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GOVERNANCE PRACTICES AND ITS RELATIONSHIP WITH FINANCIAL PERFORMANCE OF SELECTED PRIVATE SECTOR BANKS IN INDIA: AN ECONOMETRIC ANALYSIS

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ABSTRACT
Corporate governance plays a crucial role in Indian banking sector which strengthens the internal control, risk management, and board supervision, thereby enhancing financial stability, investor confidence, and long-term institutional performance. This paper addresses the legal framework and relationship of corporate governance practices with financial performance of Indian banking Industries specifically five large private banks during 2020-21 to 20224-25. The data are collected from the annual reports of the sample banks and different web sites like money control, screener etc . OLS regression has been used for analysing degree of interdependence among variables of corporate governance practices and financial performance. For the analysis of the data different statistical tools like descriptive statistics, correlation matrix, Augmented Dickey-Fuller, Phillips-Perron Unit Root Test and regression model is used by the help of E-views 14 and SPSS 26 version software. The analysis supports the fact that there is the existence link between corporate governance practices and bank performance in India. It is also observed that regular board meetings enhance the strategic decisions of Indian banking sectors relate to profitability.
Keywords: *Corporate Governance, Board Supervision, Board Meetings*.

1. INTRODUCTION

Corporate governance is the official system of rules, norms and procedures that a sustainable business works. It is therefore a system in which the board of directors is held accountable and ensures the business remains prosperous (Eriki and Eburajolo 2021). Although there are many studies on the issue of corporate governance, the role of good governance on the effective banking system, which plays a critical role not only nationally but also in the world financial system, was not a topic of empirical research until recently particularly after the 2008 financial crisis (Abobakr 2017). Banks are important to the Indian economy. Banking institutions can serve the economy and its subsectors more due to their money lending service (Shukla 2020). Any financial institution should ensure that it has well established bank governance system to create sense of trust, security and transparency to its customers. Corruption fight is directly linked to more efficient and successful banking operations, which is why safe and secure banking processes should be established (Muhaissen and Alobidyeen 2021). The corporate board is an important aspect of a well-managed business since they are the ones to manage the important management decisions and implement the overall strategy of the bank. The board of the bank serves as a mediator between the bank and the external stakeholders. It helps in governance role which monitors the decisions of top management. The corporate board is the sole body to ensure the future growth and development of the bank and also gives strategic direction (Nyuur et al. 2020).This paper aims at investigating the relationship between corporate governance and the performance of selected private sector banks in India. One of the most accounting-based measurements of the financial performance of the banks i.e. ROA are taken into consideration in this paper. It is very popular in financial analysis particularly in the banking industry since banks exist primarily as a result of efficient utilization of their resources including loans and investments. conventional performance measurement approaches.

2.LEGAL ASPECTS

The banking industry in India has a robust legal and regulatory framework that guides corporate governance in the banking sector to achieve transparency, accountability and ethical management practices. The reserve bank of India and the Securities and exchange board of India come up with key regulations which govern the composition of boards, risk management and disclosure requirements. The listed banks are also required to abide by the stipulations of the Companies Act, 2013 and corporate governance requirements of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. These are legal provisions that focus on independent directors, audit committees and internal controls systems. They all lead to responsible governance, safeguarding the interests of the stakeholders and enhancing financial stability in the banking system.

3.THEORIES OF CORPORATE GOVERNANCE

Corporate governance denotes the framework of rules, structures and procedures by which organizations are governed and controlled to guarantee accountability, transparency as well as responsible decision making. It assists in aligning the interests of the management, shareholders, and other stakeholders and enhancing organizational performance and sustainability (Bamel et al., 2024; Almashhadani, 2021).

3.1 Agency Theory: One of the most effective theories in corporate governance is an agency theory. It describes the interactions between the principals (shareholders) and the agents (managers). Managers can use company resources to achieve their personal benefits, hence, conflict of interest is possible. Board monitoring, transparency, performance-based incentives, and audit committees are examples of corporate governance mechanisms that are employed to align the actions of the managers with the interests of the shareholders and minimize the agency costs (Vitolla et al., 2020; Bamel et al., 2024).

3.2 Stewardship Theory: The agency theory is an alternative of Stewardship theory. It presumes that managers will be good custodians who are acting in the best interest of the organization but not on self-interest. Responsibility, trust, and organizational success motivate managers as opposed to financial incentives being used alone. Thus, the governance systems are expected to aim at empowering managers and establishing cooperation between the board of directors and executives (Amanda and Kesuma, 2024; Davis et al., 1997).

3.3 Stakeholder Theory: Stakeholder theory broadens the concept of corporate governance to include other stakeholders beyond the shareholders to all the parties concerned with organizational operations. These stakeholders are employees, customers, suppliers, creditors, government and community at large. According to the theory, the companies are expected to generate value to all stakeholders and harmonize their interests during decision-making activities (Freeman et al., 2021; Awa, Etim and Ogbonda, 2024).

3.4 Resource Dependency Theory: Resource dependency theory focuses on the strategic aspect of the board of directors in the provision of valuable resources, expertise and external links to organizations. Board members are also able to introduce knowledge, experience in industries, and networks that enable firms to gain access to resources and react to environmental challenges. Good composition of the board will hence increase the performance of the organization and reinforce the governance structures.

3.5 Institutional Theory: According to the institutional theory, corporate governance is influenced by institutional pressures, such as laws, regulations, social norming, and industry standards. To gain legitimacy and authenticate itself to societal expectation, organizations use governance mechanisms to meet regulatory demands and ensure that people stay in good standing with them. Therefore, the structure of corporate governance is dynamic based on the institutional backdrop of the organizations.

4.CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF BANKING INDUSTRIES

Corporate governance is significant in enhancing financial performance of banks. Transparency, accountability and strategic decision making in the banking institutions are increased through effective governance mechanisms like board meetings, audit committees and risk management

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committees. These government systems are used to assure that the management processes are monitored and the financial resources are used effectively. Consequently, good corporate governance has the capacity of positively impacting on the profitability of the banks, as it is commonly quantified using financial metrics like Return on Assets and Return on Equity. One of the indicators that are mostly used to measure the financial performance of the banks is Return on Assets. It is an indicator of the efficiency of a bank on its total assets to make profit. One of the most significant financial indicators that are employed in the determination of the profitability and financial performance in the banks is Return on Equity. It is a measure of the potential of a bank to earn profits out of the funds that have been deposited by the shareholders. Stated differently, ROE is a measure of the efficiency of the management in terms of using the equity of the shareholders to generate the earnings. An increased ROA implies that the bank is making good use of its assets in generating earnings. Research indicates that good corporate governance practices, meetings of various committees, independent members in committee and good risk management structures, can contribute greatly in enhancing ROA by mitigating operational risks and enhancing the efficiency of the managers. As a result, the effective governance systems enhance the management of profits in the banking industry (Al-Farooque et al., 2020; Almashhadani, 2021).

5.RESEARCH QUESTIONS

- Does an increase in board meeting frequency improve bank profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE)?
- Is there a significant impact of corporate governance committee meetings on the financial performance of banks?

6.OBJECTIVES OF THE STUDY

- To analyze the relevance of corporate governance theories in explaining bank profitability.
- To examine the relationship between board meetings and bank profitability.
- To investigate how different corporate governance committee meetings influence the financial performance of banks.

7.HYPOTHESIS DEVELOPMENT

By analysing various literatures this study developed two hypothesis i.e.

H_{01}= There is no significant relationship between the number of board meetings and Profitability parameter of banks.

H_{11}=There is a significant relationship between the number of board meetings and Profitability parameter of banks.

H_{02}=Corporate governance committee have no significant impact on the Profitability parameter of banks.

H_{12}=Corporate governance committee have a significant impact on the Profitability parameter of banks.

8.RESEARCH METHODOLOGY

The study used the sample data of top 05 Indian private sector banks as per their market capitalization for the period of 5 years from 2020-21 to 2024-25. The data related to corporate governance has been collected from the annual report of concerned bank i.e HDFC, ICICI, AXIS, KOTAK MAHINDRA and IDBI. Money control site has been used to collect the data pertaining to ROA and ROE. Statistical tools like descriptive statistics, correlation matrix, Augmented Dickey-Fuller, Phillips-Perron Unit Root Test and regression model is used to justify the objectives.

Table-1: Variable description

Dependent variables		
1	Return on Assets (ROA)	Net Income/ Total Assets ×100
2	Return on Equity (ROE)	Net Income/ Shareholders' Equity ×100
Independent variables		
1	(BM) Board Meetings	Total No. of meetings held during that period.
2	(ACM) Audit Committee Meetings	
3	(RMC) Risk Management Committee	
4	(NRC) Nomination & Remuneration Committee	
5	(ITSC) IT Strategy Committee	

Source: Self- Compiled

8.1 MODEL SPECIFICATION

The model is formulated to study the impact of banks' corporate governance on their profitability.

$ROA = \beta_0 + \beta 1BM + \beta 2ACM + \beta 3RMC + \beta 4NRC + \beta 5ITSC + €$

$ROE = \beta_0 + \beta 1BM + \beta 2ACM + \beta 3RMC + \beta 4NRC + \beta 5ITSC + €$

Where, β_0 = Intercept

β1, β2, β3, β4, β5 = Coefficients

BM, ACM, RMC, NRC and ITSC = Independent Variables

ROA and ROE = Dependent Variables

€ = Error.

9. ANALYSIS AND INTERPRETATION

This study analyses the relationship between corporate governance factors and profitability parameters of sample private sector banks in India for the period of 5 years from 2020-21 to 2024-25.

Table-2: Descriptive Statistics

Factors	N	Minimum	Maximum	Mean	Std. Deviation
ROA	25	-0.80	2.40	1.6332	0.69365
ROE	25	-12.50	19.80	13.9092	6.37344
BM	25	1.79	2.64	2.1516	0.17487
ACM	25	1.95	2.30	2.1744	0.10790
RMC	25	1.61	2.08	1.9028	0.14167
NRC	25	0.60	0.78	0.7264	0.06102
ITSC	25	1.10	1.61	1.3936	0.17783

Source: self-compiled

Interpretation

Table 2 describes that the descriptive statistics of financial performance and governance characteristics of the sample banks. The lowest value of financial factors is between -0.8 and -12.5 and the governance factors is between 0.6 and 1.95. Its highest value of financial factors is between 2.4 and 19.8, whereas, the governance factors are between 0.78 to 2.64. The mean demonstrates the average of the data set and displays the degree of financial performance and governance practices. Mean ROA is 1.6332 which is the average asset yield and the average yield to the shareholders is 13.9092, ROE. In this study the mean value is greatest in Audit committee meeting i.e. 2.17 and lowest in Nomination and remuneration committee i.e. 0.72, indicates that the frequency of the meetings is quite similar within the sampled banks.

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Table-3: Correlation Matrix

		ROA	ROE	BM	ACM	RMC	NRC	ITSC
ROA	Pearson Correlation	1						
	Sig. Value							
ROE	Pearson Correlation	0.886**	1					
	Sig. Value	0.000						
BM	Pearson Correlation	0.583**	0.655**	1				
	Sig. Value	0.002	0.000					
ACM	Pearson Correlation	0.664**	0.679**	0.852**	1			
	Sig. Value	0.000	0.000	0.000				
RMC	Pearson Correlation	0.693**	0.702**	0.872**	0.960**	1		
	Sig. Value	0.000	0.000	0.000	0.000			
NRC	Pearson Correlation	0.753**	0.668**	0.767**	0.854**	0.856**	1	
	Sig. Value	0.000	0.000	0.000	0.000	0.000		
ITSC	Pearson Correlation	0.623**	0.582**	0.759**	0.881**	0.847**	0.798**	1
	Sig. Value	0.001	0.002	0.000	0.000	0.000	0.000	
**. Correlation is significant at the 0.01 level (2-tailed).								

Source: self-compiled

Interpretation

Table 3 describes that the correlation results indicate positive relationships between financial performance and corporate governance variables. There are high positive correlations between ROA and BM (0.583), ACM (0.664), RMC (0.693), NRC (0.753), and ITSC (0.623), indicating that positive governance practices are related to financial performance. On the same note, ROE is positively correlated to the entire variable governance i.e. BM (0.655), ACM (0.679) and RMC (0.702), NRC (0.668) and ITSC (0.582) with the high value. There are also high levels of correlations amongst governance indicators and this denotes that the governance committees interact very closely. All the correlations are significant at 1% level. Therefore, the null hypothesis (H_{01}) is not accepted. It establishes the existence of a close relationship between the performance of banks and their governance practices.

Table-4: Stationary test

Augmented Dickey-Fuller Unit Root Test on Corporate Governance			
Null Hypothesis: Corporate Governance has a unit root Exogenous: Constant			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-6.163077	0.0001
Test critical values:	1% level	-3.857386	
	5% level	-3.040391	
	10% level	-2.660551	
Phillips-Perron Unit Root Test on Corporate Governance			
Null Hypothesis: Corporate Governance has a unit root Exogenous: Constant Bandwidth: 17 (Newey-West automatic) using Bartlett kernel			
		Adj. t-Stat	Prob.*
Phillips-Perron test statistic		-7.655526	0.0000
Test critical values:	1% level	-3.752946	
	5% level	-2.998064	
	10% level	-2.638752	

Source: self-compiled

Interpretation

Table 4 describes that the unit root test results the corporate governance variable is stationary over the period of 5 years. In the Augmented Dickey Fuller test, the computed t-statistic is -6.16 that is smaller than the critical values of the 1% and 5% and 10% significance level and the probability value that i.e. 0.0001 that is lower than 0.05. In the same way, the adjusted t-statistic of -7.65 at a probability value of 0.0000 indicated by the Phillips-Perron test is also less than the significance level. Hence, the null hypothesis of a unit root is rejected which shows that the data on corporate governance is stationary and can be further analyzed using statistics.

Table-5:Stationary test

Augmented Dickey-Fuller Unit Root Test on Profitability			
Null Hypothesis: Profitability has a unit root Exogenous: Constant			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-3.908102	0.0068
Test critical values:	1% level	-3.737853	
	5% level	-2.991878	
	10% level	-2.635542	
Phillips-Perron Unit Root Test on Profitability			
Null Hypothesis: Profitability has a unit root Exogenous: Constant Bandwidth: 17 (Newey-West automatic) using Bartlett kernel			
		Adj. t-Stat	Prob.*
Phillips-Perron test statistic		-3.907409	0.0068
Test critical values:	1% level	-3.752946	
	5% level	-2.998064	
	10% level	-2.638752	

Source: self-compiled

Interpretation

Table 5 indicates that the unit root tests show that the profitability variable is stationary. In the Augmented Dickey Fuller test, the t- statistic value is -3.90 which is less than the critical values of both 5 and 10 percent and the probability value is 0.0068 that is less than 0.05. Likewise, Phillips-Perron test value of adjusted t-statistic is -3.90, probability value is 0.0068, which is also lower than the level of significance. Therefore, the null hypothesis of a unit root is rejected and thus means that the profitability data is stationary and can be analysed in further econometric tests.

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Table-6: Regression Results: ROA

Model-1		R	R^2	Adj. R^2	Std. Error	D. W test
		0.765[a]	0.586	0.477	0.50180	1.707
ANOVA[a]						
Model-1		**Sum of Squar**	**d.f**	**Mean Squar**	**F**	**P- value**
	Regression	6.763	5	1.353	5.372	0.003[b]
	Residual	4.784	19	0.252		
	Total	11.548	24			
Coefficients[a]						
		Unstandardized Coefficient	**Std. Error**	**Standardized Coefficient Beta**	**t**	**P- value**
Model-1	(Constant)	-3.413	3.671		-0.930	0.364
	BM	-0.515	1.206	-0.130	-0.427	0.674
	ACM	-1.834	3.843	-0.285	-0.477	0.639
	RMC	2.479	2.847	0.506	0.871	0.395
	NRC	7.158	3.394	0.630	2.109	0.048
	ITSC	0.162	1.240	0.041	0.130	0.898

Source: self-compiled

Interpretation

Table 6 indicate a moderate relationship between corporate governance variables and profitability. The summary of the model indicates that the R value is 0.765, which accounts to a strong relationship between the independent variables and the dependent variable. The R square value is 0.586 means that 58.6 % of the change in profitability is accounted by the variables of governance used in this model, whereas the adjusted R square is 0.477 indicates the strength of the variables after adjusting the number of variables used to explain. The value of Durbin Watson is 1.707 that does not mean that there is a serious problem of autocorrelation. The ANOVA indicate that the F value is 5.372 with the significance value of 0.003 which implies that the regression model is statistically significant at 5 % level. Therefore, the null hypothesis(H_{02}) is rejected. This implies that the governance variables are together impact on profitability. In this study Nomination and Remuneration Committee has a positive and statistically significant effect on profitability (β = 7.158, p = 0.048), implying that increased NRC activity may enhance bank performance. However, Board Meetings, Audit Committee Meetings, Risk Management Committee, and IT Strategy Committee do not show statistically significant effects, as their p-values exceed 0.05. Governance mechanisms jointly affect profitability.

Table-7
Regression Results: ROE

Model-2		R	R^2	Adj. R^2	Std. Error	D. W test
		0.721[a]	0.520	0.393	4.96504	1.666
ANOVA[a]						
Model-2		**Sum of Squar**	**d.f**	**Mean Squar**	**F**	**P- value**
	Regression	506.518	5	101.304	4.109	0.011[b]
	Residual	468.381	19	24.652		
	Total	974.899	24			
Coefficients[a]						
		Unstandardized Coefficient	**Std. Error**	**Standardized Coefficient Beta**	**t**	**P- value**
Model-2	(Constant)	-52.388	36.327		-1.442	0.166
	BM	6.054	11.932	0.166	0.507	0.618
	ACM	2.360	38.024	0.040	0.062	0.951
	RMC	18.046	28.169	0.401	0.641	0.529
	NRC	28.316	33.577	0.271	0.843	0.410
	ITSC	-4.856	12.272	-0.135	-0.396	0.697

Source: self-compiled

Interpretation

Table 7 indicates the regression results of Return on Equity on corporate governance variables. The R value is 0.721 that is a strong level of association among the corporate governance factors and ROE. The R square value is 0.520 that means that the governance variables in this model can explain 52 % of the change in the dependent variable whereas the adjusted R square is 0.393 which demonstrates that the predictors can explain the variation after adjusting the number of predictors. The value of Durbin W Watson is 1.666 and this implies that there is no serious autocorrelation issue in this model. The ANOVA results of probability value is 0.011 which is below the critical value at 5% level. So, there is statistically significant overall regression model. Hence H_{02} is rejected. Thus, it means that the variables of governance jointly affect the ROE. The results of the individual coefficients however indicate that the Board Meetings, Audit Committee Meetings, Risk Management Committee, Nomination and Remuneration Committee and IT Strategy Committee are not statistically significant predictors in individually, because the p-value of all of them is greater than 0.05. Even though there are positive coefficients on some of the variables, the effect of these variables is not sufficiently high to be of significance in explaining variations in the dependent variable in this model.

10. CONCLSION

The paper has come to a conclusion that corporate governance is significant in affecting the financial performance of Indian banking sector. Board oversight and active meetings of the committee are the good governance mechanisms that will result in better profitability and operational efficiency. Financial performance indicators i.e. ROA and ROE have a positive linked with corporate governance factors. Here, the governance factors explain a considerable portion of the variation in ROA, but together is significant whereas, the governance variables also jointly influence ROE, as indicated by the significant F-statistic. It suggests that governance mechanisms collectively contribute to bank performance, though their individual impacts vary.

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11.SCOPE FOR FURTHER STUDY

Future research on corporate governance in the banking sector can be examined by taking additional governance variables like board structure, independence of board, director appointment structure etc. A longitudinal approach with large sample size can also added to extent this study. A comparative studies between different banking institutions and the impact of emerging technologies, regulatory changes, and sustainability practices on governance and financial performance can also provide deeper insights.

ABBREVIATIONS

HDFC – Housing Development Finance Corporation
ICICI – Industrial Credit and Investment Corporation of India
IDBI – Industrial Development Bank of India

CONFLICT OF INTEREST

The authors declare that there is no conflict of interest regarding this research project.

ETHICS APPROVAL

Ethical approval is not required for this study, and informed consent is obtained from all participants.

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