Syamal Ghosh, “The Global Experience”, The Chartered Accountant, Journal of the Institute of The Chartered Accountant, pp. 23—29, Aug. 2000.

[6]. Yamaoka, T., “Corporate Governance Underpins Divergent Fortunes of Japanese, Korean Banks,” Treasury Management, December 2002, pp. 40.43.

[7]. “Kingfisher Airlines: Too big to fail, too big to save”, The Economic Times, 21 November 2011. - Google Search

[8]. https://economictimes.indiatimes.com

[9]. Air Deccan is now Kingfisher Red - Times of India

[10]. https://economictimes.indiatimes.com