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Corporate Governance and Financial Performance of Private Banks in India

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ABSTRACT

Corporate governance systems have been studied extensively in terms of their impact on business performance. Corporate governance and business performance are intertwined, according to the literature. The overwhelming majority agrees. This article examines the impact of corporate governance systems, particularly board structures and CEO duality, on the performance of several Indian banks. The goal is to use statistical approaches to study the impact of CEO Duality on business performance as measured by ROA and ROE in India utilising public and private bank samples. The goal of this research is to see if there is a link between corporate governance and financial performance.

1. INTRODUCTION

Since the global financial crisis of 2008, the Executive Board's position and importance in financial and banking corporate governance has grown. Corporate governance is emphasised by the Basel Banking Supervisory Committee (BCBS, 2015). Corporate governance's fundamental goal is to protect stakeholders' interests in the long run while simultaneously serving the public good. Good corporate governance is critical for the government to gain and maintain trust in the country's banking, financial, and economic institutions. Corporate governance is concerned with the organization's structure in order to achieve the company's goals. Good governance promotes financial performance and provides a fair return and treatment to all stakeholders, as well as incentives to meet management goals that benefit the institution and its shareholders. India's banking system is the world's largest and most difficult in emerging markets (Garg, 2007). Banking provided a wide range of financial products to the commercial sector, including trade, industry, trade, and personal finance. The nature of banking activity promotes information asymmetry and reduces stakeholders' ability to monitor bank manager choices. As depositors, banks deal with the savings, money, and trust of other people (Fu & Heffernan, 2009). Because it is responsible for the safety and protection of depositor rights in order to maintain financial system stability and reduce systemic risks, the banking industry is subject to more stringent regulations than other industries. Kumar and Atwal (2014) studied the integration of global economy demands a set of accounting standards which are generally accepted all over the world for facilitating the countries doing trade in a more simplified way of accounting. Atwal (2017) present study attempts to analysis the bank-wise viewpoint towards financial inclusion initiatives of government in Haryana. There is no significant difference among the bank-wise respondents' viewpoint towards financial inclusion of government is null hypothesis of the study. Regulation can be viewed as an additional element in the corporate management process to reduce the effectiveness of existing bank management practises. The Reserve Bank of India (RBI) has significantly increased bank reform and structurally strengthened the banking industry. The majority of public and private banks have bonds listed and actively traded on stock exchanges. SEBI (Stock Exchange Council of India) has established a strong corporate governance framework (Fu & Heffernan, 2009). Corporate governance in banks is critical due to the complexity and unique nature of financial institutions.

The Boards are in charge of ensuring that a variety of tactics and policy alternatives are adequately monitored and that equitable decisions are made. Regulators can discourage banks' competitiveness and discipline by regulating ownership structures and commercial operations. The size, composition, and role of management boards can encourage and assist managers in appropriately monitoring and making management decisions.SEBI has established a good corporate governance system in order to preserve open and fair communication among banking firms as well as to improve the banking sector's operation. The boards of directors of Indian banks are in charge of overseeing and advising senior management, banking, and auditing. Through a comprehensive and efficient regulatory governance framework, SEBI places a greater emphasis on the Board (Liang et al., 2013). The RBI established "fit and right" parameters in order to create and select the bank board. In accordance with Clause 49, the SEBI published Executive Board regulations outlining the agreements that must be followed by all companies listed in India. In order to successfully advise and monitor management incentives and competences, we look at a number of committee properties (size, makeup, and board functioning). The majority of previous research has focused on non-bank enterprises, with a large number of studies in developing countries focusing on corporate governance. In emerging economies in general, and India in particular, there is essentially little attention on corporate governance in the banking business. Even in developed countries, the role of the management board in the banking sector has not been fully researched. The most recent Indian bank corporate governance literature focuses on the impact of ownership structure on bank performance. There were only a few studies on corporate governance in underdeveloped economies (Liang et al., 2013). We examine the Indian banking industry's corporate governance structure, Board function (size, composition, autonomy, and board operations), and the impact of Board features on bank performance. Kumar and Atwal (2014) The main objective of this research paper isto adjudge the present and future scenario of M-banking along with the prospects and challengesahead in implementation.Atwal (2017) analysed the bankers' viewpoint towards financialinclusion initiatives of government in Haryana.Atwal (2016) analysed the collected data, ANOVAhas been used to test the hypotheses and validate the results of the study. It is concluded thatthere is no significant difference among the district-wise bankers' viewpoint with regard toAadhaar Card as a tool of financial inclusion by Government of India.Atwal (2019) studied the Microfinance is a type of financial service that caters to low-income customers, such as peopleand those who have previously had access to banks and other financial services.

2. LITERATURE REVIEW

Before diving into this topic, it's critical to first define corporate governance. Because there is so much literature on the issue, there are many different definitions of corporate governance. To be fair about this, it is reasonable to construct a limited and comprehensive definition of corporate governance. In a limited sense, corporate management refers to a set of interactions including the firm's management, management board, shareholders, auditors, and other stakeholders. The framework for the firm's objectives, as well as the methods for achieving and measuring success, is created by these interactions, which include a variety of incentives. Transparency in corporate structures and operations, shareholder accountability in management and the board, and stakeholder corporate responsibility are all hallmarks of good corporate governance. While corporate management provides a foundation for building long-term trust between organisations and external capital providers, it is a mistake to believe that expanding access to capital is necessarily necessary.

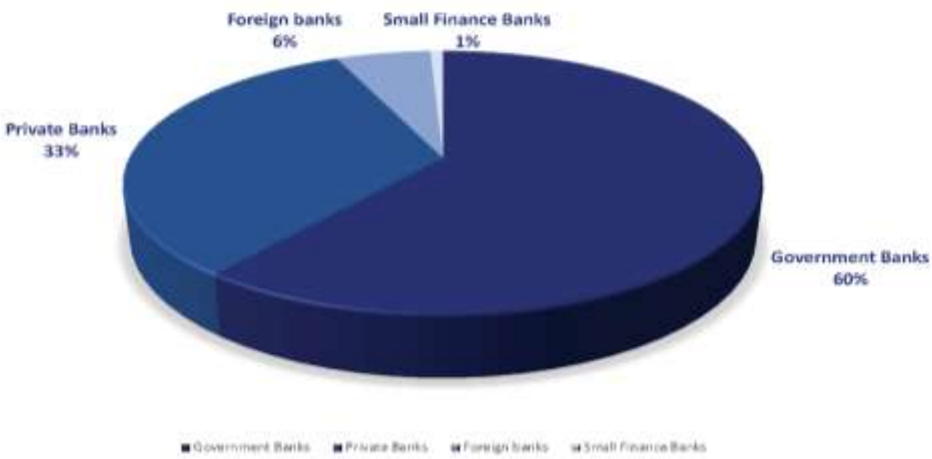

Figure 1- Investments and Advances of Indian Banks as on March 31, 2020

Source- (Dr.Jayadev, 2020)

However, in a broader sense, open and honest management of enterprises is critical for worldwide market trust, allotment effectiveness, the growth and development of the country's industrial base, and, eventually, the country's total wealth and welfare. It should be emphasised that the concepts of disclosure and openness are crucial in both the restricted and broad definitions. In the first instance, financial providers' faith in the company is expanding. They inspire widespread confidence in the economy as a whole in the second condition. Capital deployment is efficient in both scenarios. This should result in improved shareholder rights as a result of Indian Corporate Governance policy, while also ensuring that other stakeholders' interests are not jeopardised.Atwal (2018) study the government plans affect the rateof adoption of banking facilities and services in rural areas, as well as the main hurdles anddrivers.Atwal (2011) studied the Impact of Global Finance Crisis on China and India.

2.1 Corporate Governance in Indian Banks

The Indian Industry Confederation produced a voluntary code in 1997 that served as the foundation for India's first corporate governance programme (CII). During the next three years, a limited number of companies willingly accepted the CII code (about 30 coded companies with around 25 percent of market capitalisation in India).The SEBI Committee, chaired by Shri Kumar Mangalam Birla (1999), was the next pillar of Indian economics in the first official and complete attempt to formulate a Code of Corporate Governance on Capital Market Governance and State in Indian enterprises. The main goal of corporate governance, according to the Board, is to "increase shareholder value while also considering the interests of other stakeholders." The Committee has made recommendations to address a number of issues, including board independence, accounting and financial reporting requirements, shareholder rights and liabilities, and the establishment of an audit and compensation committee. The Committee has also suggested some solutionThe first corporate governance movement in India was launched in 2001 with the publication of a report on corporate management by the Corporate Government Consultation Group, led by Dr. R.H. Patil, and the first corporate governance movement is now closer to an insider governance model of eastern Asia, where proponents control corporate governance in all possible ways. Among other things, the strengthening of the Company Act and the role of independent CEOs should be underlined. The Group looked at public-sector banks and decided that the first step to enhancing governance inside these institutions was to place actual governance functions onto their boards and strengthen them by rationalising the manager recruitment process. As part of their better operation, the Banks should develop a risk management committee in addition to three more board committees, including audit, pay, and appointment committees. The Advising Group on Banking Supervision of the Standing Committee on International Financial Standards and Codes examines corporate management while reviewing numerous domains in which best practise has already been recognised globally.

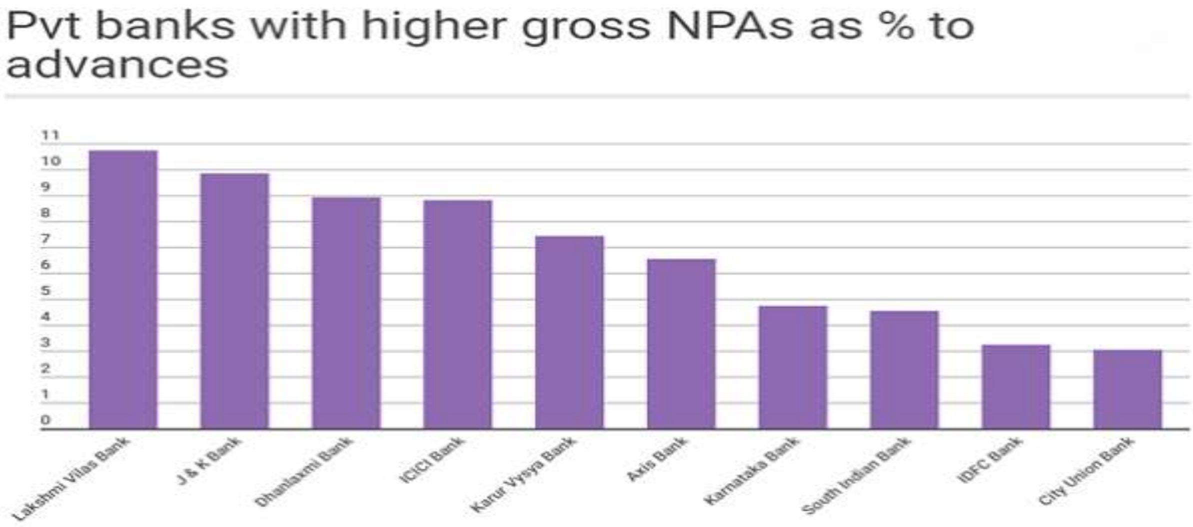

Figure 2- Pvt Banks with higher gross NPAs as % to advances

Source- (TaxGuru, 2018)

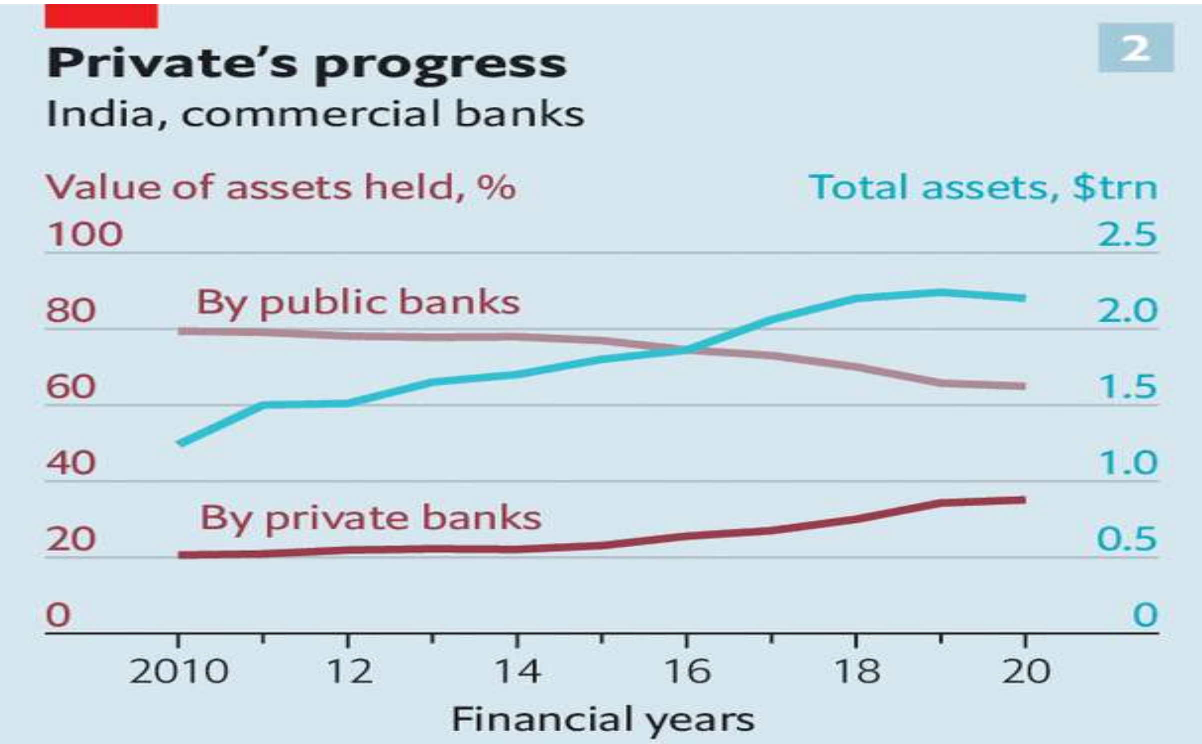

Figure 3- Progress of Banks

Source- (The Economist, 2021)

2.2 The Important Role of the Board of Directors

The management board plays an important role in the operation of a company. They are in charge of the company's resources and operations. (The Board's main responsibilities were identified as a result of this research.) As a result, the Board of Directors is viewed as a group of persons whose primary goal is to protect the company's shareholders' interests and to oversee corporate management (ShamsulNahar Abdullah 2004). Three primary board tasks have been identified and studied in a variety of theoretical contexts: service, control, and strategic responsibilities (Zahra and Parce 1989, Gopinath et al. 1994, Maassen 1999). Another study found that instead of auditing, supervising, guiding, and coaching, the Board should audit, monitor, and guide (Strabel 2004). However, in today's modern workplace, the separation of ownership and control systems has created a potential conflict of interest (Berle and Means 1932). This is also a result of the agency concept, which is frequently employed to diminish management's self-interest (Jensen and Meckling, 1976). The "cost of the agency" is the predicted decrease in the company's worth as a result of managerial opportunity (Jensen and Meckling 1976).

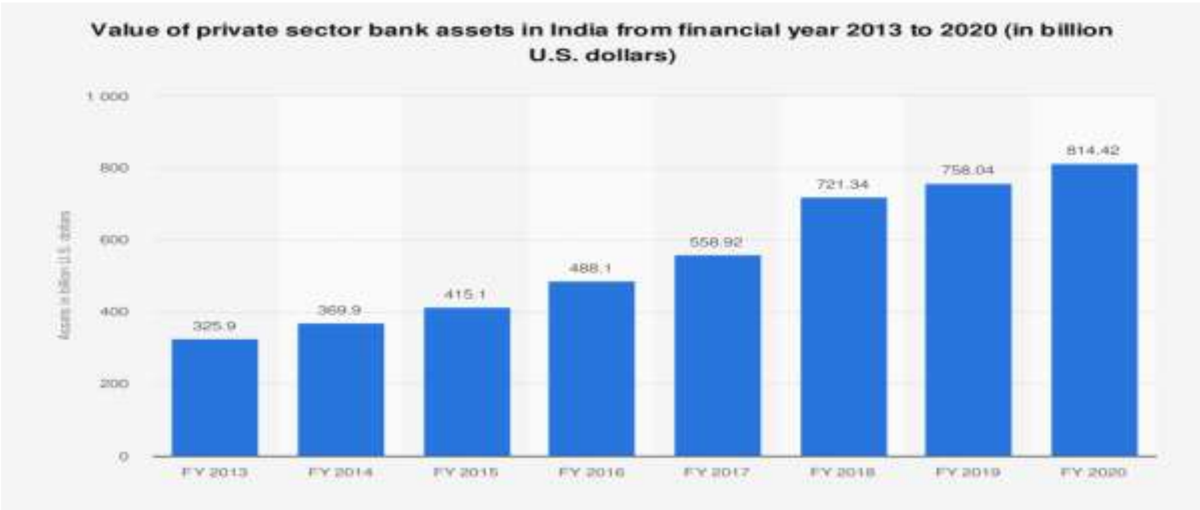

Figure 4-Private sector bank assets in India FY 2013-2020

Source- (Statista, 2021)

3. RESEARCH METHODOLOGY

In the secondary data gathering strategy, existing or second-hand information is gathered. To gather content on the web, researchers used a variety of information from different sources, such as books, journals, and papers, as well as news updates. All secondary information sources are included in the study literature review section. This research provides a wealth of information in this field of study. The information provided to provide the source of the acquired data is referred to as secondary data.To collect data, a secondary strategy is used, and the research is subjected to a quality assessment (Avşar, 2021).

Research Philosophy

The research philosophy is based on a thorough analysis of the subject. The research philosophy identifies the assumptions that scientists consider when conducting research. Because everyone thinks differently, the topic of the study and the research philosophy must be consistent in order to yield accurate and meaningful results (Plank &Gschoesser, 2019). Positiveism, interpretativism, and reality are all part of the research philosophy. The researcher should select a philosophy that is relevant to the inquiry from the broad classifications.The emphasis of positivism is on scientific evidence and knowledge study that is supported by sound logic. This method attempts to ignore metaphysics in favour of focusing on the scientific process, which allows for rigorous proof and knowledge acquisition monitoring (Singh et al. 2021).

The intricate structures of corporate and social components of management are the focus of interpretation. The interpretativism methodology likewise focuses on natural law notions and, in some cases, ignores scientific technique (Ayu, 2018). The researchers interpret the data according to the study criteria in addition to communicating with the sample population.For both philosophies, the realistic approach combines positive and equally important interpretations. It is concerned with the investigation of people's relationships with reality as well as the consideration of human religion (Weilin, 2020).

4. RESULTS

A blended management structure and a separate management structure are the two types of leadership (Cornett et al. 2009). A firm can be cooperatively managed, with the CEO also serving as the Chief Executive Officer, but the structure clearly distinguishing the CEO from the Chairman. There have been a few studies that have looked into the effects of CEO dualism. It is claimed that avoiding arguments between the CEO, President, and/or other directors can improve operational effectiveness (Adams &Mehran, 2012). The CEO of a revenue manipulator is also the President of the Board of Directors (Dechowet al.1996). In some industries (e.g., paucity of resources or high complexity), CEO dualism does have a positive impact on firm success (Francis et al. 2013). However, one study found that, despite the presence of independent managers, there was a lack of separation between the CEO and the board of directors, as well as between the CEO and the shareholders (Gafoor et al. 2018). It's more likely that companies with two CEOs will have lower shareholder returns (Kumar & Singh, 2013). When there is no link between CEE duality and business performance, the connection between CEE duality and firm performance is regarded neutral/insignificant in certain studies (Muniandy& Hillier, 2015).Another study utilising Malaysian state companies as examples found no evidence of a connection (Sarkar&Sarkar, 2018). Despite the fact that the literature's conclusions are not universal, it appears that CEO duality is primarily linked to corporate performance.

Its goal is to effectively regulate and monitor company operations in order to reduce opportunistic management and corporate asset expropriation. The Board of Directors has an independent membership (Malik et al. 2014). Independent managers, on the other hand, are not directly affiliated with management and find it difficult to carry out their responsibilities (Rowe et al. 2011). Instead of only watching the numbers, independent managers appreciate their ability to advise, create corporate and personal links, and provide a message that the organisation is running smoothly (Rowe et al. 2011). According to a study conducted by Singapore's managers, the ideal amount of independent management is between 25 and 50 percent of the overall executive board size, and independent managers are more likely than managing directors to have increased the Board's effectiveness. As a result, the proportion of independent directors is designated as the other independent variable in this study.

5. CONCLUSION AND DISCUSSION

The goal of this research is to see how different board credentials affect bank performance and asset quality in an experimental setting. More information on corporate governance processes and bank sector performance can be found in the document. In recent years, business governance researchers have paid close attention to the influence of CEO duality and the proportion of independent directors on company performance. The goal of this work is to aid in the exploration of this topic. According to the findings of this study, the board's duality and independence have no significant impact on bank performance. Larger samples can be used to evaluate these findings. The research examines board structures and CEO dualism in order to draw conclusions about business management and financial success. This is a limitation. Because of the small sample sizes and lack of data, the findings cannot be extrapolated to indicate that corporate governance has little bearing on financial performance. A slew of other investigations back up this claim.

The use of ROA and ROE as proxies for financial performance is also limited. A stronger indication would be used if there were more than two financial performance proxies. The research focuses on the firm's internal processes. External factors, on the other hand, have a considerable impact on the organization's performance. Inflation, foreign currency, macroeconomics, and interest rate policies may have a greater impact on business performance than domestic corporate governance. Other corporate governance elements that affect performance, such as board size, salary, and ownership arrangements, could be included in this study. A study of the Board's qualitative qualities, such as decision-making, could be expanded in addition to increasing business performance.

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