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A STUDY OF CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF SELECTED PRIVATE SECTORS BANKS IN INDIA

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Abstract: **Corporate governance is considered as most crucial instrument to improve the efficiency of the firm. The aim of corporate governance is to safeguard the interest of shareholder and maximizing the shareholding value. It maximizes the shareholding value in ethical manner in all transactions with the customer, shareholder and stakeholders of the banks. The aim of the paper is to analyze the effectiveness and relationship between corporate governance and financial performance in selected private sector banks in India listed in exchanges. The study utilizes the secondary data obtained from annual reports and other web sources for the period of three financial years (2014 to 2017). The generated data were analyzed using Pearson's correlation coefficient and ordinary least square regression using Excel. EPS, ROA and ROE are used as a variable in case of financial performance and Composition of board and Board committee is taken in case of corporate governance. From the analysis, the study results that there is no significant relationship and dependence on financial performance and corporate governance in the selected private sector bank. As the scope of study is limited to few private sectors banks, a further research could be measured by analyzing the reports of more banks for a period of time.**

Keywords: **Corporate Governance, Financial Performance, Composition of Board and Board Committee.**

1. INTRODUCTION

Banks act as a backbone for the sources of finance for the productive sector of the economy.

Banks plays an important role in the development and stability of economic growth. If a bank collapse, it not only affects the customers but also the economy as a whole. Therefore effective corporate governance is needed for achieving and maintaining the interest and confidence of the public.

RBI plays an important role in governing and implementing corporate governance mechanism in banks. In India, Corporate governance practices are directly connected with Securities Exchange Board of India (SEBI) under clause 49 listing agreement. All the banks which are listed in Indian stock exchanges are applicable to the corporate governance code under clause 49. Hence RBI and SEBI controls and regulate the effective mechanism of corporate governance of listed banks in India. Over a decade, many amendments and revisions were made based on many committees like constitution of Kumar Mangalam committee in 1999; in the year 2000, introduction of clause 49 in the listing agreement, based on the recommendation of Narayana Murthy committee; revisions were made in clause 49 in 2006; on the basis of Adi Godrej's committee (2012), Voluntary guidelines on corporate governance were issued; enactment of the revised Companies Act, 2013 and in 2014 SEBI, issued the new norms. The recent norms of the regulator clearly indicate the transparency on conducting board matters, responsibilities of the board, board committee and the independent directors.

In this study, an attempt is taken to know the effect of corporate governance on financial performance of selected private sector banks listed in the Indian stock exchanges. The study focus on two aspects of corporate governance practices, composition of board and board committee. Earnings per Share (EPS), Return on Equity (ROE) and Return on Investment (ROA) are used as a measure for assessing financial performance of the banks.

Composition of Board:

The composition of board is combination of both dependent and independent directors (Twinkle Prusty & Saurabh Kumar (2016). The composition of the board is important that the members of the board should comprise of persons of different skills and knowledge from various fields. According to Fama and Jensen(june,1983),"Board of directors are the common apex of the decision control system of organization" After the enactment of Companies Act,2013, Securities Exchange Board of India (SEBI) amended clause 49 of the listing Agreement to align it with the Companies Act 2013 on specified provision of corporate governance. According to the circular issued by SEBI, the revised clause 49 of Listing Agreement, The Board composition should have, the Board should have an optimum combination of Executive and Non-Executive directors and not less than fifty percent of the board of directors comprising non-executive directors, At least one women director, If the chairman of the board is a non-executive, one-third of the board should comprise of independent directors and if the board doesn't have regular non-executive chairman, at least half of the board should be a independent directors, Where the regular non-executive chairman is a promoter of the company or is related to any promoter of the company or is related to any promoter or person occupying management position at the board level or at one level below the board, at least one-half of the board shall consist of independent director(SEBI, circular, CIR/CFD/POLICY CELL/2/2014)"

In this paper, above criteria is taken for analyzing the composition of board, namely combination of executive and non-executive directors, percentage of independent directors and women director.

Board committees:

Board committee comprises of members of board of directors and carries out various functions as assigned by board. According to Twinkle Prusty & Saurabh Kumar (2016), "The board of directors has delegated certain important roles and responsibilities to board committees." The study focus on two components relating to board committees namely existing of various committees as prescribed by SEBI and compliance of the same according to norms of SEBI. The various committees are Audit committee, Nomination and Remuneration committee, Risk Management committee and Stakeholder Relationship committee. As per Albert Puni (2015)" The committees are composed of expertise board members who technically deal with specialized issues that the board as a whole will waste much time in handling." In recent days, many researchers attempt to study more about significance of these committees in financial performance of the banks. In this paper, an attempt is taken to analyze the effect of these committees on financial performance of the listed private sector banks in India.

2. REVIEW OF LITERATURE

In the process of analyzing this paper, many review of literature has been gone through to know about the significance of corporate governance and financial performance. Fitriya Fauzi and Stuart Locke (2012), "investigates board structure role and its effect of ownership on firms performance in New Zealand listed firms and the results revealed that there is a significant impact ." A study conducted by Olayinka Marte Uadiale (2010) about board structure and corporate financial performance and suggested about board size and outside directors of the board to strengthen the financial performance of the corporate. Palaniappan Gurusamy,(2017), "studies the relationship between the corporate governance and financial performance of manufacturing firms listed in BSE and the result revealed that the board size has positive significance in case of financial measures where as negative and insignificant in Tobin's Q, Audit committee independence is negative but significant with ROE." Irge Sener, Abdulkadir Varoglu, Selim Arem (2011), focused on relation of board characteristics with organizational outcomes and he suggested that there is a positive influence on organizational performance. Twinkle Prusty & Saurabh kumar,(2016), "examines the corporate governance on board performance of selected IT companies in India and the study shows that there is a positive relationship between board governance and financial performance." Anshuman Kumar and Yatin Nihalani (2014), analyzed board characteristics on the performance of banks. Gadi Dung paul and Emesuanwu Catherine Ebelechukwu, Shammah Yakubu(2015), assess the corporate governance on microfinance bank's financial performance and result shows that there is a significant relationship between EPS and corporate governance through Pearson's correlation but result of regression is insignificant.

Objectives of the Study:

1. The aim of this paper is to analyze the relationship and dependence of corporate governance on financial performance selected private sector banks in India.
2. To examine the effect of corporate governance (composition of board and board committee) on financial performance (ROA, ROE and EPS) of private sector banks in India.

Statement of Hypothesis:

H_{01}: There is no significant relation between corporate governance and EPS in selected private sector banks in India.

H_{02}: There is no significant relation between corporate governance and ROA in selected private sector banks in India.

H_{03}: There is no significant relation between corporate governance and ROE in selected private sector banks in India.

H_{04}: There is no significant impact of corporate governance and ROA in selected private sector banks in India

H_{05}: There is no significant impact of corporate governance and EPS in selected private sector banks in India.

H_{06}: There is no significant impact of corporate governance and ROE in selected private sector banks in India

3. RESEARCH METHODOLOGY

Data collection: The study utilizes the secondary data from annual report of concerned banks and financial website. The study selected seven new private sector banks and the annual reports of the banks were taken for a period of 2014-2017.

The financial indicators, Earnings per share, Return on Equity/net worth and Return on Asset are used as a variable of financial performance and the same is obtained from www.moneycontrol.com.

The data related to composition of board and board committee is obtained from annual report of concerned bank available in the web portals and from www.bseindia.com, where the banks file quarterly corporate governance report.

Scope and Limitation of the study:

The study is limited to new private sector banks in India listed in exchanges. The samples are randomly selected.

Data Analysis and Interpretation:

The data of Composition of Board , Board committee , Earnings per share, Return on Equity and Return on Asset are obtained from the sources were analyzed using Pearson's correlation coefficient and ordinary least square to know whether there is a significant relation and dependence of financial performance and corporate governance. Composition of Board and Board committee being dichotomous variable, 1 is given if the banks compliance with corporate governance norms according to clause 49 of Listing Agreement otherwise 0. Earnings per share are calculated using the formula Net profit upon outstanding share and Return on Asset is taken as a percentage. Both Earning per share and Return on Asset are taken from www.moneycontrol.com.

According to Gadi Dung Paul, Emesuanwu Catherine Ebelechukwu, Shammah Yakubu (2015), the financial performance can be estimated as a function of Earnings per Share (EPS) and Return on Asset (ROA). In this study, EPS, ROE and ROA are taken as dependent variable whereas Composition of Board (COB) and Board Committee (BC) are independent variables. Therefore corporate governance is a function of COB and BC.

Pearson's correlation coefficient can be used to compare the relationship between two pairs of variable C R Kothari and Gaurav Garg (2014). In this study, Pearson's correlation is used to find the relationship between financial performance and corporate governance. The study uses Excel to analyze the correlation.

Ordinary least Square regression is used to analyze the significance and impact of corporate governance on financial performance. The study uses Excel to analyze the data.

4. RESULTS ON CORRELATION:

Table 1 shows the result of Pearson's correlation coefficient of Earnings per share (EPS) with independent variables namely composition of board (COB) and board committee (BC). EPS is negatively correlated with COB, at -0.911, whereas positively correlated with BC at 0.812 and all are insignificant and the null hypothesis is accepted.

Table 1: CORRELATION OF EPS, COB AND BC

	BC	*COB*	*EPS*
BC	1		
COB	-0.5	1	
EPS	0.812	-0.911	1

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Table 2 shows the result of Pearson's correlation coefficient of Return on Asset (ROA) with independent variables namely composition of board (COB) and board committee (BC). ROA is positively correlated with COB, at 0.797, whereas negatively correlated with BC at-0.921 and all are insignificant and the null hypothesis is accepted.

Table 2: CORRELATION OF ROA, COB AND BC

	BC	*COB*	*ROA*
BC	1		
COB	-0.5	1	
ROA	-0.921	0.797	1

Table 3 shows the result of Pearson's correlation coefficient of Return of Equity (ROE) with independent variables namely composition of board (COB) and board committee (BC). ROE is positively correlated with COB, at 0.842, whereas negatively correlated with BC at -0.888 and all are insignificant and the null hypothesis is accepted.

Table 3: CORRELATION OF ROE, COB AND BC

	BC	*COB*	*ROE*
BC	1		
COB	-0.5	1	
ROE	-0.888	0.842	1

RESULT ON REGRESSION ANALYSIS:

Regression Analysis on Return on Asset and Composition of Board:

Table 4 shows the results of Analysis of Variance and coefficient of the variables, ROA and COB. The value of F is 1.747 at significance of 0.412 which result that there is no significance between ROA and COB. The coefficient of COB shows a positive relationship between ROA and COB.

Table 4: Regression on ROA and COB

SUMMARY OUTPUT(ROA)						
Regression Statistics						
Multiple R	0.797					
R Square	0.636					
Adjusted R Square	0.272					
Standard Error	0.122					
Observations	3					
ANOVA						
	Df	***SS***	***MS***	***F***	***Significance F***	
Regression	1	0.026	0.026	1.747	0.412	
Residual	1	0.015	0.015			
Total	2	0.041				
	Coefficients	***Standard Error***	***t Stat***	***P-value***	***Lower 95%***	***Upper 95%***
Intercept	-2.657	3.095	-0.859	0.548	-41.977	36.663
COB	4.155	3.144	1.322	0.412	-35.789	44.099

Regression Analysis on Return on Asset and Board Committee:

Table 5 shows the results of Analysis of Variance and coefficient of the variables, ROA and BC. The value of F is 5.610 at significance of 0.254 which result that there is no significance between ROA and BC. The coefficient shows a negatively relationship between ROA and BC.

Table 5: Regression on ROA and BC

SUMMARY OUTPUT(ROA)						
Regression Statistics						
Multiple R	0.921					
R Square	0.849					
Adjusted R Square	0.697					
Standard Error	0.079					
Observations	3					

ANOVA						
	Df	*SS*	*MS*	*F*	*Sig F*	
Regression	1	0.035	0.0348	5.610	0.254	
Residual	1	0.006	0.0062			
Total	2	0.041				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	14.156	5.372	2.635	0.231	-54.102	82.414
BC	-12.8	5.404	-2.369	0.254	-81.464	55.864

Regression Analysis on Earnings per Share (EPS) and Board Committee (BC):

Table 6 shows the results of Analysis of Variance and coefficient of the variables, EPS and BC. The value of F is 1.936 at significance of 0.397 which result that there is no significance between EPS and BC. The coefficient of BC shows a positive relationship between EPS and BC.

Table 6: Regression on EPS and BC

SUMMARY OUTPUT (EPS)						
Regression Statistics						
Multiple R	0.812					
R Square	0.659					
Adjusted R Square	0.319					
Standard Error	1.866					
Observations	3					
ANOVA						
	Df	*SS*	*MS*	*F*	*Sig F*	
Regression	1	6.739	6.739	1.936	0.397	
Residual	1	3.481	3.481			
Total	2	10.220				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-145.732	127.207	-1.146	0.457	-1762.048	1470.583
BC	178.04	127.964	1.391	0.397	-1447.896	1803.976

Regression Analysis on Earnings per Share (EPS) and Composition of Board (COB):

Table 7 shows the results of Analysis of Variance and coefficient of the variables, EPS and COB. The value of F is 4.908 at significance of 0.270 which result that there is no significance between EPS and COB. The coefficient of COB shows a negative relationship between EPS and COB.

Table 7: Regression on EPS and COB

SUMMARY OUTPUT (EPS)						
Regression Statistics						
Multiple R	0.911					
R Square	0.831					
Adjusted R Square	0.661					
Standard Error	1.315					
Observations	3					
ANOVA						
	Df	*SS*	*MS*	*F*	*Sig F*	
Regression	1	8.490	8.490	4.908	0.270	
Residual	1	1.730	1.730			
Total	2	10.220				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	104.999	33.299	3.153	0.196	-318.101	528.098
COB	-74.94	33.827	-2.215	0.270	-504.752	354.872

Regression Analysis on Return on Equity and Board Committee (BC):

Table 8 shows the results of Analysis of Variance and coefficient of the variables, ROE and BC. The value of F is 3.729 at significance of 0.304 which result that there is no significance between ROE and BC. The coefficient of BC shows a negative relationship between ROE and BC.

Table 8: Regression on ROE and BC

SUMMARY OUTPUT (ROE)						
Regression Statistics						
Multiple R	0.888					
R Square	0.789					
Adjusted R Square	0.577					
Standard Error	1.037					
Observations	3					
ANOVA						
	Df	***SS***	***MS***	***F***	***Sig F***	
Regression	1	4.013	4.013	3.729	0.304	
Residual	1	1.076	1.076			
Total	2	5.090				
	Coefficients	***Standard Error***	***t Stat***	***P-value***	***Lower 95%***	***Upper 95%***
Intercept	150.245	70.732	2.124	0.280	-748.486	1048.976
BC	-137.4	71.153	-1.931	0.304	-1041.48	766.680

Regression Analysis on Return on Equity and Composition of Board (COB):

Table 9 shows the results of Analysis of Variance and coefficient of the variables, ROE and COB. The value of F is 2.411 at significance of 0.362 which result that there is no significance between ROE and COB. The coefficient of COB shows a positive relationship between ROE and COB.

Table 9: Regression on ROE and COB

SUMMARY OUTPUT (ROE)						
Regression Statistics						
Multiple R	0.842					
R Square	0.709					
Adjusted R Square	0.419					
Standard Error	1.216					
Observations	3					
ANOVA						
	df	***SS***	***MS***	***F***	***Sig F***	
Regression	1	3.610	3.610	2.441	0.362	
Residual	1	1.479	1.479			
Total	2	5.090				
	Coefficients	***Standard Error***	***t Stat***	***P-value***	***Lower 95%***	***Upper 95%***
Intercept	-34.43	30.792	-1.118	0.465	-425.685	356.822
COB	48.87	31.281	1.562	0.362	-348.59073	446.331

4. CONCLUSIONS

In this paper, data were analyzed to know the relationship between corporate governance and financial performance of selected private sector banks in India, listed in exchanges. To know the impact and relationship between corporate governance and financial performance, study uses Pearson's correlation coefficient and ordinary least square regression. Composition and board and Board committee are taken to represent the corporate governance whereas Earnings per Share, Return on Asset and Return on Equity are taken as a variable of financial performance and the result reveal that there is no significant relationship. ROA and ROE shows a positive correlation with Cob and negative correlation with BC, EPS shows a positive correlation with BC and negative correlation with COB and all are insignificant. Hence, the hypothesis is accepted. Most of literature suggests that corporate governance have a positive and significant impact on financial performance. The findings of this paper may differ due to small sample and period of time.

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APPENDIX: A

Sources of Data:

For the purpose of study the data were obtained from annual report of concerned banks, www.moneycontol.com and www.bseindia.com. Axis Bank, HDFC Bank, DCB bank, ICICI bank, Indusind Bank, YES bank and Kotak Mahindra Bank are the sample banks.

Appendix B

Table showing the Average of Board Committee (BC), Composition of Board (COB), Return on Asset (ROA), Return on Equity (ROE) and Earnings Per Share (EPS).

Year	BC	COB	ROA	EPS	ROE
16-17	1	0.952	1.3	33.63	12.11
15-16	1	1	1.41	30.99	13.58
14-15	0.98	1	1.58	29.13	15.30

Appendix C

Assessment of Corporate Governance followed by banks based on SEBI under clause 49 Listing Agreement.

Composition of Board:

1. Whether the bank follow the optimum combination of Executive and Non-Executive director.

2. Percentage of independent directors.
3. Women Director

If the banks follow then “1” is provided otherwise “0”.

Board Committee:

1. Existence of various committees according to SEBI.
2. Compliance of various committee norms according to SEBI.