Analysis of Corporate Governance and Management Control: A Case Study on SBI

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Abstract

The matter of Corporate-Governance has come up fundamentally in the wake of financial-reforms depicted by liberalization and deregulation. The Corporate-Governance has at its spine a course of action of the explicit connection between a corporate’s management its board, financial investors and various interested parties. For assessment reason, the study is done in two parts. With the information that is deduced from secondary sources, this study was examined and as a result of different variables, of the demonstration of Corporate-Governance was assessed in SBI. The Indian banking framework is among the more successful performers on the planet. In the improved financial situation, the banking division in India can’t ignore the noteworthiness of Corporate-Governance. The corporate-administration of banks is the journey for sound business morals and strong expertise skill that adjusts the premiums of all interested parties and the overall population. SBI is the most significant bank among all public and private banks in India. It is the second largest bank on the planet measured by the number of branches. The bank gives various domestic, international services through its incredible framework in India and abroad. SBI needs to ensure excellent Corporate-Governance to fulfil greatness, straightforwardness, amplify investors’ value and ROI. The paper tries to assess the Corporate Governance in State Bank of India.

Keywords: State Bank of India (SBI), Corporate, Governance, stakeholders, Board of Directors (BODs)

JEL Classification: G34

Paper Classification: Research Paper

Introduction

In the evolving monetary environment, the corporate sector on the planet can’t disregard the significance of Corporate Governance. There were a few skullduggery and tricks in the corporate history of the world. In a steady progression falls of driving organizations like Robert-Maxwell, Enron, Satyam Computers and different tricks pull the fascination of speculators towards Corporate Governance. The vast majority of the skullduggeries are identified with poor Corporate Governance and due to carelessness of responsibilities and obligations by the board.

The corporate-governance has turned into the most recent buzz expression in the corporate part of the world. Corporate-governance alludes to the way an enterprise is governed. India’s SEBI
board of trustees characterizes corporate-governance as “the investors are the genuine owners of the corporation, this is the basic right.” Corporate-governance and its effect on firm conduct are a standout amongst the most bantered about issues in literature today. As of recent years, the talk has concentrated on the structure of the BODs, as the most exceptional governance mechanism of the inside control systems (Jensen, July 1993). The issue of corporate-governance has come up basically in the wake up of financial changes depicted by liberalization and deregulation. As demonstrated by OECD, the flow of rights and obligations are decided by corporate-governance among various members in the association, for instance, the board, BODs, investors and various interested parties and it furthermore clarify the rules and strategies for settling on decisions on corporate-undertakings. (Smriti Sharma, January 2013). The corporate-governance is selective of the board of directors in a way that it turns into a method for organizational life and not only composed standards or regulations or code of ethics (Kesseven Padachi, October 2014). Ethics and transparency are cardinals of corporate-governance.

Corporate Governance builds up a framework wherein executives are given responsibilities and duties in connection with the organization’s issues, suppliers, working employees, clients, government and the general public on the large part. The viable corporate administration is vital for any organization to be effective independent of the kind of business it does, yet for the bank and monetary institutions, Corporate Governance expects a more prominent level of significance.

Authors considering corporate-governance have utilized a various set of hypothetical viewpoints to comprehend the characteristics, usefulness, and impacts of the BOD (Guido Corbetta, June 2004). Organization theoretic contentions speak to one clarification in portraying the relation amongst investors and BODs (Ronald C. Anderson, 2004). The board is accused of the obligation of dealing with the issues of the corporate-governance with determination, transparency, duty, and responsibility and maximizing investors’ wealth. As per (Parker, 2006), it is frequently assumed that there is an immediate and clear caused relation between the activities of the board and the success of the company, measured with such factors as; profitability, notoriety and stock cost.

**Evolution of Corporate Governance**

The seeds of present-day corporate administration were sown by the Watergate outrage in the US. Consequent examinations by US administrative and legal bodies featured control failures that had enabled a few noteworthy companies to make illegal political commitments and inducement to government authorities. While these advancements in the US, fortified level headed discussion in the UK, a spate of outrages and falls in that nation in the late 1980s and mid 1990s drove investors and banks to stress over their speculations. A few organizations in UK which saw unstable development in income in the 1980s finished the decade in a notably terrible way.

In May 1991, the London Stock Exchange set up a board under the chairmanship of Sir Arian Cadbury to help raise the benchmarks of Corporate Governance and the level of trust in financial reporting and reviewing by setting out what it sees as the individual obligations of those included and what it accepts is anticipated from them. The panel examined the responsibility of the BODs to the general public. They presented their report and the related “code of best practices” in December 1992 wherein it spelled out the techniques for governance expected to accomplish a harmony between the basic forces of the top managerial staff and their legitimate responsibility.

Contemporary corporate administration began in 1992 with the Cadbury report in the UK. Cadbury was the consequence of fall of a few prominent organizations and was concerned
principally with ensuring frail and broadly scattered investors against self-intrigued directors and agents, i.e., also called as managers.

**Indian Environment Scenario**

The corporate-governance program was not initiated in India by only nation-wide monetary, banking or financial fall. This initiative was driven in India by CII (The Confederation of Indian Industry). A team by Confederation of Indian Industry in 1995 December was set up to outline a voluntary code of conduct. On the date of April in the year 1998, it was called “Desirable Corporate-governance: A Code.”

After Confederation of Indian Industry’s (CII’s) action, a council was set up by SEBI underneath Kumar Mangalam Birla with the main focus to frame a mandatory cum-recommendatory code for registered organizations. The Birla Committee Report was submitted in February 2000, and SEBI endorsed it in December 2000. After CII’s and SEBI’s amendments, the Department of Company Affairs (DCA) altered the “Companies Act, 1956”, to include particular corporate-governance conditions concerning independent Board directors and auditory groups.

**Objectives**

The purpose of the study is to:

- Assess the corporate-governance practice in the banking part from the contextual analysis of the State Bank of India.
- Two sections are discussed in order to ease the process of assessment of scenario.

In the very first section, the ideas of corporate-governance like the evolution of corporate-governance in the Indian situation, role, and consequence of corporate-governance in the banking area is being discussed. The second stated section analyzes the act of corporate-governance as controlled by SBI with the assistance of components similar to board practices and stakeholders.

Secondary data about the activities including setting up, roles, services, and facilities offered by the SBI was taken from libraries, annual reports, economic survey, and journals.

**About SBI**

The State Bank of India, the country’s most seasoned Bank and a head as far as balance-sheet measure, number of physical branches, market capitalization and benefits, is today experiencing an earth-shattering period of change and transformation – the two-hundred-year-old Public segment behemoth is today mixing out of its Public Sector inheritance and moving with a capacity to give the Private and Foreign Banks keep running for their cash. The Bank is moving forward with front-line innovation and creative new managing account models, to grow its Rural Banking base, taking a gander at the tremendous undiscovered potential in the hinterland and proposes to cover 100,000 towns in the following two years. The Bank is changing obsolete front and back-end procedures to current customer-friendly procedures to help enhance the aggregate client encounter. With around 8500 of its own 10,000 physical branches and another 5,100 physical branches of its Associate Banks as of now organized, today it offers the biggest money saving system to the Indian client.

All through this change, the Bank is additionally endeavoring to change old mentalities, states of mind and take all workers together on this evolving street to transfiguration. In its closed mass-interior communication customized named “-Parivartan-” the Bank took off more than
3300 two day workshops the nation over and shrouded more than 130,000 representatives in a time of 100 days utilizing around 400 Trainers, to commute home the message of Change and comprehensiveness. The workshops showcased the creative ability of the working employees with some different banks in India and also other Public Sector Organizations looking to imitate the program.

**Corporate Governance in State Bank of India**

Corporate Governance is there to empower BODs to release their liabilities and obligations as well as can be expected in the light of winning conditions, yet in the event that the conditions are not great, at that point the board ought not to be considered responsible on the grounds that the situations were outside their control. The corporate governance practice is vital for banks in India in light of this fact that many of the banks are the part of the public sector, where they are contending amidst each other as well as with different members in the banking-framework. Moreover, with conditional support of the government for encouraging capitalization of banks, several banks may need to go for public issues, prompting the change of possession. The bank represents a requisite part of the economy of the country, and any disappointment in a bank may have an impact on the fiscal well-being of the nation.

State Bank of India is India’s largest commercial bank regarding benefits, resources, stores, branches, and employees. With more than 200 years of presence, SBI has a reach to 33 nations and broad system of 18,000+ branches and 46000+ or more ATMs and 100 million records countrywide. The 1st Indian Bank to highlight in the Fortune 500 list, State Bank of India has 5 Associate banks and 7 Subsidiaries apparently the biggest in the world. Besides a large number of clients the nation over, State Bank India proposes a total scope of banking products & services with avant-garde innovation and creative banking-model.

State Bank of India, as said, is focused on the prescribed procedures in the zone of corporate administration. The sound corporate governance hone in State Bank of India would prompt viable and additional momentous-control and could add to a supportive-work relationship stuck between bank-management and bank-directors. In light of various components like boards practices, stakeholders’ services, and transparent divulgence of info the act of corporate-governance in State Bank of India was surveyed.

**Fair Corporate Governance Practices**

Every individual from the Board of Directors of the Bank should cling to the accompanying in order to guarantee consistence with great Corporate Governance code of conduct.

**Dos**

- Go to Meetings of Boards and Committee thereof (aggregately alluded to as “Board” for quickness) frequently and take an interest in the thoughts and discourses successfully, and scrupulously satisfy his/her commitments as Director of the Bank;
- Go through the Board papers altogether and inquire about follow up gives an account of clear time plan;
- Participate effectively in the matter of detailing of general policies;
- Be acquainted with the wide targets of the Bank and the approaches set around the Government and the different laws and enactments;
• Keep himself/herself educated about the business, exercises and money related status of the Bank to the degree unveiled to him/her; and
• Guarantee privacy of the Bank’s papers, notes and Minutes.

Don’ts
• Try not to meddle in the everyday working of the bank and in the execution of their obligations wherever the Director has motivations to accept else, he/she might forthwith uncover his/her worries to the Board (This stipulation does not have any significant bearing to the Chairman and the Managing Directors).
• Try not to uncover any data related with any constituent of the Bank to anybody.
• Try not to show the logo/unmistakable plan of the Bank on their own meeting cards/letter heads (This does not keep the Chairman, Managing Directors and Core Management from utilizing DO letterheads or going to cards with State Bank of India’s logo subsequently).
• Try not to support any proposition identifying with credits, ventures, structures or destinations for Bank’s premises, selection or empanelment of temporary workers, draftsmen, examiners, specialists, legal advisors and different experts and so forth.
• Try not to do anything, which will meddle with and additionally be subversive of support of great lead and respectability of the staff.

Board Practices
• Central Board: The central BODs were constituted by the SBI Act 1955. The bank does its duties as per the provisions of SBI Act and Regulations 1955. The duties are to incorporate, and administer the risk-profile of the bank; checking the sincerity of its business and control components; guaranteeing expert’s superintendence, and augmenting the interests of its investors. This board has constituted seven board-level panels.
• ACB: Audit Committee of the Board (ACB) gives guidance and overall audit work of the bank is administered by the board. Audit work infers the hierarchical, operational, control of quality of interior audits and assessment inside the arena of bank, following-up of the statutory audit and consistency with “RBI investigation”. It likewise designates statutory-auditors of the bank and examines auditors’ execution from one time to another. This board audits the bank’s monetary, risk administration, information system audit strategies and accounting-arrangements of the bank to guarantee more noteworthy transparency.
• RMCB: is Risk Management Committee of the Board, is framed and constituted to regulate the approach and the strategy for combined risk management identifying with ‘credit-risk’, ‘market-risk’, and ‘operational-risk’.
• SIGCB: Shareholders’/Investors’ Grievance Committee of the Board was framed to investigate the redressal of investors’ and shareholders’ grievances in regard to the exchange of various shares, the non-receipt of yearly reports, and also non-receipt of return as interest accrued on bonds/pronounced dividends on shares, and so forth.
• Special Board for Monitoring of Large Value Frauds: The main elements of this advisory group is to screen as well as to survey all the large valued scams with a perspective to recognizing fundamental hiatuses, assuming any, purposes behind deferral in detection and detailing, checking the progress of CBI/Police examination, recuperation position and auditing the adequacy of remedial move made to avert repeat of scams.
• **CSCB:** Customer Service Committee of the Board was made and constituted to realize the progressing-improvements on a constant-basis in the nature of a service given by the banks to their customers.

• **IT Strategy Committee:** With a perspective to following the growth of the SBI’s technological activities, the SBI’s “central-board” constituted the tech council of the board. The advisory group has assumed a key role in the bank’s innovation domain.

• **Remuneration Committee of the Board:** It was established for assessing the execution of whole-time BODs related to the bank regarding the payment of the remuneration or incentives, according to the schemes proposed by GOI.

It is obtained that in State Bank of India; these advisory groups are giving viable expert assistance in the process of managing the ‘board-level’ business in key regions.

**Information Technology Services to Stakeholders**

The bank emphatically trusts that all partners ought to approach the complete information on its exercises, execution and products activities.

a) **Customers:** With a huge system and number of branches all through India and abroad, SBI is giving diverse sorts of services and conveniences to the clients.

b) **ATMs:** State Bank Group has in its steady, variations of ATMs to be specific Bunch Note Acceptors, Biometric ATMs, Low-Cost Rural ATMs, Solar Powered ATMs, Multifunction Kiosks - for printing passbooks, articulation of records, the standardized barcode reader for service bill settlements, internet-banking account and so on. While money depositing office has been enacted at a portion of the ATMs, they are presently conveyed or installed a substantial number of Cash Depositing ATM type Machines (for Bunch Note Acceptance) at the ATM areas which can be utilized by the customers anytime and any day of the week to store money. State Bank aggregate has in its steady, variations of ATMs. The numbers of ATMs of SBI group was 25,005 in March 2011 and they expanded to 43,000+ in March 2017 (SBI, ATM services). The aggregate debit cards issued by SBI were 728 lakhs in 2011 and they have reached to 261.72 million in June 2017 (Medianama).

c) **Mobile Banking:** There was 10.13 lakh enlisted mobile-using clients in 2011 and they expanded to 1.38 crore active retail clients in 2017. SBI has propelled mobile tech-based prepaid payment benefits under the brand name of “State Bank Mobi Cash”.

d) **Internet Banking:** Internet-banking an account benefit is accessible through “www.onlinesbi.co.in” for both retail and corporate clients of the bank. Retail Internet Banking: SBI “Insta-pay” for utilities charges settlements, Corporate Internet Banking: “CINB Saral”-an improved single-user Corporate Internet Banking office for small business visionaries and so forth have been included amid the year. Internet banking benefit is accessible through www.onlinesbi.co.in for both retail and corporate clients of the bank. The number of clients in March 2011 was 62.57 lakhs, and they expanded to “2.63 crore” clients in retail and “11.27 lakhs” clients in corporate in 2016 (Medianama). The standard number of everyday-transactions in every quarter remained at “27.62 lakhs” for retail while the number remained at “9.49 lakhs” for corporates.

e) **Fund Transfer Framework:** NEFT and RTGS keep on remaining the most practical and cost-efficient modes for settlement. The acronym NEFT remains for National Electronic Funds Transfer. Amount is exchanged to the given credit bank account the other partaking Bank utilizing RBI’s NEFT benefit. RBI goes about as the specialist inter-bank fund transfer
service provider and exchanges the credit to the next given bank account. This arrangement of reserve exchange works on a Deferred Net-Settlement premise. The acronym RTGS remains for Real Time Gross Settlement. This is where the handling of assets exchange guidelines happens at the time they are gotten (real-time). Likewise the settlement of funds exchange directions happens separately on a guideline by guideline premise. SBI has the month to month exchanges of more than 6.5 crore of NEFT and for the RTGS, SBI has the aggregate transactions of close to 32 lakhs in a month.

Disclosure and Transparency

“Disclosure and transparency” are the essential mainstays of a corporate governance structure empowering satisfactory data flow to different partners and prompting acquainted choices. The SBI was actualizing every one of the policies of corporate-governance and disclosure in the vital and intimate data.

Business Segment

In this section, the treasury fragment incorporates the whole investment-portfolio and the trading in foreign-trade contracts and the derivative contracts; the corporate or wholesale banking fragment involves the loaning exercises of corporate records group, mid-corporate record group and focused on “assets-management group” and the retail-banking portion contains branches in national-banking gathering, which fundamentally incorporates individual-banking exercises including loaning exercises to corporate clients. This section additionally incorporates agency-business and ATMs.

<table>
<thead>
<tr>
<th>Business Segment</th>
<th>Treasury (in crores)</th>
<th>Corporate /Whole sale Banking (in crores)</th>
<th>Retail Banking (in crores)</th>
<th>Total (in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>41,095.95</td>
<td>61,445.90</td>
<td>71,248.38</td>
<td>173,790</td>
</tr>
<tr>
<td></td>
<td>-34,763.95</td>
<td>-54,180.43</td>
<td>-65,543.48</td>
<td>-154,487.86</td>
</tr>
<tr>
<td>Segment Assets</td>
<td>512933.07</td>
<td>783222.15</td>
<td>735200.07</td>
<td>20,31,355.29</td>
</tr>
<tr>
<td></td>
<td>-423098.66</td>
<td>-707907.27</td>
<td>-645978.57</td>
<td>-17,76,984.50</td>
</tr>
<tr>
<td>Segment Liabilities</td>
<td>308334.71</td>
<td>688172.53</td>
<td>868722.52</td>
<td>18,65,229.76</td>
</tr>
<tr>
<td></td>
<td>-214629.31</td>
<td>-620852.9</td>
<td>-787170.47</td>
<td>-16,22,652.68</td>
</tr>
</tbody>
</table>

Geographic Segments

Domestic operations are branches having operations in India. International-operations are the branches/workplaces that are having operations out-side India

<table>
<thead>
<tr>
<th></th>
<th>Domestic (in crores)</th>
<th>Foreign (in crores)</th>
<th>Total (in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,64,304.43</td>
<td>9,485.80</td>
<td>1,73,790.23</td>
</tr>
<tr>
<td>Assets</td>
<td>17,47,311.56</td>
<td>3,00,768.24</td>
<td>20,48,079.80</td>
</tr>
<tr>
<td>Liabilities</td>
<td>16,18,873.33</td>
<td>3,00,768.24</td>
<td>19,19,641.57</td>
</tr>
</tbody>
</table>

EPS

EPS stands for Earnings-per-Share. The Bank reported essential and diluted Earnings per Share as per Accounting Standard 20 -EPS. Fundamental income” per share is processed by separating NEAT (Net-Earning-After-Tax) by the weighted-avg.-number of shares outstanding amid the
year. The net benefit in 2015 was Rs. 10891.17 crores and it expanded to Rs. 13101.57 crores in 2016 (India, 2016). The basic EPS in 2015 was Rs. 15.68 and it increases to Rs. 17.55 in 2016 (India, 2016).

**Disclosure of Deposits, Advances, Exposures & NPAs (India, 2016)**

- **a) Concentration of Deposits**
  
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Current Year (in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Deposits of twenty largest depositors</td>
<td>1,01,148.22</td>
</tr>
</tbody>
</table>

- **b) Concentration of Advances**
  
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Current Year (in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Advances to twenty largest borrowers</td>
<td>2,06,512.83</td>
</tr>
</tbody>
</table>

- **c) Concentration of Exposures**
  
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Current Year (in crors.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of Exposure to the twenty largest borrowers or customers</td>
<td>3,45,152.13</td>
</tr>
</tbody>
</table>

- **d) Concentration of NPAs**
  
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Current Year (in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exposure to top four NPA accounts</td>
<td>1,839.51</td>
</tr>
</tbody>
</table>

**Findings and Conclusion**

The study found that the SBI is executing every one of the provisions of corporate governance as per the RBI/GOI directions. It is discovered that SBI, the nation’s biggest business bank, performed well in earnings, deposits, assets, branches, representatives, and services to clients. It is found that the SBI directed several executive board meetings routinely to initiate successful leadership, practical issues, and monitor bank’s execution. It is discovered that the SBI built up clear documentation and straightforward management forms for strategy improvement, implementation, better decision making, observing, control, and reporting.

Despite the fact that the SBI is demonstrating great execution and actualising assumed provisions of corporate-governance, a few omissions must be corrected for taking the execution on the higher scale.

The SBI is working on almost ten crores of client accounts. Among them, the internet banking working clients are “2.63 crores” clients in retail and also “11.27 lakhs” clients in corporate in 2016, m-banking working clients 1.38 crore active retail clients in 2017, number of ATMs for the service for clients are 43,000+ in March 2017. Despite the fact that the clients working on e-banking are gaining its number each year, they are utilising e-banking for regular or least services. It is recommended that Consumer service advisory group must step up ventures to increment web-based managing account benefits through client-awareness programs and net banking training programs. It reduces client’s pressure on branches, and it is valuable to decrease clients waiting-time in all branches. It is also found that total aggregate complaints got likewise increased by...
21% to 1.06 lakhs from 88,438 of every 2014-15. Of the 1.06 lakhs added-up to grievances in the respective banking industry in 2015-2016, SBI found 29% grievances or complaints enlisted against it for requiring of the charges, pension-delays and the ATM machines, debit card frauds. Consumer Service board of trustees must step up ventures to attractively address clients’ grievances.

The study found that the concentration of NPAs adding up to exposure to top four NPA accounts was Rs. 1,839.51 crores in 2015-16 showing credit risk. It is recommended that the credit risk administration should find a way to maintain a strategic distance from this sort of concentration of NPAs.

The SBI is directing various sorts of social service exercises in various segments like education, healthcare services and different areas as a piece of CSR. The sum spent for this intention was Rs.143.9 crore or 1% of its net benefit on social responsibility in financial year 2016. It is recommended that the sum must be increased for social service exercises to draw public consideration.

At last, it is presumed that, the corporate-governance practices in the SBI ought to enhance for best investment approaches, proper inward control systems, better credit-risk management, better customer-service and sufficient computerization so as to accomplish greatness, transparency and expansion of investor’s value and profits.

References


Authors' Profile

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