

THE EXTENT OF COMPLIANCE OF CORPORATE GOVERNANCE DISCLOSURE: EVIDENCE FROM INDIAN BANKING COMPANIES

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Abstract

The study examines the compliance of mandatory corporate governance disclosure of the Indian banking companies. The Securities and Exchange Board of India (SEBI) made it mandatory for all listed firms to provide a Corporate Governance Report in a separate section in the Annual Report. The paper has empirically identified the level of compliance of the mandatory disclosure in the corporate governance reporting under the suggested list provided by SEBI and also assessed whether the corporate attributes affect the levels of corporate governance disclosure. The study covered all the 38 banks in India that are listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). We have identified 46 items of information as mandatory and for inclusion in the disclosure index, and run a linear regression model to examine the relationship between disclosure index and various corporate attributes. The findings revealed that a high level of compliance existed in the Indian banks and that the variables of size, ownership, board composition, and profitability, have significant impact in the corporate governance disclosure.

Keywords: Corporate Governance, Banking Sector, Disclosure, India

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1. Introduction

The root of corporate governance research can be traced back to at least Berle and Means (1932), who argued that effective control over publicly-traded corporations was not being exercised by the legal owners of equity, the shareholders, but rather by hired, professional managers. Thus, academics in both law and economics have been intensely focused on corporate governance (Shleifer and Vishny, 1997; Hermalin and Weisbach, 2003; La Porta et al., 1999). Every major industrialised country as well as the Organisation for Economic Co-operation and Development (OECD), BASEL (1999) and the World Bank, has made efforts in recent years to refine their views on how large industrial corporations should be organised and governed (Marcey and O' Hara, 2003). However, despite the growing literature in the field, except for a few studies (see Mallin et al., 2005; Hackethal et al., 2005; Arun and Turner, 2003, Das and Ghosh, 2004), very little attention has been given to the issue of corporate governance, especially in banking organisations. This subject has become increasingly important given the liberalisation and deregulation of financial markets in developing economies. It is also of importance because of the existence and damage caused by banking instability in many of these economies (Arun and Turner, 2003).

The term 'Corporate Governance' remained unknown in India until 1993, when the issue came to the fore as a result of three scandals that occurred between 1990 to 1994 (for details see Goswami,

2003). Thereafter, the two major corporate governance initiatives were launched. The first was taken by the Confederation of Indian Industry (hereafter the CII), a premier industry association (Monga, 2004, p.123), and the second was established by the Securities and Exchange Board of India (hereafter the SEBI). In December 1995, the CII set up a high-powered committee under the chairmanship of Mr. Rahul Bajaj to prepare a comprehensive voluntary code of corporate governance for the listed companies. After several committee meetings and hearings, the final draft report was prepared in April 1997, the almost unedited version of which, was released in April 1998 as the booklet entitled, *Desirable Corporate Governance: A Code*. Until the end of 2000, the CII code was the only guideline for corporate governance in India¹⁰. In 1999, the SEBI established a committee called "Kumar Mangalam Birla Committee" under the chairmanship of Kumar Mangalam Birla. The SEBI board accepted and

¹⁰ It is also noted that the corporate governance code proposed by the Confederation of Indian Industry is modelled on the lines of the Cadbury Committee (Cadbury, 1992) in the United Kingdom and moreover, the surfacing of the issue in this modern or contemporary sense is certainly part of these worldwide trends, and, in particular, of the cultural influence of Cadbury-style ideas of corporate reform through self-regulation (Parkinson, 1993, p.5). Moreover, the OECD Group, and the Basel Committee on Banking Supervision (1999) etc. have highlighted the imperative need to practise corporate governance.

ratified the key recommendation of this committee about corporate governance and informed all stock exchanges in February proposing that “a new clause, namely *clause 49*, be incorporated in the listing agreement”. Clause 49, entitled ‘Corporate Governance’, contains 11 sections dealing with various corporate governance issues such as the Board of Directors, Audit Committee, Remuneration of Directors, etc. and in section VI, it states that

“There shall be a separate section on Corporate Governance in the Annual Reports of a company ...”

Within this framework, the SEBI provided a suggested list of mandatory items to be disclosed in that ‘Corporate Governance Report’. The present study is an attempt to investigate the level of compliance of corporate governance disclosure within the mandatory list and also to examine the relationship between various corporate attributes and the level of corporate governance disclosure.

2. Corporate Governance for Banks

One of the major areas of the economy that has received renewed focus in recent times has been the financial sector (Mallin et al., 2005; Hackethal et al., 2005, Das and Ghose, 2004; Arun and Turner, 2003). And within the broad ambit of the financial sector, it is the banking sector that has been the cynosure of academia and policy-makers alike (Marcey and O’Hara, 2003; BASEL, 1999). With concerns about financial stability emerging at the forefront of policy challenges facing central banks worldwide, it is being increasingly realised that promoting healthy financial institutions, especially banks, is a crucial prerequisite towards this end. Moreover, in order to perform corporate governance functions effectively, the financial sector itself must be efficient (Mallin et al., 2005, p 536). Not surprisingly therefore, the banking sector in most emerging economies is passing through challenging, yet exciting, times and India is no exception to this rule (Bhide et al., 2001).

Research finds that banks are critically important for industrial expansion, the corporate governance of firms, and capital allocation (Kaplan and Minton, 1992, Levine 1997, 2003). When banks efficiently mobilise and allocate funds, this lowers the cost of capital to firms, boosts capital formation, and stimulates productivity growth (Levine, 2003). Thus, the functioning of banks has ramifications for the operations of firms and the prosperity of nations¹¹. According to Levine (2003), banks have two related characteristics that inspire a separate analysis of the corporate governance of banks¹².

Firstly, banks are generally more opaque¹³ than non-financial firms. Information asymmetries plague all sectors, but evidence suggests that these informational asymmetries are larger with banks (Furfine, 2001). Furfine (2001) added that in banking, loan quality is not readily observable and can be hidden for long periods. Moreover, banks can alter the risk composition of their assets more quickly than most non-financial industries, and they can readily hide problems by extending loans to clients who cannot service previous debt obligations.

Secondly, banks are frequently very heavily regulated. Furfine (2001) noted that because of the importance of banks in the economy, because of the opacity of bank assets and activities, and because banks are a ready source of fiscal revenue, governments impose an elaborate array of regulations on them.

Banks form a crucial link in a country's financial system and their well-being is imperative for the economy. In addition, banking crises dramatically advertise the enormous consequences of poor governance of banks (Levine, 2003). The fact that people, by and large, deposit their money with banks and the amount of trust that presupposes, necessitates that the corporate governance mechanism for banks should encapsulate depositors as well as shareholders. The depositors are generally not aware of their bank's loan portfolio because such information is incommunicable and expensive to reveal. This gives banks the incentive to invest in riskier assets than originally promised. In such a scenario, if the investors are naïve, the gains from investing in a riskier portfolio accrue to bank owners, while the cost is partly borne by depositors (Hellman et al., 2000, p.149; Stiglitz, 1985, p.135).¹⁴ The underlying scenario here is the problem of inconsistency, the recognition that the bank may not be able to offer a credible guarantee to depositors (Diamond and Dybvig, 1983). This problem can be addressed by getting the bank to invest in brand name capital or through the government providing implicit or explicit deposit insurance; this would encourage individuals and companies to park their funds in banks with a substantial part of the moral hazard cost borne by the deposit insurer. In a scenario where the government undertakes deposit insurance, the corporate governance mechanisms in banks are of more interest to the government and ultimately to the taxpayer. Indeed, good corporate governance in the banking sector, which mainly uses the funds placed on deposit

¹¹ For a review of the impact of banks on the economy, see Levine (1997, 2004) and Levine and Zervos, (1998

¹² A more comprehensive analysis on corporate governance of the banking companies in developing economies has been done in the study of Arun and Turner, 2003.

¹³ Much of the literature asserts that financial intermediaries are more opaque than other sectors of the economy: outside investors know less than bankers about what the latter are doing with their funds (Levine and Caprio, 2002).

¹⁴ According to Arun and Turner (2003) if depositors are assumed to be rational, then the agency costs are borne by the owners of the bank in the form of a higher compensating risk premium.

by the general public and which has access to insured deposits, is especially important in order to control conflicts of interest (Witherell, 2003).

To improve corporate governance of financial intermediaries, especially banking companies, policy-makers must seek to enhance the ability and incentives of creditors and other market participants to monitor banks (Caprio and Levine, 2002, p.23). In the opinion of Caprio and Levine (2002), the governance problem in banking is severe but it is not hopeless. Recognition of the difficulty of the process, and the need to get governments focused on their role as facilitators and not as pseudo-owners, is a necessary step to greater success. As this sector is characterised by information asymmetries and economics of scale (Mallin et al., 2005), the establishment of an efficient corporate governance system requires the establishment of a competitive and efficient financial sector.

3. Method

3.1 Sample Size

The study covers all 38 banks that are listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Among these banks, 18 are public sector and 20 are private sector banks. It is noted that India has a total of 58 banks of which 27 are public sector and the rest private sector banks. The study considered the annual reports for 2002-03. The annual report has been collected through a service provider "Sansco services" (www.sansco.net) in PDF format. We have checked the annual reports through hard copy of some of the banks which were collected by corresponding directly from head office of the respective banks.

3.2 Selection of Items

We examined each of the annual reports and identified a separate corporate governance section, following the recommendation of Cooke (1992, and 1993), that the entire annual report should be read well before any decision is made. The contents of the 'Corporate Governance Report', mandatory under clause 49 were measured in the line with the list of mandatory items of information to be disclosed in that report. A total of 11 sections were identified and under the above sections, 46 (see Appendix- 1) different items of information were identified as mandatory for this disclosure activity. Thereafter we constructed a disclosure index. A dichotomous approach to scoring the items was adopted, in which an item scores one if disclosed and zero if not disclosed. This procedure is conventionally termed the unweighted approach, and it was adopted for the study as other researchers have used it successfully (see Wallace, 1987; Cooke, 1991 and 1992; Karim, 1995; Hossain et al., 1994; Ahmed and Nicholls, 1994; Hossain, 1999; and Hossain, 2001). Thus, the unweighted disclosure method measures the corporate

disclosure (CD) score of a banking company as additive (suggested by Cooke, 1992) as follows:

$$VD = \sum_{j=1}^n \frac{d_j}{n}$$

D = 1 if the item d_i is disclosed

= 0 if the item d_i is not disclosed

n = number of items

4. Hypothesis Development

In order to understand the effect of corporate attributes such as size, profitability, ownership, listing status, age etc. to the level of corporate governance disclosure, the following hypotheses were developed.

4.1 Size of the Bank

The size of the bank is a potentially important variable to establish an association with the extent of disclosure. Most researchers in this area find a close relationship between these two variables both in developing and developed countries¹⁵. A number of reasons have been advanced in the literature in an attempt to justify this relationship on *a priori* grounds. Ahmed and Nicholls (1994, p.65) argued that it is more likely that large firms will have the resources and expertise necessary for the production and publication of more sophisticated financial statements and therefore cause less disclosure non-compliance. Firth (1979, p.274) suggests that 'Collecting and disseminating information is a costly exercise and perhaps it is the larger firms who can best afford such expenses. Furthermore, smaller firms may feel that fuller disclosure of their activities will put them at a competitive disadvantage with other, larger, companies in their industry'. Singhvi and Desai (1971, p.131) offered three justifications for why the extent of financial disclosure is different for firms of different sizes. Firstly, the cost of accumulating certain information is greater for small firms than large firms. Secondly, larger firms have a greater need for disclosure because their securities are typically distributed via a more diverse network of exchanges and thirdly, management of a smaller corporation is likely to believe more strongly than the management of a larger corporation that the full disclosure of

¹⁵ Cerf (1961, p.31-32), Singhvi and Desai (1971, p.131), Belkaoui and Kahl (1978, p.40), Kahl and Belkaoui (1981, p.192-195), McNally *et al.* (1982, p.13), Wallace (1987, p.575), Cooke (1989a, p.118; 1989b, p.180; 1991 p.176; 1993, p.531), Ahmed and Nicholls (1994, p.65), Hossain *et al.* (1994, p.342), Hossain *et al.* (1995, p.72-73), Wallace *et al.* (1994, p.44), Wallace and Naser (1995, p.322-323), Raffournier (1995, p.262-263), Ahmed (1996, p.185), Inchausti (1997, p.53-54), Patton and Zelenka (1997, p.610), and Craig and Diga (1998, p.258), Hossain (2001, p.203).

information could endanger its competitive position. Cooke (1991, p.176) states that 'larger firms are likely to be entities of economic significance so that there may be greater demands on them to provide information for customers, suppliers and analysts, and governments as well as the general public. We, therefore, developed the hypothesis that:

H1: Banks with a higher value of total assets comply with disclosure more than banks with a lower value of total assets.

4.2 Ownership

Ownership of the industry may influence disclosure. Previous studies support this argument such as Chau and Gray (2002), Hossain et al., 1994. Agency theory (Jensen & Meckling, 1976; Watts, 1977) suggests that where there is a separation of ownership and control of a firm, the potential for agency costs arises because of conflicts of interest between contracting parties. As a result, information disclosure is likely to be greater in widely held firms so that principals can effectively monitor that their economic interests are optimised and agents can signal that they act in the best interests of the owners. As our sample included two types of bank, i.e. public and private, there is a possibility to find differences in corporate governance disclosure. Public sector banks in India are closely monitored by the Government of India (GOI) as GOI holds major ownership. Thus, we have hypothesised that:

H2: Public sector banks are more compliant with disclosure requirements than private sector banks.

4.3 Board Composition

In terms of corporate disclosure, board composition might be an interesting variable to consider because it will indirectly reflect the role of the non-executive directors on the boards (Haniffa and Cook, 2002). Moreover, non-executive directors are seen as the check and balance mechanism in enhancing boards' effectiveness (Fama and Jensen, 1983; Brickley and James, 1987; Weisbach, 1988; Pearce and Zahra, 1992). The premise of agency theory is that boards are needed to monitor and control the actions of directors due to their opportunistic behaviour (Berle and Means, 1932; Jensen and Meckling, 1976). Mangel and Singh (1993) believe that outside directors have more opportunity for control and face a more complex web of incentives, stemming directly from their responsibilities as directors and augmented by their equity position. Others who also see the role of non-executive directors as monitors/controllers of management's performance and actions include Fama and Jensen (1983), Brickley and James (1987), Weisbach (1988), and Pearce and Zahra (1992). Additionally, outside directors may be considered to be decision experts (Fama and Jensen, 1983), may reduce managerial consumption of perquisites (Brickley and James, 1987), will not be intimidated by

the CEO (Weisbach, 1988), and act as a positive influence over the directors' deliberations and decisions (Pearce and Zahra, 1992). It is, therefore, hypothesised that:

H3: Banks with a greater proportion of non-executive directors on the board may disclose more information and/or be more compliant than banks with a smaller number of non-executive directors on the board.

4.4 Financial Performance

Past performance can affect the degree of disclosure (Khanna, et al., 2004). For example, profitable firms may be more willing to disclose information to outside investors than less profitable firms. Most researchers have found a positive relationship between profitability and the extent of disclosure (Cerf 1961, Singhvi and Desai 1971, Belkaoui and Khal 1981, Wallace 1987, Wallace et al 1994, Wallace and Naser 1995, Raffournier 1995, Inchausti 1997, Hossain 1999 and Hossain, 2001). Banks, whether formally profit making institutions or not, are engaged in the kind of business where return is expected. The profit earning mechanism depends *inter alia* on how effectively the banks conduct their lending and borrowing activities (Hossain, 2001). Previous studies have examined the impact of both accounting performance (Lang and Lundholm, 1993; Miller, 2002) and market performance (Khanna, et al., 2004) on levels of disclosure. We have only taken accounting performance as rate of return (ROA) in considering the nature of the activities of the banking business, return on assets (ROA) will be an appropriate proxy for measuring financial performance of the bank. There are two related reasons for the choice of this formula of the profitability variable. One is that an ROA variable is scaled to remove a size effect (when compared with absolute net profit as the profitability variable). The second is that ROA links to the mechanics of banking as financial intermediation (Hossain, 2001). Thus it is hypothesised that:

H4: Banks with a higher profit disclose more information and/or are more compliant than banks with a lower or negative profit margin.

4.5 Age

The extent of a company's disclosure may be influenced by its age, i.e. stage of development and growth (Owusu-Ansah, 1998). Owusu-Ansah (1998, p. 605) pointed out three factors that may contribute to this phenomenon. Firstly, younger companies may suffer competition, secondly, the cost and the ease of gathering, processing, and disseminating the required information may be a contributory factor, and finally, younger companies may lack a track record on which to rely for public disclosure. Kakani et al. (2001) pointed out that newer and smaller firms, as result, take market in spite of disadvantages like lack of

capital, brand names and corporation reputation with older firms. However, it is not possible to reach a conclusion that long-established banks can disclose more information or be more compliant than newly-established banks. This leads to the following hypothesis:

H5: Long-established banks may be more compliant than newly-established banks.

4.6 Complexity of Business

Haniffa and Cook (2002) argued that structural complexity has a significant influence in the extent of disclosure. The structural complexity requires a firm to have an effective management information system for monitoring purposes (Courtis, 1978; Cooke, 1989a) and the availability of such a system helps to reduce the cost of information per unit, thereby providing the expectation of higher disclosure. Here, structural complexity is defined as the actual number of subsidiaries, as evident in Indian banks. In this respect, it is hypothesised that:

H6: Banks with structural complexity are more compliant than banks without subsidiaries.

4.7 Dividend

A manager can pay shareholders dividends to alleviate their concern about agency problems (Eastbrook, 1984). It is argued that dividends provide information to investors about the amount and timing of future cash flows (Miller and Rock, 1985). The information provided by dividends may substitute for other forms of corporate disclosure. This is especially true in instances where capital markets are less developed and/or subject to manipulation in the trading of securities (Previts and Bricker, 1994). India is not exceptional in this case. As a result, firms that pay dividends may reduce corporate disclosure and ignore the need to be compliance. It is, therefore, hypothesised that:

H7: Banks that provide a higher amount of dividend disclose less information and pay less attention to compliance to rules.

4.8 Multiple listing

It is evident that companies listed beyond their domestic market or, listed more than minimum listing requirements, may disclose more information (Choi and Mueller, 1984; Cooke, 1989; Gray et al., 1995) in order to comply with regulation and obtain funds from the capital markets. Moreover, Cooke (1998) and Ferguson et al. (2002) report that firms that are quoted on several stock exchanges make more information disclosures. Indian banks need to list on at least three stock exchanges (Ministry of Finance, 1985). Thus it is argued that:

H8: Banks that are listed on more exchanges than the minimum, are more compliant than banks

that are listed on the minimum number of stock exchanges.

4.9 Number of Auditors

Wallace et al. (1994) suggest that the contents of annual reports may be influenced by auditors. Agency theory holds that auditing helps to alleviate the interest conflicts between management and investors (Xiao et al., 2004). Generally, because they have more to lose from damage to their reputations, larger audit firms have a stronger incentive to maintain their independence and to impose more stringent and extensive disclosure standards (DeAngelo, 1981; Malone et al., 1993). Hence, larger auditors are more likely to be hired by managements with greater potential gains from external monitoring. This expectation is also consistent with signaling theory. The reasoning is that managers are cognizant of larger auditors' incentives to demand higher quality disclosure, and engagement of such auditors is a signal of their acceptance of such demands (Datar et al., 1991; Healy and Palepu, 2001). We argue that if a company that appoints more audit firms than the stipulated minimum will have a higher standard of disclosure and compliance. As some Indian banks have more auditors than the minimum number of three, we hypothesise that:

H9: Banks with more auditors provide more information and/or are more compliant than those with the minimum required number of auditors.

5. Regression Model

A regression model was developed to investigate the relationships between corporate governance disclosure (dependent variable) and the various corporate attributes (independent variables) discussed above. Incorporating all these variables, the regression model is expressed as

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \epsilon_i$$

Where, Y = disclosure index

X1 = total assets (proxy for size);

X2 = 1 if the bank belongs to the public sector; 0 if otherwise

X3 = Ratio of non-executive independent directors to total number of directors on the board

X4 = ROA (proxy for performance);

X5 = age of the banks in years (proxy for age);

X6 = Actual number of subsidiaries

X7 = Dividend paid

X8 = Actual number of listing exchanges

X9 = 1 if the number of auditors is in excess of the minimum; 0 if otherwise

β = parameter, ϵ = error term, i = the i th observation

6. Analysis and Discussion

In order to achieve the main objectives of the study, the analysis and discussions occur in the following two categories:

6.1 Disclosure Behaviour

Table 1 demonstrates a corporate governance disclosure score, thus indicating a high level of compliance. The average score (mean) of the disclosure index is 82.47 with the minimum limit being 71, and the maximum 97. The highest score 97 had only one bank, i.e. Global Trust Bank Ltd., a private sector bank, and the lowest score (71) is also a private bank, i.e. Federal Bank Ltd. Amongst the public sector banks, the Bank of Baroda achieved the highest score (91) and in case of private banks, Federal Bank Ltd. scored the highest (97), being followed by ICICI Bank Ltd, (89), and IDBI Bank Ltd. (89). It is notable that all these three private banks are newly-established. From the ranking of the disclosure score, it can be seen the top position is still dominated by the private banks. More specifically, the first position is held by a private bank, and whilst a public sector bank occupies the second position, the following positions are held continuously by private sector banks until the eight place. In other words, in the first top ten rankings, the private sector banks hold 70% of the positions, including the first, with a score of 97, while the public sector banks occupy 30% of those rankings, including the second position. It is also noted that in respect of the lowest scores, the private sector banks also do better, occupying only 30% of these positions, while the majority 70% are held by public sector banks.

[Insert Table 1 here]

6.2 Regression Analysis

A summary of the regression results is presented in Table 2. The multiple regression model is significant ($P < 0.005$). The adjusted coefficient of determination (R squared) indicates that 20% of the variation in the dependent variable is explained by variations in the independent variables.

The adjusted R square of 0.20 compares favourably with similar studies using disclosure indices. Lower adjusted R square statistics were reported by Wallace (1987) at 0.07, Hossain (1999) at 0.10, Malone et al. (1993) at 0.29, and Ahmed (1996) at 33.2%. A detailed discussion of the regression results is now offered here on the basis of the hypotheses.

H1: Size: The empirical evidence derived from the regression model indicates that size by assets is statistically related to the level of information disclosed by the sample of banks in their annual reports. The positive sign on the coefficient suggests that size has a direct influence on level of disclosure

in the banking sector in India. Because of competitive advantages (Lang and Lundholm, 1993; Lobo and Zhou, 2001) larger size companies' trend to disclose more information than smaller companies.

H2: Ownership: This variable is significant at .04 but its sign is negative, and thus it does mean that public ownership banks disclose less information or are less compliant in corporate governance reporting than private banks. The reasons could be explained in this way that newly established private Indian banks offer several attractive modern facilities to the customers such as ATM, cash credit, on line banking facilities, attractive interest rate for saving, pleasant customer services, and attractive decoration of the bank premises. Although public sector banks are trying to provide such kind of services however, some bureaucratic problem is still exists. Because of the prevailing facilities provided by the private banks, it is concluded that ownership is a vital factor in determining disclosure level.

H3: Board composition: It is expected that more independent directors on the board influence disclosure compliance. The result is significant, but the sign of the coefficient is negative. This may be because the corporate governance disclosure is mandatory and independent directors and executive directors are equally agreed on a course of action.

H4: Financial Performance: The result indicated that this variable is significant (.02) and its sign is negative. The reason might be inclusion of both public and private sector banks in the sample. The public sector banks are not fully privatised and a large portion of ownership occupied by the Government of India, and as such public sector banks may expect political intervention. Adoption of mandatory requirements imposed by SEBI and/or other regulatory authorities usually gets priorities than profit maximisation. In construct, private sector banks are less political interference and operate focusing on profit generation. In addition, Return on Assets (ROA) is the both banking sector is very low against assets value. For example, Bank of India, a public sector bank, its total value of assets, ROA and disclosure score are Rs. 82054.93 Crore, 1.16 per cent and 82 respectively, on the other hand, Global Trust Bank Limited, a private bank, its total assets value, ROA and disclosure score are Rs. 7665.99 Crore, ROA is -3.56 per cent and 97 respectively. As this study is single year based and conclusion can be made that the compliant with corporate governance disclosure in India is related to the commitment of the banks to adopting mandatory directions/rules/codes. Thus the combination of both the public and private sector banks, the low rate ROA as well as commitment of adopting mandatory code has influenced this result.

H5: Age: The variable of age is not significant, thus meaning that age does not influence corporate governance disclosure in Indian banks. A similar result was found in Akhtaruddin (2005). Although India has long history in the banking sector and to

implementing mandatory code age is not factor whether it establish early or recently. As a highly regulated financial institution, banks are bound to implement any mandatory rules by the regulatory authorities.

H6: Complexity of Business: This variable is also not significant despite its expected positive sign. It might be concluded that the possession of subsidiaries does not influence the degree of disclosure compliance. Because as the study in concerned with extent of mandatory disclosure, bank with or without having any subsidiary is not a factor to compliance that.

H7: Dividends: The hypothesis is rejected, and therefore firms that pay dividends do not demonstrate less corporate disclosure. The reason could be close monitor by the regulatory authorities in India. As corporate governance code mandatory, the payment of dividend less or high is irrelevant and has less no influence on corporate disclosure.

H8: Multiple listing: This result is not as expected. Multiple listing has no impact on the degree of compliance in Indian banks. We could make a conclusion that in terms of mandatory cases either implementing rules or code, multiple listing statuses would be indifference however, we may expect more variations on voluntary disclosure cases.

Number of Auditors: The number of auditors variable is insignificant, disproving the hypothesis, thereby demonstrating that increasing the number of auditors does not increase compliance with the rules. This is because we assume that auditors are professional to their job. The number of auditors is insignificant in determining the level of mandatory disclosure.

[Insert Table 1 here]

7. Conclusion

The central focus of this research was to empirically examine the extent of mandatory corporate governance disclosure and the relationship between various corporate attributes and with the level of that mandatory disclosure of the banking companies of India. The findings of the study revealed that Indian banking companies have high level of compliance to the mandatory corporate governance disclosure and the variables of size, ownership, board composition, and profitability, have significant impact in the corporate governance disclosure which is consistent with other results of previous studies. However, the inclusion of the separate section of 'Corporate Governance Reporting' in the Annual reports is a milestone for India and would be a model for other Asian and developing countries. At least, the results presented may contain seeds of concern for the future in implementing corporate governance in the banks. This will help in improving international investor confidence, and reduce the information asymmetry. Further research should be conducted in the corporate

governance of the banking sector in other Asian and ASEAN countries so that an extensive comparison can be achieved.

Transparency and disclosure is a key factor contributing to financial market efficiency and for providing the information necessary for market discipline to be effective. Market discipline and transparency, in turn are of central importance to the provision of the robust corporate governance necessary for stable markets and investor confidence. The concept and practices of corporate governance are still evolving to meet the new challenges. The present study revealed that the inclusion of the separate section of 'Corporate Governance Reporting' and suggested guidelines for mandatory list of items to be included in the report is a milestone for India and would be a model for other Asian and developing countries. At least, the results presented may contain seeds of concern for the future in implementing corporate governance in the banks. This will help in improving international investor confidence, and reduce the information asymmetry. Further research should be conducted in the corporate governance of the banking sector in other Asian and ASEAN countries so that an extensive comparison can be achieved.

7.1 Limitations

The study has limited itself to a consideration of banking sector in one specific country, India, and the other South Asian countries that are members of SAARC¹⁶ have not been included. The results and conclusions might be more effective and realistic if comparisons could be made. There may be other variables influencing disclosure within the corporate governance framework that have been ignored in the model we used. Thus, it still remains for the full range of potentially influential variables to be explored.

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¹⁶ The South Asian Association for Regional Cooperation (SAARC) was established in December 8, 1985 by the Heads of State or Government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

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Appendices

Table 1
Ranking of the Banks According to the Disclosure Score

Rank	Bank Name	Disclosure Score	Bank Category
1	Global Trust Bank Ltd.	97	Private
2	Bank of Baroda	91	Public
3	ICICI Bank Ltd.	89	Private
4	IDBI Bank Ltd.	89	Private
5	UTI Bank Ltd.	89	Private
6	Bank of Rajasthan Ltd.	88	Private
7	City Union Bank Ltd.	86	Private
8	Indusland Bank Ltd.	86	Private
9	Corporation Bank	84	Public
10	Punjab National Bank	84	Public
11	State Bank of Travancore	84	Public
12	Karnataka Bank Ltd.	84	Private
13	HDFC Bank Ltd.	84	Private
14	Allahabad Bank	82	Public
15	Bank of India	82	Public
16	Canara Bank	82	Public
17	Oriental Bank of Commerce	82	Public
18	ING Vysya Bank Ltd.	82	Private
19	Jammu & Kashmir Bank Ltd.	82	Private
20	Centurion Bank Ltd.	82	Private
21	Kotak Mahindra Bank Ltd.	82	Private
22	Indian Overseas Bank	80	Public
23	Syndicate Bank	80	Public
24	South Indian Bank Ltd.	80	Private
25	Dena Bank	78	Public
26	Union Bank of India	78	Public
27	Dhanalakshmi Bank Ltd.	78	Private
28	Karur Vysya Bank Ltd.13	78	Private
29	Lakshmi Vilas Bank Ltd.	78	Private
30	Andhra Bank	76	Public
31	Vijaya Bank	76	Public
32	State Bank of India	76	Public
33	State Bank of Indore	76	Public
34	State Bank of Mysore	76	Public
35	United Western Bank Ltd.	76	Private
36	Bank of Punjab Ltd.	76	Private
37	State Bank of Bikaner & Jaipur	73	Public
38	Federal Bank Ltd.	71	Private

Table 2
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Significance
1	.630	.396	.202	5.0216	2.03	.07

a Predictors: (Constant), AUDIT, EXCHANGE, BOARD, ROA, ASSETS, DIVIDEND, SUBSIDIA, AGE, PUBVSPRI

Coefficients

Model		Unstandardised Coefficients	Std. Error	Standardised Coefficients	t	Sig.	Collinearity Statistics	
		B		Beta			Tolerance	VIF
	(Constant)	79.397	8.552		9.284	.000		
	ASSETS	1.361	.726	.373	1.876	.071	.545	1.835
	PUBVSPRI	-6.876	3.242	-.619	-2.121	.043	.253	3.949
	BOARD	-9.797	7.253	-.329	-1.351	.188	.363	2.752
	EXCHANGE	-.381	1.043	-.086	-.366	.717	.390	2.562
	DIVIDEND	2.433	4.815	.096	.505	.617	.592	1.690
	SUBSIDIA	.259	.227	.229	1.140	.264	.535	1.868
	AGE	3.621E-02	.039	.232	.928	.361	.345	2.902
	ROA	-292.999	126.40	-.488	-2.318	.028	.487	2.055
	AUDIT	2.442	2.523	.212	.968	.341	.448	2.232

a Dependent Variable: DISCLOSU

Appendix 1

List of items of Corporate Governance Disclosure

Serial No.	Parameters/dimensions
	A. BOARD OF DIRECTORS (7)
1	A brief statement of company philosophy on the code of governance
2	Composition of the board of directors
3	Category of directors
4	Details of attendance of each director at BOD meeting
5	Number of BOD meetings held and date
6	Classification of directors as an executive or an outside director
7	Last AGM held and name of directors present
	B. AUDIT COMMITTEE (4)
8	Composition of the audit committee
9	The nature of the chairman of audit committee (i.e non-executive independent director)
10	Meeting and attendance of the year
11	Brief description of the terms of reference of the audit committee
	C. REMUNERATION COMMITTEE (2)
12	Remuneration policy
13	<i>Details of all remuneration to all the directors</i>
	D. SHAREHOLDERS' GRIEVANCE COMMITTEE (5)
14	Name of non-executive director heading the shareholders' committee
15	Name and designation of compliance officer
16	Number of shareholders' complaints received so far
17	Number not solved to the satisfaction of shareholders
18	Number of pending complaints
	E. GENERAL BODY MEETING (4)
19	Location and Time of last 3 AGM's held
20	Disclosure of special resolution passed in the last three AGMs
21	Disclosure of the person who conducted the post ballot
22	Producer for postal ballot
	F. DISCLOSURES OF RELATED PARTIES (3)
23	Disclosure on materially-significant related party transactions
24	Disclosure of accounting treatment, if different from AS
25	Details of non compliance, penalties imposed by SE or SEBI
	G. MEANS OF COMMUNICATION (3)
26	Disclosure of information on half yearly report sent to each household of shareholders
27	Disclosure of information on the quarterly result/press release to website.
28	Disclosure of information on presentations made to institutional investors/analysts
	H. GENERAL SHAREHOLDER INFORMATION (14)
29	Disclosure of the AGM, date, time and venue
30	Disclosure of the financial calendar
31	Disclosure of the date of book closure
32	Disclosure of the dividend payment date
33	Disclosure of the listing information on stock exchanges
34	Disclosure of the stock code
35	Disclosure of the market price data
36	Disclosure of the performance
37	Disclosure of information on the registrar and transfer system
38	Disclosure of information on the share transfer system
39	Disclosure of information on the shareholding pattern
40	Disclosure of information on the distribution of shareholders' category wise
41	Disclosure of the profile of directors appointed during the year(i.e. name, address, qualification, nature of appointment, experience, other directorship)
42	Address for correspondence
	L. Others (4)
43	Auditors' certificate on compliance of condition of corporate governance
44	Disclosure regarding risk management
45	Whether MD and A is a part of the annual report
46	Disclosure of Contingent Liability