Corporate Governance and performance of Commercial Banks in India

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Introduction

The Global Financial Crisis (GFC) of 2007-09 resulted in failure and collapse of large number of financial institutions across the globe, which, to name a few, includes Bear Stearns, the Lehman Brothers Holdings, etc. Renewed interests, greater focus and attention was riveted on good corporate governance of commercial banks, their soundness, efficiency, resilience and overall financial stability and sustainability in a country as the failure of these institutions had wide ramifications manifested in the form of high-cost bail out packages of billions of dollars, financial instability, negative impact on economic growth and welfare, severe financial losses to the investors etc. It was therefore, portrayed as the 'worst since the Great Depression' in terms of geographical spread and intensity. Brown & Caylor (2006) echoed on similar lines that since the past few decades, the financial crises and economic collapses around the world have led to an enhanced focus on the issues of corporate governance. Several studies also held that 'corporate governance had an important impact on firm performance during the crisis through firms' risk-taking and financing policies' (David H. Erkens, Mingyi Hung, Pedro Matos, 2012).

Corporate Governance in Indian Banks

Corporate governance is more critical, essential and of great importance and significance for banking entities due to the unique and special feature of financial intermediation of banks in the economy, especially taking deposits and lending to meet various needs to lubricate the wheels of the real economy. They are the conduits of monetary policy transmission and the fulcrum of the economy's payment and settlements systems. Banks are also highly leveraged and therefore, the need to safeguard depositors' money. In view of these specialised functions and responsibilities, the issue of corporate governance in financial firms including banks is different from that of non-financial firms and corporations. Of late, there is growing realisation that the financial sector is unique and the interests of 'other stakeholders' appear more important to it than in the case of non-financial sector. Leeladhar (2004) observed that "in the case of traditional manufacturing corporations, the issue has been that of safeguarding and maximising the shareholders' value. In the case of banking, the risk involved for depositors and the possibility of contagion assumes greater importance than that of consumers of manufactured products". He further held that the interests of other stakeholders appear more important in banks than in the case of non-banking financial entities and non-financial organisations.

In the case of banks, the risk involved for depositors

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and the possibility of contagion assumes greater importance than that of shareholders. Therefore, protection of depositors' interest and customers' interest is an important objective of banking supervisors' recent focus on governance in banks. The growing size, diversity, interconnectedness, and complexity of the financial system in India underscores the significance of and necessity for strengthening corporate governance norms, practices, and standards in banks. This has provided the necessary motivation to undertake this study.

Understanding Corporate Governance

Although researchers trace the genesis of corporate governance to the East India Company having a board known as Court of Directors and its structure and drew attention to the agency problem in "The Wealth of Nations" by Adam Smith (1776–89), perhaps, the most frequently quoted, simplest and common definition was given by the first version of the UK Code on Corporate Governance in 1992 by the Cadbury Committee i.e., "Corporate governance is the system by which businesses are directed and controlled." Over a period of time, a paradigm shift happened from a very narrow view of corporate governance as maximisation of the value of shareholders towards more wide-ranging and broader objective of value maximisation of various stakeholders which gained currency and influenced the thoughts and actions of the corporates.

From the perspective of the banking industry, The Basel Committee on Banking Supervision, initially published its guidance paper - "Enhancing corporate governance for banking organisations" in September 1999, which were later superseded and revised. The committee defines corporate governance as "*a manner in which business and affairs of a bank are governed by the board of directors and senior management*" (BCBS, 2015). For the current study, we have adopted a comprehensive definition of Corporate Governance given in the '*Discussion paper on Governance in Commercial Banks in India (2020)'* of Reserve Bank of India (which is based on definition of Organisation for Economic Co-operation & Development (OECD), 2004) –

"Corporate governance" means a set of relationships between a company's management, its board, its shareholders as well as other stakeholders which provides the structure through which objectives of a company are set, along with the means of attaining those objectives and monitoring performance. It helps define the way authorities as well as responsibilities are allocated and how decisions are made".

Review of Literature

As a topic of research interest, corporate governance is prominent among the researchers. Factors such as integration of domestic economy with world economy, financial intermediation of banks being their special and unique characteristic and the severity of the spillover effect of governance failures in these entities on real sector emphasise the importance of corporate governance in commercial banks. Mishra and Das (2019) held that "Effective corporate governance enhances access to external financing by firms, leading to greater investment, higher growth and employment".

Berger *et al*., (2005) in their work analysed the role of changes in ownership of banks on performance using data from Argentine banking system in the 1990s. This research exercise empirically found out that state-owned banks performed badly, and privatization of the banks led to improvement in their performance. Adnan *et al.* (2011) empirically analysed and found a positive relationship between corporate governance and financial performance of Malaysian

banks. James and Joseph (2015)'s study of Malaysian banks revealed positive relationship between only Capital Adequacy Ratio variable with performance of the bank (RoA). In the case of Kenya, Mang' Unyi (2011) had examined empirically the influence of ownership structure and corporate governance on the performance of Kenyan commercial banks. Romano *et al.,* (2012) analysed the interaction between corporate governance and performance in case of Italian banks during the period 2006-2010 in a panel framework and the empirical investigation revealed the positive influence of composition of the Banks' Board. Wang *et al*., (2012) examined the relationship between the operating performance and corporate governance of Bank Holding Companies (BHCs) in the U.S. and found negative impacts of corporate governance variables (board size, outside directors, the average age of directors and CEO/ Chairman duality) on BHC's performance whereas they found positive relationship between the number of committee and auditors and BHC's performance. However, the results of their study further proved that "corporate governance is important for the operating performance of BHCs".

As regard similar research on India, Jalan (2002) highlighted the influence of corporate governance on performance of commercial banks in India and suggested to have "Corporate Governance of the best standards". Reddy (1999) held that "banks are special and to the extent banks have systemic implications, corporate governance in the banks is of critical importance to the RBI". Handa (2018) covering the period from 2008-2015 examined the relationship between corporate governance and financial performance of select banks in a panel framework and found key elements of corporate governance practices such as existence of Chairman-CEO duality, higher remuneration for directors, presence of female director/s on the bank board, positively influencing the performance of commercial banks. On similar lines, Thomas *et al.* (2014) also found out better corporate governance practices significantly affecting financial performance of Indian commercial banks. Gowd *et al.* (2013) studied the impact of corporate governance practices adopted by the State Bank of India on its financial performance and found positive correlation between sales and Profit After Tax (PAT) with corporate governance practices.

Stylised Facts: Financial Performance of the Indian Commercial Banking Sector

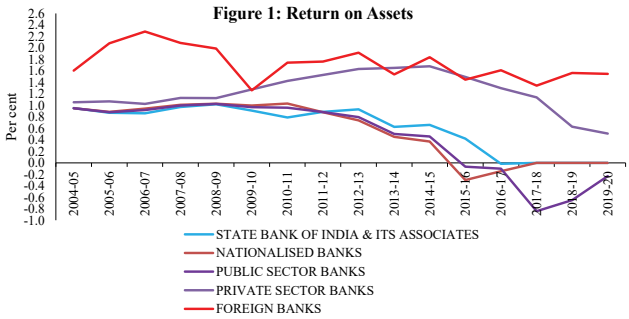
Scheduled commercial banks are dominant players in the Indian financial system accounting for around three-fourths of the total assets of all financial institutions. They are categorised into six different groups according to their ownership and / or nature of operation, such as, (i) Public Sector Banks, (ii) Private Sector Banks, (iii) Foreign Banks, (iv) Small Finance Banks, (v) Payments Banks and (vi) Regional Rural Banks.

Before undertaking the empirical examination of the relationship between corporate governance practices and the performance of Indian commercial banks, it is essential to take a glimpse of the trends in the financial performance of major commercial banking entities in India. A preliminary analysis of these major bank group-wise data on various financial parameters would provide insight on their financial performance.

Return on Assets (RoA)

There are several metrics which emphasise that public sector banks have been lagging behind their private sector competitors in profitability. One such vital parameter has been Return on Assets (RoA) for different banking segments from March 2004-05 till March 2019-20, which reveals how the foreign banks

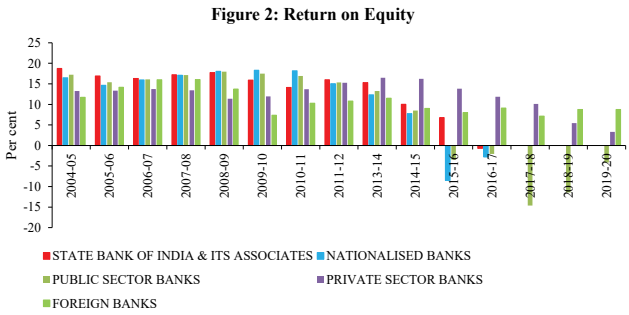
and private sector banks have outstripped both the SBI group (before merger of associate banks) and the other nationalised banks in the past several years in terms of this important financial parameter (Figure 1).



Source: Author's presentation based on Statistical Tables relating to Banks in India

Return on Equity (RoE)

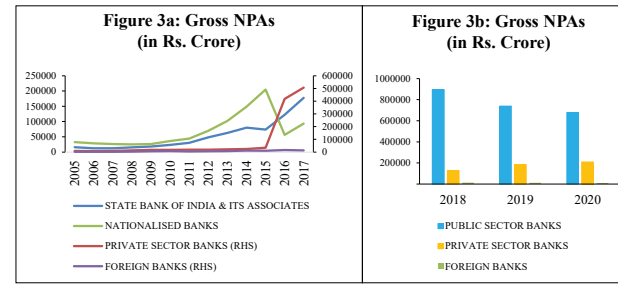
Another major profitability indicator of the scheduled commercial banks is the Return on Equity (RoE), which is computed as a ratio (in %) of Net Profit to total of Capital and Reserves & Surplus. Noticeably, in line with the rise in loss as well as NPAs of the public sector banks, there has been a huge dip in their financial return from 2015-16 onwards. On the other hand, the private sector and foreign banks were able to continue their focus on maximising return on equity during the corresponding period without any interruption (Figure 2).



Source: Author's presentation based on Statistical Tables relating to Banks in India

Non-Performing Assets (NPA)

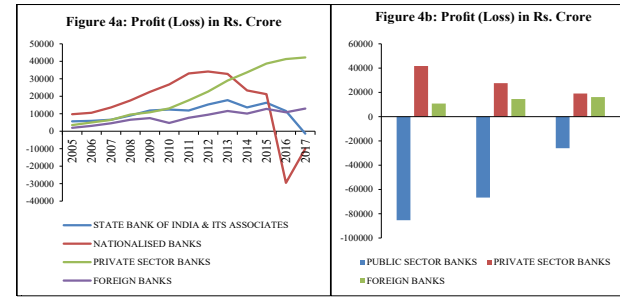
The comparatively better performance exhibited by the foreign and private sector banks *vis-à-vis* their public sector counterpart is visible in the mammoth amount of NPAs accumulated by the public sector banks (Figure 3a and 3b).



Source: Author's presentation based on Statistical Tables relating to Banks in India

Profitability

On the profit front, all major categories of Scheduled Commercial Banks were faring well in terms of profit generation till 2015-16. However, post this period, there has been drastic drop in the profits of public sector banks, whereas their private and foreign counterparts have continued to churn out profit from their banking operations (Figure 4a and 4b).



Source: Author's presentation based on Statistical Tables relating to Banks in India

Objective/ Hypothesis, Data and Research Methodology for the Study

For undertaking empirical exercise, several proxy variables have been considered for corporate

governance, banking operational parameters and banking financial performance indicators. The proxy variables (*i.e.,* independent variables) considered for depicting corporate governance in select public sector and private sector banks comprised of the bank's board size, number of Independent Directors, number of shareholders' directors, number of women directors, and lastly, existence of duality in holding the post of Chairman and Chief Executive Officer (CEO).

Corporate Governance Proxy Variables

Explanatory variables	*Symbol*	Description
Panel A: Selected variables relating to corporate governance		
Board size	bs	Total number of executive and non-executive directors
Independent directors	id	Number of independent directors
Shareholder directors	sd	Number of shareholder directors
Women director	wd	Number of women directors
Chairman/CEO duality	dual	Dummy variable, where CEO & Chair of the board =1, else equal to 0

Select CAMEL Variables

Variable Name	Ratios	Calculation
A. Operational banking variables (independent variables)		
Capital Adequacy	CAR	Total Capital/ Total risk weighted asset
Asset Quality	NPA	Net NPA/Net Advances
	PCR	Total Provisioning/ Gross NPA
Liquidity	LATA	Liquid assets/Total assets
B. Financial Performance variables (dependent variables)		
Earnings	ROA	Profit after tax/Avg. Total assets
	ROE	Net Profit / (Capital + Reserves & Surplus)

On the other hand, the select indicators which depict the operational variables of the commercial banks (independent variables) as well as indication of their financial performance (*i.e.,* dependent variables) were chosen based on the CAMELS approach recommended by the S. Padmanabhan Committee in 1995. The CAMELS based approach is based on six rating factors for Indian commercial banks. However, for the econometric exercise in this study, the operational banking variables selected (*i.e*., independent variables) based on the CAMELS approach comprised of Capital Adequacy Ratio (CAR); Net NPA to Net Advances (NPA); Provision Coverage Ratio (PCR); and lastly, Liquid Assets/ Total Assets (LATA). On the other hand, the banks financial performance indicating variables (*i.e*., dependent variables) chosen for the empirical exercise were the Return on Assets (RoA) and Return on Equity (RoE).

For undertaking the empirical exercise, ten banks were selected - Five each from the public sector and the private sector. The select banks from the public sector were State Bank of India, Bank of India, Canara Bank, Union Bank of India and Punjab National Bank. On the other hand, the private sector banks selected for the empirical investigation comprised of three new generation banks and two old generation banks such as, Axis Bank, ICICI Bank, HDFC Bank, Karur Vyasya Bank and Karnataka Bank, respectively. The data for these ten banks were collected for a period covering 16 years starting from 2005 till 2020. The data on corporate governance indicators for these ten banks for the above-mentioned time period were sourced from the respective annual reports of the commercial banks.

Panel data regression was chosen as the statistical and econometric analysis method because of the presence of ten different commercial banks with each bank having data for 16-year period relating to various parameters of corporate governance, operational and financial performance.

A commonly used panel data regression model could be written as follows:

$Y_{it} = \alpha + bX_{it} + \varepsilon_{it}$

Where:

Y: is the dependent variable

X: set of the independent variables

α & β are the coefficients

i and t are the indices for individual and time

ε: refers to the error term

In the panel regression analysis of this exercise, the Hausman test has been used in for deciding between fixed and random effect model, where the null hypothesis is that the preferred model is random effects (the alternative is fixed effects). For the various regression models, tried out in this empirical exercise, the Breusch - Pagan Lagrange Multiplier (LM) tests were also undertaken (which reveals whether the random effects in the model are appropriate or not). In the empirical analysis adopted in this study, as per the results shown by the LM test, all the panel regressions were undertaken in the simple Ordinary Least Square Framework (OLS). From the OLS regression, the relations between the various dependent and independent variables were established and the importance of each variable was then parameterized. After undertaking the regression exercise for all the select commercial banks (*i.e.*, both public sector and private sector) together, this study also details out the results when the similar empirical regression analysis was carried out separately for public sector and private sector banks.

Results and Discussion[1]

Panel Regression considering both Public Sector and Private Sector Banks together

With the Return on Assets (RoA) being the dependent variable and the independent variables being Net NPA to Net Advances (NPA), Liquid Assets/ Total Assets, Capital Adequacy Ratio (CAR), Provision Coverage Ratio (PCR), Bank Board Size (BS), number of Shareholder Directors (SD), number of Women Directors (WD) and lastly, the number of Independent Directors (ID), the following was the OLS regression output (Table 1).

Table 1: OLS Regression for All Banks with RoA as the Dependent Variable

Random effects GLS Regression				Number of Obs = 160		
Group Variable: bankid				Number of groups = 10		
R-sq:				Obs per group:		
Within = 0.6807				min = 16		
Between = 0.9835				avg = 16.0		
Overall = 0.7827				max = 16		
Corr (u_i, X) = 0 (assumed)				Wald chi^2 = 540.20		
				Prob > chi^2 = 0.0000		
roa	**Coef**	**Std. Err**	**z**	**P> |z|**	**[95% Conf. Interval]**	
npa	-.2052895	.018851	-10.89	0.000	-.2422367	-.1683423
lata	-.0061225	.0120585	-0.51	0.612	-.0297566	.0175117
car	.0651403	.0157971	4.21	0.000	.0341785	.0961021

[1] Further detailed results of the empirical exercise are listed out in the Annex.

pcr	.000333	.0001321	2.52	0.012	.0000741	.0005919
bs	.0189406	.0197907	0.96	0.339	-.0198485	.0577297
dual	.1390629	.0958931	1.45	0.147	-.0488842	.32701
sd	.0934508	.0361351	-2.59	0.010	-.1642742	-.0226273
wd	.0493565	.0390305	-1.26	0.206	-.1258549	.0271419
id	-.0057352	.0172189	-0.33	0.739	-.0394836	.0280132
_cons	.3920626	.3131411	1.25	0.211	-.2216826	1.005808
sigma_u	0					
sigma_e	.33335861					
rho	0	(fraction of variance due to u_i)				

The results of the panel OLS regression with RoA as the dependent variable revealed that in case of all select commercial banks when considered together, the variables NPA, CAR, PCR (*i.e*. variables indicating operational aspects of the commercial bank) turns out to be significant with the appropriate sign in influencing the financial performance indicator under consideration (*i.e.* RoA)

Interestingly, none of the corporate governance variables considered for the analysis seems to be influencing the financial performance variable. This prompted us to look for their influence on another important financial performance indicator *i.e.,* Return on Equity (RoE). The results of the regression model in OLS framework are detailed out in Table 2.

Table 2: OLS Regression for All Banks with RoE as the Dependent Variable

Random effects GLS Regression	Number of Obs = 160
Group Variable: bankid	Number of groups = 10
R-sq:	Obs per group:
Within = 0.8183	min = 16
Between = 0.9526	avg = 16.0
Overall = 0.8324	max = 16
Corr (u,I, X) = 0 (assumed)	Wald chi^2 = 744.91
	Prob > chi^2 = 0.0000

roe	**Coef**	**Std. Err**	**z**	**P> |Z|**	**[95% Conf. Interval]**	
npa	-3.650138	.2395329	-15.24	0.0000	-4.119614	-3.180662
lata	-.3763836	.1532227	-2.46	0.014	-.6766946	-.0760725
car	.0512091	.2007286	0.26	0.799	-.3422117	.44463
pcr	.0023385	.0016785	1.39	0.164	-.0009513	.0056284
bs	.3165182	.251474	1.26	0.208	-.1763617	.8093981
dual	5.854662	1.218482	4.80	0.000	3.466482	8.242843
sd	-.9296176	.4591563	-2.02	0.043	-1.829547	-.0296878
wd	-.8597848	.4959474	-1.73	0.083	-1.831824	.1122542
id	-.6926885	.2187945	-3.17	0.002	-1.121518	-.2638593
_cons	22.82703	3.978978	5.74	0.000	15.02838	30.62568
sigma_u	0					
sigma_e	4.2011651					
rho	0	(fraction of variance due to u_i)				

- The results of the panel OLS regression with RoE as the dependent variable revealed that in case of all select commercial banks when considered together, only the variable NPA (*i.e.*, indicating operational aspects of the commercial bank) turns out to be significant with the appropriate sign in influencing the financial performance indicator under consideration (*i.e.* RoE) Additionally, duality of Chairman/CEO, an important proxy for good corporate governance, seems to also matter in influencing financial performance of commercial banks. In order to confirm as to whether this relationship holds under all circumstances, additional empirical regression exercise was undertaken separately for public sector banks and private sector banks.

Panel Regression considering only Public Sector Banks

- With the Return on Assets (RoA) being the dependent variable and the independent variables being Net NPA to Net Advances (NPA), Liquid Assets/ Total Assets (LATA), Capital Adequacy Ratio (CAR), Provision Coverage Ratio (PCR), Bank Board Size (BS), number of Shareholder Directors (SD), number of Women Directors (WD) and lastly, the number of Independent Directors (ID), the following was the OLS regression output (Table 3).

Table 3: OLS Regression for Public Sector Banks with RoA as the Dependent Variable

Random effects GLS Regression				Number of Obs = 80		
Group Variable: bankid				Number of groups = 5		
R-sq:				Obs per group:		
Within = 0.7967				min = 16		
Between = 0.8035				avg = 16.0		
Overall = 0.7960				max = 16		
Corr (u,I, X) = 0 (assumed)				Wald chi^2 = 273.09		
				Prob > chi^2 = 0.0000		
roa	**Coef**	**Std. Err**	**z**	**P> |Z|**	**[95% Conf. Interval]**	
npa	-.1786404	.0273723	-6.53	0.000	-.2322891	-.1249917
lata	.0042986	.0180682	0.24	0.812	-.0311144	.0397117
car	.0539113	.0351635	1.53	0.125	-.0150078	.1228305
pcr	.0005567	.0005821	0.96	0.339	-.0005842	.0016976
bs	.0420698	.0325913	1.29	0.197	-.021808	.1059477
dual	.3811452	.1548398	2.46	0.014	.0776649	.6846256
sd	-.0589771	.0855274	-0.69	0.490	-.2266077	.1086534
wd	-.0700462	.0578059	-1.21	0.226	-.1833437	.0432513
id	-.0487548	.0342629	-1.42	0.155	-.1159089	.0183992
_cons	.1137816	.641084	0.18	0.859	-1.14272	1.370283
sigma_u	0					
sigma_e	.33594981					
rho	0	(fraction of variance due to u_i)				

Thus, when the panel OLS regression was undertaken with RoA as the dependent variable (when the public sector banks were exclusively considered) revealed that the variables, NPA representing operational aspects of the bank and duality of Chairman/CEO depicting corporate governance turns out to be significant with the appropriate sign in influencing the financial performance indicator under consideration (*i.e.* RoA)

- Similarly, another regression model was attempted with the Return on Equity (RoE) being the dependent variable and the independent variables remaining same as used above, and the following was the OLS regression output (Table 4).

Table 4: OLS Regression for Public Sector Banks with RoE as the Dependent Variable

Random effects GLS Regression				Number of Obs = 80		
Group Variable: bankid				Number of groups = 5		
R-sq:				Obs per group:		
Within = 0.8849				min = 16		
Between = 0.8585				avg = 16.0		
Overall = 0.8833				max = 16		
Corr (u,I, X) = 0 (assumed)				Wald chi^2 = 529.75		
				Prob > chi^2 = 0.0000		
roe	**Coef**	**Std. Err**	**z**	**P> |Z|**	**[95% Conf. Interval]**	
npa	-3.4972	.3801577	-9.20	0.000	-4.242295	-2.752104
lata	-.4226066	.2509388	-1.68	0.092	-.9144375	.0692244
car	.3712322	.4883651	0.76	0.447	-.5859457	1.32841
pcr	0.133844	.0080843	1.66	0.098	-.0024606	.0292293
bs	.167169	.4526422	0.37	0.712	-.7199934	1.054331
dual	7.600232	2.15048	3.53	0.000	3.385369	11.81509
sd	.2340368	1.18784	0.20	0.844	-2.094087	2.562161
wd	-1.187799	.8028327	-1.48	0.139	-2.761323	.3857239
id	-1.218177	.4758577	-2.56	0.010	-2.150841	-.2855127
_cons	18.92937	8.903644	2.13	0.034	1.478545	36.38019
sigma_u	0					
sigma_e	4.5934551					
rho	0	(fraction of variance due to u_i)				

Thus, when the panel OLS regression was carried out with RoE as the dependent variable (in case of public sector banks) revealed that the variables, NPA representing operational aspects of the bank and duality of Chairman/CEO depicting corporate governance practice turns out to be significant in influencing the financial performance indicator under consideration (*i.e.*, RoA)

Panel Regression considering only Private Sector Banks

- With the Return on Assets (RoA) being the dependent variable and the independent variables

being Net NPA to Net Advances (NPA), Liquid Assets/ Total Assets (LATA), Capital Adequacy Ratio (CAR), Provision Coverage Ratio (PCR), Bank Board Size (BS), number of Shareholder Directors (SD), number of Women Directors (WD) and lastly, the number of Independent Directors (ID), the following was the OLS regression output (Table 5).

Table 5: OLS Regression for Private Sector Banks with RoA as the Dependent Variable

Random effects GLS Regression				Number of Obs = 80		
Group Variable: bankid				Number of groups = 5		
R-sq:				Obs per group:		
Within = 0.4015				min = 16		
Between = 0.9635				avg = 16.0		
Overall = 0.5607				max = 16		
Corr (u,I, X) = 0 (assumed)				Wald chi^2 = 90.64		
				Prob > chi^2 = 0.0000		
roa	**Coef**	**Std. Err**	**z**	**P> |Z|**	**[95% Conf. Interval]**	
npa	-.2455162	.0409213	-6.00	0.000	-.3257204	-.1653119
lata	-.0019947	.0204021	-0.10	0.922	-.0419821	.0379927
car	.0641071	.0207551	3.09	0.002	.0234279	.1047864
pcr	.0002354	.0001626	1.45	0.148	-.0000833	.0005542
bs	.0063998	.0357508	0.18	0.858	-.0636705	.07647
dual	-.0453686	.1746571	-0.26	0.795	-.3876903	.2969531
wd	-.0184909	.0655327	-0.28	0.778	-.1469326	.1099509
id	.0097345	.041569	0.23	0.815	-.0717393	.0912083
_cons	.4618668	.4436962	1.04	0.298	-.4077618	1.331495
sigma_u	0					
sigma_e	.33358497					
rho	0	(fraction of variance due to u_i)				

Thus, when the panel OLS regression with RoA as the dependent variable was undertaken exclusively for the private sector banks, only the operational parameter variables depicted by NPA and LATA turn out to be significant with the appropriate sign. It is noticeable that no corporate governance proxy variables turn out to be significant in case of private sector banks in influencing its financial performance variable under consideration (*i.e.,* RoA)

- With the Return on Equity (RoE) being the dependent variable and the independent variables being Net NPA to Net Advances (NPA), Liquid Assets/ Total Assets, Capital Adequacy Ratio (CAR), Provision Coverage Ratio, Bank Board Size (BS), number of Shareholder Directors (SD), number of women directors (WD) and lastly, the number of Independent Directors (ID), the following was the OLS regression output (Table 6).

Table 6: OLS Regression for Private Sector Banks with RoE as the Dependent Variable						
Random effects GLS Regression				Number of Obs = 80		
Group Variable: bankid				Number of groups = 5		
R-sq:				Obs per group:		
Within = 0.5700				min = 16		
Between = 0.9974				avg = 16.0		
Overall = 0.6619				max = 16		
Corr (u,I, X) = 0 (assumed)				Wald chi^2 = 138.98		
				Prob > chi^2 = 0.0000		
roe	**Coef**	**Std. Err**	**z**	**P> |Z|**	**[95% Conf. Interval]**	
npa	-2.54794	.3897781	-6.54	0.000	-3.311891	-1.783989
lata	-.0431661	.1943314	-0.22	0.824	-.4240486	.3377165
car	-.2066504	.1976936	-1.05	0.296	-.5941228	.1808219
pcr	.0032101	.0015491	2.07	0.038	.0001739	.0062464
bs	-.0076456	.3405285	-0.02	0.982	-.6750691	.6597779
dual	2.732918	1.663621	1.64	0.100	-.5277185	5.993555
wd	-.9423468	.6242037	-1.51	0.131	-2.165763	.2810699
id	.2239854	.3959478	0.57	0.572	-.5520581	1.000029
_cons	19.30498	4.226236	4.57	0.000	11.02171	27.58825
sigma_u	0					
sigma_e	3.3023864					
rho	0	(fraction of variance due to u_i)				

Thus, when the panel OLS regression with RoA as the dependent variable was undertaken for the private sector banks exclusively, it revealed that only the variables, NPA and PCR representing operational aspects of the bank turns out to be significant in influencing the financial performance indicator under consideration (*i.e.,* RoA). Once again, the proxy variables for corporate governance have failed in influencing the financial performance of private sector banks.

Concluding Observations

This paper has empirically analysed the influence of corporate governance practices based on selected proxy variables in commercial banks over their financial performance as denoted by Return on Assets (RoA) and Return on Equity (RoE). Overall, the study found no significant relationship between existing corporate governance practices of the ten banks and their financial performance. However, in case of the public sector banks, it was found that corporate governance practices have an important bearing in influencing its financial performance. Further, the existence of duality of Chairman/CEO in the Bank Board, an important proxy variable representing good corporate governance practices, was found to be significantly influencing the financial performance of public sector banks besides other conventional operational banking parameters such as Net NPA to Net Advances, Capital Adequacy Ratio and Provision Coverage Ratio. This is a significant finding of the present study which reinforces one of the basic tenets of corporate governance i.e. separation of the role of non-executive Chairman from CEO or avoidance of Chairman / CEO duality in the public sector banks.

On the other hand, in case of the private sector banks, no such significant relationship could be

found. This could be attributable to the differences in the structural characteristics of private sector banks which differentiates it largely from the public sector counterparts such as better accountability of the board members as well as their greater accountability to a large array of stakeholders, among several other factors. Though corporate governance doesn't seem to influence the financial performance of the private sector banks, nevertheless, it would be highly recommendable to adopt good corporate governance practices for the private sector banks as well. The adoption of good corporate governance practices in the private sector would be helpful in further improving and strengthening the trust of investors and shareholders in the bank. Banking is a major sector which is the backbone in providing funds for undertaking the day-to-day economic activities in the real sector. Banks are also highly leveraged institutions, and hence, their success and failure will influence the entire economy. This would, in fact, lead to fulfilling the broader responsibility for the society, and hence, it is essential that banks irrespective of the ownership structure should put in place better corporate governance practices, norms and mechanisms that would engender the trust of investors, debtors, customers as well as would aid in promoting resilience, controlling mechanisms and transparency and mitigating overall governance risks.

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