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Corporate Governance Practices: Case Study Of Yes Bank

Prof. Yuvaraj Halage [1]
Asst. Professor, Department of MBA, Acharya Institute of Technology, Bengaluru
Email: wisdom.yuvaraj@gmail.com

Dr. Prakash B Yaragol [2]
Professor, Department of MBA, CMR Institute of Technology, Bengaluru
Email: yaragolpb@gmail.com

Dr.Vaijanath Babshetti [4]
Asst. Professor, Department of MBA, M.S. Ramaiah Institute of Technology, Bengaluru.
Emailid: vaiju_baba@yahoo.com

Prof.Shashikumar C R [4]
Asst. Professor, Department of MBA, SJB Institute of Technology, Bengaluru
Emailid: shashi.mag@gmail.com

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Abstract

Corporate governance is a set of rules, processes and mechanism by which any business organization is expected to be operated, controlled and monitored. It ensures that the business is aligned with the defined objectives so that the interest of all the stakeholders is protected. Indian corporate sector has seen many financial scams which have resulted into failure of the machinery of the organizations. This has increased the scope of corporate governance and has mandated the business organizations to considerate and execute in the set framework. Interestingly, Indian banking sector has been witnessing failure of banks due to ineffective practices such as excessive lending, lack of transparency, absence of accountability, assets liabilities mismatch, etc. Results are visible that effective corporate governance ensures organizations to achieve high rate of productivity. In this research article, the researcher tries to examine the corporate governance practices followed in Yes Bank during a financial year. Principles of governance related to shareholding pattern, board structure, board meetings, statutory disclosures, risk management practices and auditing are checked to see the effectiveness.

Keywords: Corporate governance, code of conduct, banking sector, statutory disclosures,

I. Introduction

Increased number of frauds and financial distress in banking and corporate sectors has lead to the birth of an institutional mechanism to control and monitor the business activities. Business organizations have got very significant stakeholders like shareholders, employees, customers, government and general public at large. Corporate governance specifies the set of code of conduct concerning to all the stakeholders. It is defined as the system by which companies are directed and controlled in order to protect the interest of stakeholders. The primary objective of corporate governance is to ensure that all process and procedures are in line with the defined code of conduct and to ensure enhanced and sustain value.

The importance of corporate governance picked up rapidly post liberalization of the Indian economy during 1990's. But the real importance was necessitated by the stock market scams, UTI scam, Ketan Parekh scam, Harshad Mehta scam, Satyam Computers scam and so on. Increased financial crimes and disturbed business eco-system gave a very rapid importance to corporate governance mechanism.

II. Background of the study

Financial system of any economy normally consists of financial market, financial institutions, financial services and financial instruments. One of the important components of any financial system is the financial institutions. The financial institutions are broadly categorized into banking and non-banking financial institutions.

Both banking and non-banking financial institutions involve within their scope of generating funds in the form of deposits and advancing in the form of loans. Post independence to until 1990's the operational level of banking and non-banking institutions was very moderate. But post introduction of new economic policy in 1990 set a very rapid growth track for the financial institutions in India.

Along the side, several financial scams started to came into the limelight. Over a period of time, the financial institutions started to lend big chunk of loans to customers with low credit worthiness, poor credit monitoring, biased appointment of the board, misappropriation of financial statements, etc were witnessed and whistled publicly. In order to fix this issue, corporate governance was more sought after mechanism.

III. Literature Review

Vincent Aebi (2012) investigated whether risk management related corporate governance mechanisms, such as appointment and reporting of Chief Risk Officer has an association with the performance of banks during financial crisis 2007-08.

Das and Ghosh (2004) used data on banking system for the period 1996-2003 & found that CEO's of poorly performing banks are likely to face higher turnover than CEO's of well performing one's.

Dipika Jain (2019) conducted a case study on Bank of Baroda & Yes Bank to evaluate the performance of corporate governance practices. The study was built upon secondary data like annual reports and bank websites and concluded that corporate governance practices are satisfactory in Bank of Baroda as compared to Yes Bank.

Tarur Khanna and Krishna Palepu (2004) argued in their research paper, that the globalization of product & talent markets has affected corporate governance of firms in Indian software industry. They have analyzed the manner in which Infosys has attempted to shape corporate governance practices in India.

Jeffrey Coles, Naveen Daniel and Lalitha Naveen (2008) examined in their paper, the relation between the firm value and board structure. They found that restrictions on board size and management representation on the board necessarily enhance the firm value.

Madan Lal Bhasin (2016) conducted a study on fraudulent reporting practices in Satyam Computers. The author recommended that fraudulent reporting practices should be considered as a serious crime and suggested regulatory bodies to adopt strict measures.

Nikos Vafeas (1999) found that board meeting frequency is related to corporate governance and ownership characteristics and found that the annual number of board meetings is inversely related to firm value.

IV. Objectives of the Study

1. To study the corporate governance practices adopted at Yes Bank
2. To examine the compliance requirements followed at Yes Bank
3. To evaluate the level of disclosure of information

V. Research Methodology:

The researcher has used descriptive approach for research. The annual reports of Yes Bank for the last years have been used to collect and analyse the data. The corporate governance code of conduct set by the law has also been used as a base to conduct the research.

VI. Data Analysis and Interpretation:

Table No. 1 Shareholding Pattern

Sl No.	Category of Shareholders	No. of Shares	%
I	**Promoter & Promoter Group**		
1	Rana Kapoor	100,000,000	4.32
2	Yes Capital Pvt Ltd	75,625,000	3.27
3	Morgan Credits Pvt Ltd	70,250,000	3.03
4	Madhu Kapur	175,275,000	7.57
5	Mags Finvest Pvt Ltd	37,215,025	1.61

	Total	**458,365,025**	**19.80**
II	**Other Institutions**		
1	Mutual Funds/UTI	220,932,584	9.54
2	Financial Institutions/Banks	3,472,014	0.15
3	Insurance Companies	257,080,989	11.10
4	Foreign Portfolio Investors	933,732,877	40.33
III	**Other Non Institutions**		
	Bodies Corporate	58,513,858	2.53
IV	**Individuals**	32,31,20,553	13.96
V	Trusts	11,098,315	0.48
VI	Non Resident Indians	206,190,73	0.89
VII	HUF	7,365,612	0.32
VIII	Clearing Members	16,340,940	0.71
IX	Foreign Nationals	1,235	0.00
X	NBFC's Registered with RBI	1,70,595	0.01
XI	Alternative Investment Fund	4,097,090	0.18
XII	IEPF	1,18,511	0.01
	Total	**2,315,033,039**	**100.00**

Source: *Annual Reports of Yes Bank 2018-19*

Interpretation: Promoter & Promoter Group holds 19.80% stake in the shares. But majority of the shares are held by foreign portfolio investors i.e., 40.33%.

Table No. 2 Board Structure and Size for FY 2018-19:

Sl No.	Disclosure Item	Remarks
1	Total No. of Directors	10
2	MD and CEO	1
2	No. of Independent Directors	6
3	No. of Non Independent Directors	2
4	No. of Women Directors	1

Source: *Annual Reports of Yes Bank 2018-19*

Interpretation: As per Birla Committee recommendations, in case of company with Non Executive Chairman, at least 1/3rd of the board should be Independent Directors. It is complied by Yes Bank. It also says that ideal combination of the board should be fifty percent of Non Executive Directors. But this criterion is not fulfilled by Yes Bank. The requirement of one woman director on board is complied by Yes Bank.

Table No. 3 Board Meetings (BM)

Sl No.	Particulars	Remarks
1	No. of times Board met during FY 2018-19	13 Times
2	Maximum gap between 2 Board Meetings	Not Fulfilled
3	Attendance in meeting	Disclosed

Source: *Annual Reports of Yes Bank 2018-19*

Interpretation: Section 173 of Companies Act 2013 mandates that minimum 4 Board Meetings to be conducted with a gap of 4 months between two consecutive meetings. Yes Bank has conducted 13 Board Meetings in 2018-19 but maximum gap criterion is not fulfilled as the maximum gap between any 2 Board Meetings was less than 4 months.

Table No. 4 Audit Committee

Sl No.	Particulars	Remarks
1	Statutory Auditor	M/s B S R & Co. LLP
2	As per Sec 204 of Co's Act 2013, Secretarial Auditor been appointed?	M/s BNP & Associates
3	No. of Independent Directors	4
4	No. of Audit Committee Meetings held	9

Source: *Annual Reports of Yes Bank 2018-19*

Interpretation: Section 177 of Companies Act 2013 states that majority of audit committee should comprise of Independent Directors. Yes Bank has 4 ID's in audit committee. The statute requires that the committee should meet at least 4 times in a year and not more than 120 days shall elapse between 2 meetings. As per the annual report, 9 meetings are held during 2018-19.

Table No. 5: Risk Management Committee (RM)

Sl No.	Particulars	Remarks
1	Is there any Risk Management System present?	Yes. It is overseen by 5 Board Level Committees. It is headed by Chief Risk Officer.
2	Committees operating under RM Unit	1. Risk Monitoring Committee (RMC) 2. Audit Committee (AC) 3. Fraud Monitoring Committee (FMC) 4. Board Committee on Wilful Defaulters & Non-Cooperative Borrowers (BCWD&NCB) & 5. Board Credit Committee (BCC).
3	Approach for Measurement of Risk	1. Standardized Approach -Credit Risk, 2. Basic Indicator Approach - Operational Risk and 3. The Standardized Duration Approach - Market Risk.
4	Audit of Risk	Internal Audit Department (IAD) is set up to assess
5	Compliance	Yes. Compliance Unit is set up
6	No. of times meetings held by Risk Monitoring Committee	6 Times

Source: *Annual Reports of Yes Bank 2018-19*

Interpretation: Yes Bank has put in place, risk management committee which has met 6 times in 2018-19.

Table No. 6 Remuneration Policy

Sl No.	Particulars	Remarks
1	Composition of the Remuneration Committee	3 members
2	Transparency in Composition Policy	Yes
3	Disclosure of Remuneration Package	Disclosed
4	No. of meetings held by the committee	14

Source: *Annual Reports of Yes Bank 2018-19*

Interpretation: Section 178 of Companies Act 2013 states that Remuneration committee should consists of 3 Non Executive Directors, out of which, 2 shall be Independent Directors and 1 Independent Director should be the Chairman of Nomination & Remuneration Committee. Yes Bank has constituted a committee having 3 members, out of which, 2 are Independent Directors and 1 is Non Executive Director. It can be interpreted that Remuneration Committee of Yes Bank is in compliance by making an Independent Director chairing the committee.

Table No. 7: Statutory Disclosure for FY 2018-19

Sl No.	Disclosure Item	Remarks
1	Director's Report	Yes
2	Auditor's Report	Yes
3	Financial Statements (Notes to Accounts & Schedules)	Yes
4	Asset Quality (Performing & NPA Assets)	Yes
5	Divergence in Asset Classification & Provisioning	N/A
6	Segment Reporting AS-17	Yes
7	Significant Accounting Policies	Yes
8	Related Party Disclosures	Yes
9	ESOP Disclosures	Yes
10	BASEL III Disclosures	Yes

Source: *Annual Reports of Yes Bank 2018-19*

Interpretation: Yes Bank fulfils the criteria of complying with all statutory disclosures except Divergence in Assets Classification & Provisioning.

VII. Conclusion:

The impact of corporate governance practices on financial performance of any organization is seen widely being recognized. Most of the firms do worry about the financial soundness being caused by poor corporate governance, such as lack of regulatory compliance, poor risk management, biased audit processes and so on. The annual reports of Yes Bank during 2018-19 reveal that Yes Bank has been able to comply fully with all statutory requirements. But yet, Yes Bank has been failure to fulfil certain regulatory compliance in matters related as herewith. The majority of shares are held by foreign portfolio investors i.e., 40.33%. The ideal combination of the board should be fifty percent of Non Executive Directors. But this criterion is not fulfilled by Yes Bank. The maximum gap criterion is not fulfilled as the maximum gap between any 2 Board Meetings was less than 4 months in case of Yes Bank.

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