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IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

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Abstract
Banks are the backbone and wheels of growth of an economy particularly in a developing country like India. The attention has been shifted from management to corporate governance in 21st century. Corporations are giving more priority their governance aspect as they are playing a major role. In this backdrop, the paper has examined the impact of corporate governance on financial performance of selected commercial banks in India. The outcome of our analysis showed that there is a strong correlation between the corporate governance factors and financial performance of commercial banks in India.
Keywords: Bank, Corporate Governance, Management, Financial Performance

INTRODUCTION
The absence of corporate governance was seen as the primary cause of the fallout. As a result, corporate governance has taken center stage in scholarly discourse. Banks are very vulnerable; one bank's failure has repercussions for other banks, impacting the whole financial system and economy. The public sector banks dominate the banking business in India, yet there is growing concern over governance issues in these institutions. As a result, the current study aims to assess the corporate governance in India's nationalized banks, which hold a significant stake in the public sector.
A bank is a financial entity that deals with obligations and credits, receives deposits, loans money, and generates money, as well as bridging the gap between savers and borrowers. Banks are not just money exchangers, but also money producers in several ways. A bank is a financial entity that receives deposits and channels them into lending operations, either directly through loans or indirectly through capital markets. A bank serves as a link between consumers with capital deficiencies and those who have capital surpluses.
The primary goal of corporate governance is to increase shareholder value while keeping stakeholders' interests in mind. With the rise of unethical business practices and financial crises in several nations, the term corporate governance has gained prominence. Firms' lack of effective checks and balances, abuse of power, insider trading, and other fraudulent actions have increased the relevance of corporate governance research. Corporate governance helps to a firm's efficiency, allowing it to compete worldwide on a long-term basis. Corporate governance is critical for sustaining the organization's integrity and managing the firm's risk. It is a critical system that directs, monitors, and manages the operations of the organization.
In order to achieve and sustain public trust and confidence in the financial system, effective corporate governance is required. Because bad corporate governance can cause markets to lose faith in a bank's capacity to manage its assets and obligations, resulting in bank collapses. Banks

now have more responsibility to their stakeholders, particularly their shareholders. One issue that requires specific attention is the lack of transparency and disclosure in banks. There is a lot of study going on in the domain of corporate governance, but there is a lot less research going on in the area of banking. The current research supports in determining the level of corporate governance disclosure and its impact on bank performance, as well as ensuring that banks are governed in the best interests of shareholders.

REVIEW OF LITERATURE

The number of studies to investigate the relationship between corporate governance and financial performance of banks is growing day-by-day. In this context, **Udeh, Abiahu, and Tambou (2017)** evaluated the impact of corporate governance on firm's financial performance in Nigeria. Quoted Banks to determine the bank's financial performance before and after introducing the code of corporate governance in Nigeria. The main objective of this study is to evaluate board composition to determine its impact on firm's financial performance. Board composition was used to measure corporate governance, while return on capital employed (ROCE) was used to operationalize financial performance.

The study is anchored on the Shareholders Theory. The population of this study comprised fifteen (15) banks whose shares are quoted on the Nigeria Stock Exchange. The judgmental sampling technique was used to select seven (7) banks from the entire population of the study (which makes up the sample size). Data were obtained from a secondary source (published financial statements of the selected quoted banks) covering 2003 – 2014. The method of data analysis utilized was Ordinary Least Squares Regression Analysis. A model was formulated. The findings from this study showed that Board composition has a negative, though insignificant, impact on ROCE during the 2003 – 2008 period and during 2009 – 2014.

Kose John (2018) surveys the empirical and theoretical literature on the mechanisms of corporate governance. They focus on the internal mechanisms of corporate governance (e.g., corporate board of directors) and their role in ameliorating various classes of agency problems arising from conflicts of interests between managers and equity holders, equity holders and creditors, and capital contributors and other stakeholders to the corporate firm. Examined the substitution effect between internal mechanisms of corporate governance and external mechanisms, particularly markets for corporate control. Directions for future research are provided

Sar (2018) studied the effect of corporate governance index on economic, environmental and social equity performance (sustainability performance). He found that companies with high corporate governance index scores are associated with better sustainability performance. Based on a global study relating to banking sector.

Nizam et al. (2019) found that access to finance and environmental financing have a significant positive effect on banks' ROE which means financial performance of banks will improve if they emphasize on and enhance access-to-finance practices and provide financial support to projects having environmental impacts.

Aggarwal et al., (2019) conducted a unique study in which they assessed the potential impact of demographic diversity of corporate boards on firm performance in case of both independent and group-affiliated firms. They found diversity to negatively influence firm performance for group-affiliated firms but to positively influence performance for independent firms, even with special measures of performance like merger and acquisition performance.

Puni and Anlesinya (2020) found that the presence of both inside and outside directors on the board had a significant positive impact on firm performance, but also that having an audit committee had a negative impact on the same. An increased frequency of board meetings also had a positive impact on the firm's financial performance. Such observations provide some pointers about the likelihood of adherence to these aspects of CG in a developing country context.

Tolossa (2021) investigated the impact of corporate Governance measures on firm performance and the role of managerial behaviour on the relationship of corporate governance mechanisms and firm performance using a Chinese listed firm. To address the objectives, the researcher used panel data of 11,634 samples of Chinese listyed firms from 2010 to 2018. Generalized methods of moments estimation model was used for proposed hypothesis study. The study reveals that managerial overconfidence positively moderates the impact of debt financing on firm performance measured by Tobin's Q and negative influence on debt.

Md.shajul. Islam. M (2022) examines the effects of corporate governance mechanisms on climate change disclosure in Bangladeshi-listed banks. The corporate governance mechanisms used in the study were board size, board meetings, board independence, audit committee size, audit committee independence and audit committee meetings. A climate change disclosure index (CCDI) was developed to assess the sample banks' climate change disclosures.

From 2013 to 2018, data on climate change disclosures and corporate governance mechanisms were collected from the annual reports of all 30 listed banks. Employing a feasible GLS (FGLS) model for panel data, the findings demonstrated that increasing audit committee meetings, independent directors on the board and audit committee size positively and significantly increased climate change disclosures of listed banks in Bangladesh.

Several research gaps were identified during the literature review, including the fact that many studies focused solely on corporate governance in firms, that some studies were limited to conceptual aspects, that some studies were limited to one year for many banks, and that very few studies focused on corporate governance in public sector banks. The confidence between the Bank and its shareholders is supported and strengthened through effective control and a high level of openness.

OBJECTIVES OF THE STUDY

- To study the correlation between corporate governance factors and financial indicators of banks in India.
- To examine the implications of corporate governance on financial performance of banks India.

HYPOTHESES OF THE STUDY

The following hypotheses are questioned and tested in the research to verify the research problem more clearly.

- $H_0$1: There is no significant impact of corporate governance on EPS of commercial banks in India.
- $H_0$2: There is no significant impact of corporate governance on ROE of commercial banks in India.

RESEARCH METHODOLOGY

For the purpose of this study, four nationalized banks were chosen to examine their corporate governance practices. The banks included in the study are Punjab National Bank, Bank of Baroda, Axis Bank, ICICI Bank. The data are collected for period of 5 years from 2016 to 2021. The chosen bank provides year-by-year statistics to examine the level of transparency, the proportion of non-executive directors, the number of board committees, and the number of board meetings. Different statistical tools like correlation, regression analysis, ANOVA has been used.

DATA ANALYSIS AND INTERPRETATION

Analysis and interpretation of data has been made. Pearson Correlation is used to select the corporate governance factors with higher significance to financial indicator. Multi linear regression and ANOVA is used to model the relation between corporate governance significant variables and the financial indicator and test the validity.

Corporate Governance Factors (R) and the Net Interest Margin

Factors	R1
Registration and transfer of shares (P1)	1
Obtaining timely information on regular basis (P2)	1
Participate and vote in shareholder meeting (P3)	0.536891
Able to elect board members on the board (P4)	0.904823
Laws defining insider trading (P5)	0.483158
Insiders disclose transactions (P6)	0.858159
Compliance to penalty norms (P7)	0.067656
Legal and regulation compliance of related party transactions (P8)	0.87848
Availability of Employee stock ownership plan (P9)	0.904823
Employee’s safety and welfare details disclosure (P10)	0.536891
Priority for employee in insolvency plan (P11)	0.536891
Business information of company in annual report (P12)	1
Audited annual financial and accounts in annual report (P13)	1
Board members remuneration bases in annual report (P14)	0.748007
Consolidated financial report (P15)	1
Disclosure of information about corporate governance structure and practice (P16)	1

Director's shareholding and transactions in company's stock (P17)	0.904823
External audit of financial statements (P18)	0.332568
Strategic guidance (P19)	0.904823
Annual budget formulation (P20)	1
Major capital expenditure (P21)	0.116602
Selection, compensation and monitoring of key executives (P22)	0.349296

Factors	R1	R2	R3	R4	R5	R6	FI
Registration and transfer of shares (P1)	1	1	1	1	1	1	1
Obtaining timely information on regular basis (P2)	1	1	1	1	1	1	1
Participate and vote in shareholder meeting (P3)	0.531	0.7704	-0.780	-0.810	0.3551	0.4603	0.8155
Able to elect board members on the board (P4)	0.9048	0.4639	-0.821	-0.732	0.4839	0.8795	0.6661
Laws defining insider trading (P5)	0.4831	-0.1355	-0.087	-0.086	0.1422	0.3987	-0.009
Insiders disclose transactions (P6)	0.8589	0.5592	-0.820	-0.819	0.445	0.7388	0.7256
Compliance to penalty norms (P7)	0.0676	0.1769	-0.083	0.151	-0.044	0.0276	0.1518
Legal and regulation compliance of related	0.878	0.5093	-0.819	-0.775	0.462	0.805	0.6936

party transactions (P8)							
Availability of Employee stock ownership plan (P9)	0.9048	0.4639	-0.821	-0.732	0.4839	0.8795	0.6661
Employee's safety and welfare details disclosure (P10)	0.5368	0.7708	-0.780	-0.810	0.3551	0.4603	0.8155
Priority for employee in insolvency plan (P11)	0.536	0.770	-0.780	-0.810	0.355	0.4603	0.815
Business information of company in annual report (P12)	1	1	1	1	1	1	1
Audited annual financial and accounts in annual report (P13)	1	1	1	1	1	1	1
Board members remuneration bases in annual report (P14)	0.7487	0.220	-0.554	-0.598	0.371	0.731	0.422
Consolidated financial report (P15)	1	1	1	1	1	1	1
Disclosure of information about	1	1	1	1	1	1	1

corporate governance structure and practice (P16)							
Director's shareholding and transactions in company's stock (P17)	0.9048	0.4639	-0.821	-0.732	0.4839	0.8795	0.6661
External audit of financial statements (P18)	0.3325	0.2516	-0.207	-0.356	0.0473	0.3414	0.2727
Strategic guidance (P19)	0.9048	0.4639	-0.821	-0.732	0.4839	0.8795	0.6661
Annual budget formulation (P20)	1	1	1	1	1	1	1
Major capital expenditure (P21)	0.1166	0.2720	-0.209	-0.373	0.1335	0.145	0.2846
Selection, compensation and monitoring of key executives (P22)	0.349	0.1467	-0.246	-0.356	0.0098	0.148	0.208

Taking the threshold as 0.7, the most significant variables affecting the financial indicator (FI) are:

Variables and the Correlation Value

Variable	Correlation value
P1	1
P2	1
P3	0.815502
P6	0.725631
P10	0.815502

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P11	0.815502
P12	1
P13	1
P20	1

Multi linear regression fit is made between the significant variables affecting the financial indicator taking financial indicator as output and the significant variable:

Multi Linear Regression Value

SUMMARY OUTPUT									
Regression Statistics									
Multiple R	0.851896186								
R Square	0.725727112								
Adjusted R Square	0.299300945								
Standard Error	10.81416608								
Observations	20								
ANOVA									
	Df	*SS*	*MS*	*F*	*Significance F*				
Regression	9	4951.041	550.1157	14.11202	0.000142				
Residual	16	1871.139	116.9462						
Total	25	6822.18							
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*	
Intercept	-32.31	4.836242	-6.68081	5.28E-06	-42.5624	-22.0576	-42.5624	-22.0576	
X Variable 1	0	0	65535	#NUM!	0	0	0	0	
X Variable 2	0	0	65535	#NUM!	0	0	0	0	

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X Variable 3	25.79666667	7.89755	3.266414	0.004851	9.054608	42.53873	9.054608	42.53873	
X Variable 4	4.428333333	9.871938	0.448578	0.659752	-16.4992	25.35591	-16.4992	25.35591	
X Variable 5	0	0	65535	#NUM!	0	0	0	0	
X Variable 6	0	0	65535	#NUM!	0	0	0	0	
X Variable 7	0	0	65535	#NUM!	0	0	0	0	
X Variable 8	0	0	65535	#NUM!	0	0	0	0	
X Variable 9	8.166	8.376617	0.974857	0.344141	-9.59163	25.92363	-9.59163	25.92363	

(Source: Self-Compiled)

The goodness of fit is given by R^2 value. The value of R^2 for the multi linear regression fit is 0.725. From this it can be seen that 72.5% of influence on Financial indicator due to the significant CG variables. Thus, the study infers a strong correlation between significant CG factors and the financial indicators.

The model validation is done using ANOVA and the result is given below:

Model Validation using ANOVA

ANOVA						
	Df	*SS*	*MS*	*F*	*Significance F*	
Regression	9	4951.041	550.1157	14.11202	0.000142	
Residual	16	1871.139	116.9462			
Total	25	6822.18				

The significance value (F) of the model is 0.000142. It is lower than the 0.05 (5%), thereby we prove that there is strong correlation between significant corporate governance variables found in this study to the financial performance of the company. This proves the reliability of the proposed model.

Testing of Hypothesis 1-Result Summary

ANOVA						
	Df	*SS*	*MS*	*F*	*Significance F*	

Regression	9	7.0191	0.7799	19.19774	3.56E-05	
Residual	16	1.94998	0.121874			
Total	25	8.96908				

The significant value is 3.56E-05 which is lower than significance value of 0.05 (5%) thereby rejecting the null hypothesis. This proves that there is a strong relation between the significant corporate governance factors and the ROE of the bank. This proves the hypothesis that "There is significant relation between corporate governance and ROE of commercial banks in India"
The relation between the corporate governance and the of the banks is analysed to prove the hypothesis 2

Testing of Hypothesis -2

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.85							
R Square	0.725727							
Adjusted R Square	0.299301							
Standard Error	10.81417							
Observations	20							
ANOVA								
	Df	*SS*	*MS*	*F*	*Significance F*			
Regression	9	4951.041	550.1157	14.11202	0.000142			
Residual	16	1871.139	116.9462					
Total	25	6822.18						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-32.31	4.836242	-6.68081	5.28E-06	-42.5624	-22.0576	-42.5624	-22.0576
X Variable 1	0	0	65535	#NUM!	0	0	0	0
X Variable 2	0	0	65535	#NUM!	0	0	0	0
X Variable 3	25.79667	7.89755	3.266414	0.004851	9.054608	42.53873	9.054608	42.53873
X Variable 4	4.42833	9.871938	0.448	0.659	-16.4992	25.355	-16.4992	25.3559

	3		578	752		91		1
X Variable 5	0	0	65535	#NUM!	0	0	0	0
X Variable 6	0	0	65535	#NUM!	0	0	0	0
X Variable 7	0	0	65535	#NUM!	0	0	0	0
X Variable 8	0	0	65535	#NUM!	0	0	0	0
X Variable 9	8.166	8.376617	0.974857	0.344141	-9.59163	25.92363	-9.59163	25.92363

Testing of Hypothesis -2 Result Summary

ANOVA						
	Df	*SS*	*MS*	*F*	*Significance F*	
Regression	9	4951.041	550.1157	14.11202	0.000142	
Residual	16	1871.139	116.9462			
Total	25	6822.18				

The significant value is 0.000142 which is lower than significance value of 0.05 (5%) thereby rejecting the null hypothesis. This proves that there is a strong relation between the significant corporate governance factors and the financial indicator of the bank. This proves the hypothesis that “There is significant relation between corporate governance and ROE of commercial banks in India”.

CONCLUSION

Corporate governance's development as a fair and transparent framework for running and administering banks in a way that maximizes long-term shareholder profit and benefits the broader community is a relatively new phenomenon. People's perceptions of a bank's goal have shifted from one that was designed to help shareholders to one that is supposed to benefit all of the bank's stakeholders. Furthermore, recent revelations of banking industry scams and frauds have caused some proponents of free banking to reconsider their position, arguing that the system is not self-regulatory and requires significant external oversight. Wrongdoers should be punished, while those who follow the rules of the game should be rewarded handsomely by market forces.

FINDINGS AND SUGGESTIONS

The current study supports in determining the existing state of corporate governance in Indian banks, as well as identifying any areas where action is necessary to improve bank governance. There is significant relation between corporate governance and ROE of commercial banks in India. There is strong correlation between significant corporate governance variables and the financial performance of the company. Governments' legislative and regulatory measures, as well as banks' investment in the establishment of many committees to investigate governance problems in depth and implement the finest corporate governance practices, showed society's response to these scams.

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