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Impact Of Good Corporate Governance Practices on The Financial Performance of Selected Banks in India

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ABSTRACT
Banks play a pivotal part in supporting the frugality. A country's profitable stability is nearly tied to how well its banking system functions. In India, the banking sector has been evolving snappily to keep up with global norms. As a result, Indian banks are now anticipated to follow strict commercial governance rules. These include effects like maintaining enough capital, duly managing their means, and directly feting income. When commercial governance is weak or missing, it can seriously affect the entire fiscal system. Commercial governance is each about maintaining clear and transparent connections between a company's operation, its shareholders, and other stakeholders. The thing of this exploration paper is to understand how commercial governance affects the fiscal performance of banks principally, how well they make gains. The study looked at colorful aspects of bank leadership, like how numerous directors are on the board, how frequently they meet, and the balance between superintendent, on-executive, independent, and women directors. It also reviewed the part of different board panels and the banks' overall approach to governance. The exploration concentrated on five Indian banks and measured how these governance factors told fiscal performance pointers suchlike Return on Equity (ROE), Return on Capital Employed (ROCE), and return on means (ROA).
The crucial finding? Banks that follow good commercial governance practices tend to perform better financially.
Keywords: *Corporate Governance, Banking Sector, Financial Performance, Code of Governance, Probability.*

I. INTRODUCTION

1.1 Background

Corporate governance refers to the rules and practices that ensure companies are managed responsibly, transparently, and ethically. It covers everything from internal checks and controls to shareholder value and social responsibility. With the rise of globalization and rapid technological change, corporate governance has become more important than ever, drawing the attention of governments, investors, and business leaders across the world.

1.2 Corporate Governance and the Banking Sector

In India, the Reserve Bank of India (RBI), set up in 1934, and the Securities and Exchange Board of India (SEBI), established in 1992, are the key authorities ensuring that banks follow strong governance practices. On the global level, the Basel Committee, created in 1975, laid down international standards for banking governance in 1999. India is a signatory to the Basel norms, which aim to improve financial stability, enhance banks' ability to handle financial stress, strengthen risk management, and increase transparency. Other important laws that support governance in Indian banks include: The Banking Regulation Act, 1949. The Foreign Exchange Management Act (FEMA), 1999.The Payment and Settlement Systems Act, 2007.The Companies Act, 2013.All these laws, along with RBI and SEBI's guidelines, help create a solid environment for better governance in the banking sector.

1.3 Research Problem

Even though good corporate governance is crucial for the long-term health and ethical functioning of banks, there's still a lack of deep understanding about how well these practices are actually being followed in India. With so many rules, regulators, and committees involved, it can be difficult to assess how effective governance practices are—and how they affect a bank's financial performance. There's also no widely accepted way to measure governance in banks. That's why there's a growing need to develop a standard Corporate Governance Index that can help evaluate how well Indian banks are doing in terms of governance. More research is also needed to examine the direct link between governance practices and financial performance in the context of India's changing economic and regulatory landscape.

II. RESEARCH OBJECTIVE

2.1 Objective of the Study

The Indian banking sector plays a key role in the country's economic development. Therefore, it's vital that banks operate transparently and fairly, and are held accountable to their stakeholders. Good governance isn't just a nice-to-have—it's essential for a bank's long-term financial performance and sustainability. Since banks in India are regulated by many laws, bodies, and committees, it's often hard to determine how effectively they're following governance practices. This study aims to: Create a Corporate Governance Index to measure and evaluate how well banks are implementing governance. Analyze how these governance practices impact the financial performance of banks.

2.2 Specific Objectives of the Study

Identify the key elements of corporate governance in Indian banks. This includes transparency, accountability, ethical decision-making, and stakeholder involvement. Develop a Corporate Governance Index A tool to rate and compare how different Indian banks perform in terms of governance. Assess compliance with governance regulations. Evaluate how well Indian banks are following the rules and best practices set by authorities like the RBI and SEBI.

III.LITERATURE REVIEW

This section reviews previous research on the link between corporate governance and how well banks perform financially, focusing specifically on Indian banks. It highlights the importance of transparency, ethical conduct, and sustainability while also addressing the complexity of governance in the banking sector.

3.1 Corporate Governance Framework in Indian Banks

India's governance system for banks is shaped by both national and international standards. The RBI plays the main role in making sure banks follow governance rules. In addition, the Companies Act, 2013 and SEBI's guidelines have introduced detailed regulations on how bank boards should be structured, how audit committees should function, and how shareholders' rights should be protected (Raghavan, 2015). Revisions and updates to the Corporate Governance Code have made the expectations even clearer (Sarkar, 2004).

3.2 Corporate Governance Index

Many countries have developed governance indices to evaluate the performance and transparency of banks. Research in India has also suggested creating a governance index just for Indian banks, focusing on compliance with RBI guidelines and governance standards (Sharma & Arora, 2011). One such model is the Indian Corporate Governance Index (ICGI), which aims to measure and compare governance practices in both public and private sector banks.

IV.RESEARCH METHODOLOGY

4.1 Data and Methodology

To carry out this research, the following steps were taken: The study examined the key aspects of bank boards, such as board size, composition, and meeting frequency, to understand how this impact corporate governance. It looked at how Indian banks are following governance rules outlined in the Companies Act, 2013, and SEBI's Listing Obligations and Disclosure Requirements (LODR) Guidelines, 2015. Finally, the research assessed how corporate governance affects the financial performance of banks.

4.2 Sample Selection

The study focused on five banks — two from the public sector and three from the private sector. These banks were selected because: They were listed on India's stock exchanges (NSE or BSE) during 2021–2022. They were among the top 10 banks (by market capitalization) in both the public and private sector as of March 31, 2020.

4.3 Data Source

Most of the information came from: Annual reports of the selected banks Official websites of the NSE, BSE, and RBI's Indian Bank database The financial data analyzed covered a five-year period from 2014–15 to 2018–19.

V.RESULTS

5.1 Impact of Corporate Governance on Financial Performance
Studies in the Indian banking sector show that better corporate governance leads to better financial performance. For example: Rath & Yadav (2013) found that banks with well-structured boards and clear accountability were more profitable and maintained stronger capital reserves. In contrast, Sarkar & Sarkar (2012) observed that banks with weaker governance had more inefficiencies, faced higher risks, and generally performed worse.

5.2 Challenges in Implementing Corporate Governance
Even with proper laws and frameworks in place, Indian banks still face several challenges in putting governance practices into action: Poor enforcement of rules Lack of awareness among stakeholders Complexity of banking operations Resistance to change from traditional ways of working There are also specific issues, such as: Boards that lack effectiveness Not enough diversity in boardrooms Weak risk management systems These problems are especially noticeable in smaller or regional banks, where governance structures are less developed. According to Kothari & Das (2016), governance strategies need to be customized to suit a bank's size, location, and business goals.

VI.DATA ANALYSIS – PUBLIC SECTOR BANKS

6.1 **State Bank of India (SBI)**
SBI, India's largest public sector bank, was established in 1955 under a special act of Parliament. Its Central Board of Directors is responsible for the bank's overall governance and follows the rules set out in the SBI Act, 1955. Key responsibilities include: Overseeing risk across the bank Ensuring transparency and strong internal controls Providing professional management and guidance Here's how SBI has followed corporate governance practices over the years (2014–15 to 2018–19):

Audit Committee: Held an average of 12 meetings per year to review financial controls and auditing practices. Remuneration Committee: Formed according to the Companies Act, 2013. It included only non-executive directors, with at least half being independent. Risk Management Committee: Met about 4 times a year. The committee had the right mix of members to properly identify and manage risks in operations and market changes.
Stakeholder Relationship Committee: Also formed as per legal requirements and held around 4 meetings per year to address shareholder and customer concerns.

VII.Conclusion and Suggestions
This study finds that strong corporate governance plays a key role in a bank's success, especially when it comes to long-term financial performance. Among the banks studied, private sector banks like HDFC, Kotak Mahindra Bank (KMBL), and ICICI Bank had higher governance scores and also showed better financial performance, particularly in their Return on Investment (ROI). This clearly shows that the better a bank's corporate governance practices, the better its financial results— the two go hand-in-hand. The study also noticed that both public and private sector banks in India maintain governance through a board of directors and various board-level committees. However, the process for selecting members of these boards and committees is quite strict. This structure prevents management from interfering with how these bodies work, which in turn helps maintain their independence. That independence is a major factor in improving the overall corporate governance quality of the bank.

Suggestions

Strengthen board independence: Banks should continue to ensure their boards and committees are free from management control. Improve transparency and accountability: Regular reporting, ethical leadership, and openness with stakeholders can further improve governance scores. Tailored governance for smaller banks: Regional and smaller banks need governance models suited to their size and operations. Regular review of governance practices: Updating policies to align with global best practices will help Indian banks stay competitive and resilient.

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