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Research Paper Finance

Role of Board Sub Committees on the Performance of Select Banks

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ABSTRACT

This paper highlights the role of board sub committees on the performance of select public sector commercial banks. There are various sub committees formed by the banks depends upon the requirement, but in this paper the researcher has taken three major board sub committees. It is assessed and analysis with the governance and the performance variables of select banks. The data related to above said variables are collected through secondary source for the period of ten years (2003-2012). The canonical correlation is used to assess the role of board sub committees on the performance of select banks. The results of the analysis expounds that there is significant relationship between the governance and the performance of board sub committees in the select public sector commercial banks.

KEYWORDS : Corporate Governance, Board, Performance, Audit, Risk and Shareholders committees.

1.1 Introduction

Board of directors being the supreme body in any company, any of its sub-committees would also be commanding sufficient power for discharging its responsibilities. Board committees normally function independently of each other and have sufficient authority, resources and delegated responsibilities to effectively support the entire board in fulfilling its oversight function. The formation of committees is subjective depending upon the company profile, its size, nature of the industry and availability of resources. The objectives of the committees attempt to make full use of board members' expertise, time and commitment, for ensuring diversity of opinions on the board pertaining to different matters.

1.2 Audit committee

The Audit Committee is one of the main pillars of the corporate governance system in public companies. Most studies contended that the effectiveness of audit committee function depends upon a series of characteristics such as its composition, size, members' qualification, and actual audit committee operations (ICAEW, 1997, 2001; Lee & Stone, 1997; Beasley & Salterio, 2001; Klein, 2002; Carcello & Neal, 2003; Abbott et al., 2004). Thus, audit committee members should all be outside or nonexecutive directors so they can avoid the conflict of interest and exercise effective monitoring of management's accountability (ICAEW, 1997, 2001; Kalbers & Fogarty, 1998; Spira, 1999; Cotter & Sylvester, 2003; Sharma, 2004).

1.3 Risk management committee

Risk management can be regarded as an active, strategic, and integrated process that encompasses both the measurement and the mitigation of risk, with the ultimate goal of maximizing the value of a bank, while minimizing the risk of bankruptcy (Schroeck, 2002). Risk management in bank operations includes risk identification, measurement and assessment, and its objective is to minimize negative effects risks can have on the financial result and capital of a bank.

1.4 Shareholders' committee

As one of its mandatory recommendations, the Kumar Mangalam Birla Committee propounded the need to form board committee under the chairmanship of a non-executive director to specifically look into the redressing of shareholder complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. The Committee believed that the formation of shareholders' committee would help focus the attention of the company on shareholders' grievances and sensitize the management to redress their grievances.

1.5 Objective of the study

- To assess the role of board subcommittees on the performance of select banks.

1.6 Hypotheses

- H01: There is no association between the role of board sub committees and the performance of select banks.

1.7 Methodology

1.7.1 Research design

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

1.7.2 Data

The secondary data related to corporate governance and bank performance were used.

1.7.3 Source of data

The Centre for Monitoring Indian Economy (CMIE), Indiastat and Capital line database were used to collect the required secondary data from the corporate governance reports of select banks.

1.7.4 Period of data collection

The data for the selected eight public sector commercial banks were collected for the period of ten years from 2003-2012.

1.7.5 Sample size and Technique

1.7.5.1 Sample unit

The sample unit comprises of 41 banks, in which 21 public sector commercial banks were chosen for the study.

1.7.5.2 Sampling Technique

The purposive sampling technique is used to select banks from the sample unit.

1.7.5.3 Sample Size

The sample size is, however, limited to eight banks; it consists of namely State Bank of India (SBI), Bank of Baroda (BOB), Canara bank (CNB), Syndicate bank (SYB), Corporation bank (COB), Allahabad bank (AIB), Vijaya bank (VIB) and Dena bank (DNB).

1.7.5.4 Variables used in the study

The variables taken for the study are of two types; they are committee governance and sub committees' performance variables.

Corporate governance variables

The governance variables related to board sub committee's variables are given below.

i) Audit committee - committee size (acos), ratio of outside directors (roda), committee meeting (acmee) and financial experts (fe) are used.

ii) Risk committee - committee size (rcos), ratio of outside director (rodr) and committee meeting (rcmee) are used.

iii) Shareholder committee - committee size (scos), ratio of outside

director (rods) and committee meeting (scme) are also used.

Performance variables
The performance variables for the board subcommittees are given below.

i) Audit committee - total number of fraud cases (nfr), the amount of fraud (amf), the number of banking complainant (boc) filed with Reserve Bank of India (RBI), return on growth market capitalization (rogm), earnings per share (eps) and timeliness of financial reports (tfr) are used.

ii) Risk committee - interest spread (is), business per employee (bpe), profit & loss per employee (plpe), loan (lloa), deposits (ldep) and net non-performing asset (nnpa) are used.

iii) Shareholder committee - return on equity (roe), return on growth market capitalization (rogm), earning per share (eps), price earning (pe), dividend yield (divvy) and number of complaints received by the shareholders (noc) are used.

1.7.6 Tools used for analysis
The canonical correlation is used to assess the role of board sub committees on the performance of select banks.

1.8 ROLE OF BOARD SUB COMMITTEES ON THE PERFORMANCE OF PUBLIC SECTOR COMMERCIAL BANKS
This paper highlights the role of board sub committees on the performance of select public sector commercial banks and the results of these sub committees are presented below.

1.8.1 Role of audit committee on the performance
The role of audit committee on the performance of select banks is assessed with the help of following variables namely audit committee performance variable and the committee governance variables.

The linear combination of canonical correlation model is

$u_1(nfr) + u_2(amf) + u_3(boc) + u_4(rogm) + u_5(eps) + u_6(tfr) = v_1(acos) + v_2(roda) + v_3(acme) + v_4(fe)$……(1)

The result of the analysis is given below.

Table 1.1
Role of Audit Committee on the Performance

Audit committee Performance variables	coefficients set(u_1)	coefficients set(u_2)	coefficients set(u_3)	Coefficients set(u_4)
number of frauds (nfr)	-0.000 (0.650)	-0.001 (0.441)	0.004 (0.053)	0.006 (0.241)
amount of frauds (amf)	0.000 (0.690)	-0.006 (0.014)	-0.000 (0.980)	-0.005 (0.582)
banking ombudsman complaints (boc)	-8.440 (0.901)	0.002 (0.007)	0.000 (0.654)	-0.000 (0.322)
return on growth market capitalization (rogm)	0.002 (0.295)	0.001 (0.745)	0.010 (0.018)	-0.003 (0.752)
earning per share (eps)	0.024 (0.000)	-0.012 (0.033)	-0.003 (0.677)	0.000 (0.987)
timely of financial reports (tfr)	0.121 (0.764)	1.864 (0.000)	-0.601 (0.317)	0.404 (0.793)
Redundancy coefficients	0.001	0.001	0.000	0.000
Audit committee governance variables	set(v_1)	set(v_2)	set(v_3)	set(v_4)
committee size (acos)	0.502 (0.000)	0.028 (0.802)	-0.254 (0.091)	0.119 (0.757)
ratio of outside directors (roda)	-6.874 (0.002)	-1.091 (0.647)	-7.665 (0.016)	6.213 (0.442)
committee meeting (acme)	0.106 (0.288)	-0.522 (0.000)	0.155 (0.292)	0.121 (0.749)
financial experts (fe)	-0.144 (0.586)	-0.467 (0.120)	-0.847 (0.033)	-1.148 (0.256)
Redundancy coefficients	0.001	0.001	0.000	0.000
Canonical correlation (R)	0.594	0.548	0.448	0.190
Eigen value	0.352	0.300	0.200	0.036
F test	3.609 (0.000)	2.610 (0.000)	2.049 (0.045)	1.074 (0.366)
Test of significance				
Wilk's lamda	2.841 (0.000)			
Pilla's trace	2.772 (0.000)			
Lawley-Hoteling trace	2.821 (0.000)			
Roy's largest root	5.275 (0.000)			

Source: Computed results based on compiled data collected from CMIE Prowess Pvt. Ltd

The above analysis expounds the role of audit committee on the performance of select public sector commercial banks using canonical correlation analysis. The canonical correlation (R) for set_1 is 59.4 per cent (0.594), that indicates a fairly high degree of association between board sub-committee and the performance of banks. The Eigen value (R^2) for set_1 shows the 35.2 per cent (0.352) variance in the governance variables and it explains the performance variables and vice versa.

The canonical loading of set_1, set_2 and set_3 shows that the audit committee performance variables namely earning per share (eps), amount of fraud (amf), banking ombudsman complaints (boc), return on growth market capitalization (rogm) and timely of financial reports (tfr) have association with the committee governance variables namely audit committe size (acos), ratio of outside directors (roda), committee meeting (acmee) and financial experts (fe) significant at 0.001 and 0.050 per cent levels. The wilk's lambda of F test is also significant in the table for set_1, set_2 and set_3. Hence the null hypothesis is rejected and it is concluded that, there is association between the role of audit sub-committee and its performance of select public sector commercial banks.

1.8.2 Role of risk committee on the performance
The role of risk committee on the performance of select banks is assessed with the help of following variables namely risk committee performance variable and committee governance variable.

The linear combination of canonical correlation model is

u1(is) + u2(bpe) + u3(plpe) + u4(nnpa) + u5(lloa) + u6(ldep) = v1(rcos) + v2(rodr) + v3(rme) …...(2)

The result of the analysis is given below.

Table 1.2
Role of Risk Committee on the Performance

Risk committee performance variables	coefficients set(u_1)	coefficients set(u_2)	coefficients set(u_3)
interest spread (is)	0.420 (0.006)	0.393 (0.224)	0.678 (0.118)
loan (lloa)	0.156 (0.029)	-0.004 (0.975)	0.412 (0.044)
net non performing asset (nnpa)	-0.061 (0.161)	-0.339 (0.000)	0.106 (0.395)
business per employee (bpe)	-0.004 (0.064)	0.014 (0.003)	-0.006 (0.266)
profit & loss per employee (plpe)	-0.062 (0.122)	0.272 (0.002)	0.390 (0.001)
deposits (ldep)	0.831 (0.000)	-0.334 (0.086)	-0.521 (0.046)
Redundancy coefficients	0.003	0.001	0.001
Risk committee governance variables	set(v_1)	set(v_2)	set(v_3)

committee size (acos)	0.172 (0.000)	0.413 (0.000)	0.216 (0.020)
ratio of outside directors (rodr)	-3.833 (0.000)	-12.600 (0.000)	6.258 (0.022)
committee meeting (rcme)	0.075 (0.000)	-0.020 (0.112)	-0.067 (0.001)
Redundancy coefficients	0.005	0.001	0.001
Canonical correlation (R)	0.873	0.641	0.529
Eigen value	0.762	0.411	0.279
F test	13.982 (0.000)	7.751 (0.000)	0.718 (0.000)
Test of significance			
Wilk's lamda			
Pilla's trace	14.016 (0.000)		
Lawley-Hoteling trace	11.452 (0.000)		
Roy's largest root	16.656 (0.000)		
	39.118 (0.000)		

Source: Computed results based on compiled data collected from CMIE Prowess Pvt. Ltd

The above analysis explains that the role of risk committee on the performance of select public sector commercial banks through canonical correlation. The canonical correlation (R) of set_1 is 87.3 per cent (0.873) that indicates a fairly high degree of association between risk sub-committee and the performance of banks. The Eigen value (R^2) of set_1 shows the 76.2 per cent (0.762) variance in the governance variables and is explained the performance variables and vice versa.

The canonical loading of set_1, set_2 and set_3 shows that the risk committee performance variables namely interest spread (is), loan (lloa), deposits (ldep), net non performing asset (nnpa) and profit & loss per employee (plpe) have association with the committee governance variables namely committee size (rcos), ratio of outside directors (rodr) and committee meeting (rcmee) significant at 0.001 and 0.050 per cent levels. The wilk's lambda of F test is also significant in the table for three sets. Hence the null hypothesis is rejected and it is concluded that, there is association between the role of risk sub-committee and its performance of select public sector commercial banks.

1.8.3 Role of shareholder committee on the performance

The role of shareholder committee on the performance of select banks is assessed with the help of following variables namely shareholder committee performance variable and committee governance variable.

The linear combination of canonical correlation model is

$u_1(roe) + u_2(rogm) + u_3(eps) + u_4(pe) + u_5(divy) + u_6(noc) = v_1(scos) + v_2(rods) + v_3(scme)$…….(3)

The result of the analysis is given below.

Table 1.3
Role of Shareholder Committee on the Performance

Shareholder committee performance variables	coefficients $set(u_1)$	coefficients $set(u_2)$	coefficients $set(u_3)$
return on equity (roe)	0.048 (0.200)	-0.112 (0.026)	-0.117 (0.078)
return on growth market capitalization (rogm)	-0.002 (0.392)	-0.000 (0.889)	0.010 (0.053)
earning per share (eps)	-0.019 (0.000)	0.006 (0.346)	0.008 (0.350)
price equity (pe)	0.126 (0.026)	0.199 (0.008)	-0.083 (0.388)
dividend yield (divvy)	0.395 (0.018)	0.478 (0.028)	0.598 (0.038)
number of complaints (noc)	0.000 (0.286)	0.000 (0.065)	-0.000 (0.645)
Redundancy coefficients	0.001	0.000	0.000
Shareholder committee governance variables	$set(v_1)$	$set(v_2)$	$set(v_3)$
committee size (scos)	0.047 (0.521)	0.427 (0.000)	0.037 (0.771)
ratio of outside directors (rodr)	4.666 (0.002)	-1.532 (0.432)	-7.120 (0.007)
committee meeting (scme)	-0.737 (0.000)	0.273 (0.136)	-0.186 (0.439)
Redundancy coefficients	0.001	0.001	0.000
Canonical correlation (R)	0.602	0.499	0.398
Eigen value	0.362	0.249	0.158
F test	3.779 (0.000)	1.700 (0.086)	1.255 (0.296)
Test of significance			
Wilk's lamda	3.291 (0.000)		
Pilla's trace	3.285 (0.000)		
Lawley-Hoteling trace	3.251 (0.000)		
Roy's largest root	5.415 (0.000)		

Source: Computed results based on compiled data collected from CMIE Prowess Pvt. Ltd

The above analysis illustrates that the role of shareholders committee on the performance of select public sector commercial banks through canonical correlation. The canonical correlation (R) of set_1 is 60.2 per cent (0.602) that indicates a fairly high degree of association between between board sub-committee and the performance of banks. The Eigen value (R^2) of set_1 shows the 36.2 per cent (0.362) variance in the governance variables and is explained by the performance variables and vice versa.

The canonical loading of set_1, set_2 and set_3 shows that the shareholder committee performance variables namely earning per share (eps), price earning (pe) and dividend yield (diviy) have association with the committee governance variables like committee size (scos), ratio of outside directors (rods) and committee meeting (scme) significant at 0.001 and 0.050 per cent levels. The wilk's lambda of F test is also significant in the table set_1. Hence the null hypothesis is rejected, so there is association between the role of share sub-committee and its performance of select public sector commercial banks.

1.9 Conclusion

In the public sector commercial banks the audit, risk and shareholder subcommittees shows the negative significant relation of financial experts, outside directors and meetings towards the earning per share, amount of frauds, business per employee, profit per employee and net non performing asset in the committee performance, it implies that the committees have considered the outside directors suggestion in a less moderate one or busyness of the outside directors in the other companies board have influence in sub committees by not attending meetings. The results of analysis imply that in the public sector commercial banks the audit committee, risk committee and shareholder committee have an association between governance and the performance in board sub committees. It explicit that the higher qualities of board sub committees in the banks; has a higher level of disclosures of corporate governance in the banks. Therefore the disclosure practices of corporate governance in the public sector commercial banks have given great importance to its entire three board sub in banks, in order to protect the interest of shareholders and public interest.

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