

# Corporate Governance Interventions and Performance of Indian Banks

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*The impact of micro-level interventions initiated by the Reserve Bank of India (RBI) on the basis of the recommendations of the Advisory Committee on Corporate Governance is supposed to be reflected in the post-implementation period financial indicators of Indian banks. On the basis of 22 samples, the empirical study of the last five years, both at the aggregate and group levels, however, provides an inconclusive inference about the association of governance and performance. The statistically insignificant relationships and non-impact on key variables like asset quality, cost of capital, capital adequacy and profitability suggest that in the Indian context, corporate governance (CG) appears to be a non-determinant factor.*

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## Introduction

The search for the correct answer to the question, 'Whether Corporate Governance (CG) affects bank performance?', is still continuing even as the problem is being approached from several angles. Most of the researchers all over the world have tried to link the performance of banks with the ownership changes. In a recent study on banks operating in South East Asia, Williams and Nguyen (2005) found that the ownership change brought by privatization of banks has raised their performance. The main finding of a study on 81 banks from 22 developing countries (Boubakari *et al.*, 2005) and another study on Argentina (Berger *et al.*, 2005) also suggest similar line of conclusion. Privatization/foreign acquisition/deregulation/liberalization/restructuring vis-à-vis bank performance relationship are common studies all over the world, so also in India (Bhattacharyya *et al.*, 1997; Ram Mohan, 2002; Das *et al.*, 2004). Many other similar type of studies establish a linkage between macro-level policy changes and performance of banks in different countries and regions.

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As an alternative approach, several recent studies in corporate sector, like Coles *et al.* (2001), Baek *et al.* (2004), Davidson *et al.* (2005) and many others have attempted to link firm-level governance variables with performance. However, bank-specific findings are scanty. Policy formulations for Board restructuring, establishment of different committees and their compositions, introduction of international standard disclosure and reporting practices, etc., are some of the micro-level interventions, which possibly have some bearing on performance. Besides the study of Das and Ghosh (2004), which studies the links between CEO's compensation and bank performance, there is scarcity of such kind of studies in India.

The governance interventions in Indian banks, both public and private sector, got a major thrust after the recommendation of the Advisory Group (RBI, 2001). Prior to that, most of them were in

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piecemeal and banks were adopting governance standards haphazardly. In the years after 2001, Indian banking financial parameters are found to be encouraging. Theoretically, policy measures ought to have salubrious impact on performance. Cutting down of cost for the borrowers, inviting less grievances, maintaining good profitability, showing less non-performing assets, having adequate capital, earning a handsome interest margin are some of the criteria which could be linked to governance.

### **Methodology**

This study attempts to empirically assess the post-governance policy implementation situation of 22 banks operating in India and tries to reach at some inference with respect to three categories of banks, viz., Public Sector Banks (PSBs), Old Private Sector Banks (OPrSBs) and New Private Sector Banks (NPrSBs), separately. Sample banks of ten, eight and four have been considered from the respective categories. On the basis of 15 micro-level interventions, qualitative assessment has been made on a 10-point scale. The standard highest score against each variable is taken as 10. Composite governance scores, computed on the basis of these interventions for the different group of banks, and other important financial indicators for the last five years (2001-05), have been used for quantitative analysis.

As against the three trigger points of RBI, here six indicators are considered as proxies for volume of business, asset quality, cost of capital, capital adequacy and profitability of banks. They are Credit Deposit Ratio (CDR), Net Profit to Total Assets (NPTA) Ratio, Capital Adequacy Ratio (CAR), Non-performing Assets to Total Assets (NPATA) Ratio, Non-Performing Assets to Total Advance (NPAAdv) Ratio, and Cost of Fund (CF), which is considered as a ratio of interest paid on deposits and borrowings to total deposits and borrowings. Governance score has been used as an independent variable to predict some of these important indicators. Other indicators, such as Net Interest Margin to Total Assets (NIMTA), Non-Interest Income to Total Assets (NIITA) and Intervention Cost to Total Assets (ICTA), have also been used for analysis.

With this brief exposure and approach to the research problem, the paper proceeds as follows. Theoretical background of financial sector governance vis-à-vis bank governance is presented, with particular reference to India. The governance policy interventions in Indian banks is analyzed and an empirical data analysis is presented and the results obtained are discussed and summarized.

### **Corporate Governance in Banks**

Irrespective of the different views on the matter of CG, effective governance ensures that boards and managers are accountable for pursuing it. It promotes the efficient use of scarce resources, both within the organization and the economy. It makes the resources flow to those sectors or entities where there is efficient production of goods and services and the return is adequate enough to satisfy the demands of stakeholders. By providing a broad mechanism of choosing the best managers to administer the scarce resources, it helps the managers to remain focused on improving performance, making sure that they are replaced when they fail to do so. It also pressurizes the organization to comply with the laws, regulations and expectations of society and last but not the least, it assists the supervisors in regulating the entire economic sector without partiality and nepotism.

The problems of poor governance are matter of concern in most of the developing and underdeveloped countries and so also in India. Similarly, it is also found across the types of organizations/institutions. For private sector corporations, governance primarily includes institutions

and practices designed to ensure that those running companies serve the interests of those who own them. While the issue is less talked in privately held corporations, it is a buzzword in widely held companies. On the other hand, it is less talked in public/government controlled institutions, because of its nature of ownership. However, over the last few years, these are increasingly becoming subject to public scrutiny, both in domestic environment and internationally. Satisfying the shareholders' requirements is getting replaced by addressing the needs of all the stakeholders.

Governance in financial sector encompasses the governance of its constituent markets and their stakeholders. It is important for several clear and obvious reasons. One critical reason is to avoid financial crises—the failures of large numbers of financial institutions or the sudden and sharp collapse of prices of financial instruments traded on capital markets. Likewise, capital markets are instrumental in enabling companies to raise funds and investors to hold or access their wealth. Banking, being the dominant institution in this sector and as the systemic institution, not only possesses the potential of a great catalyst of growth but also the capability of causing catastrophe to an economy. When they efficiently mobilize and allocate funds, this lowers the cost of capital to firms, boosts capital formation, and stimulates productivity growth. Governance affects banks' valuation and their cost of capital, and thereby affects the cost of capital of the firms and households they lend to. The prevalence of banking system failure has been at least as great in developing and transition countries as in the industrial world (Honohan and Daniela, 2000). The developments of new technologies, major industry consolidation, globalization, and deregulation have placed the banking industry at a strategic crossroads. Therefore, banks face a more competitive, volatile global environment than other types of corporations. Simultaneously, banks also pose special problems that are different from ordinary corporations. First, banks' activities are less transparent and thus more difficult for shareholders and creditors to monitor. It becomes more opaque when the largest chunk of share capital is with government. Second, because governments heavily regulate banks, ownership is dispersed by mandate and takeovers are impeded to a great extent. Third, the protection of bank deposits by government undercuts incentives for depositors to monitor management, thus shifting responsibility for governance of banks to other parties or institutions. Fourthly, banks also differ from most other companies in terms of the complexity and range of their business risks, and the consequences if these risks are poorly managed.

Tracing the special problems with banking organizations, Macey and O'Hara (2003) argue that because of the peculiar contractual form of banking, a broader view of CG should be adopted and the CG mechanisms for banks should encapsulate depositors as well as shareholders. Shleifer and Vishny (1997) also make similar recommendations with regard to CG in banking. Because of the complexity of its business, driven by government holdings, opacity of books of accounts and plethora of regulations of financial institutions, this constituent of financial sector thus brings serious questions into the transparency, disclosure and agency relationship. Governance of banks, therefore, is quite distinct from the rest of the players of financial sector.

### **Indian Banking as a Special Case**

Governance of banks in India, as in many developing economies, is important for several reasons. First, banks have an overwhelmingly dominant position in financial systems, and are extremely important engines of economic growth (King and Levine, 1993; and Levine, 1997). Nearly two-thirds of the financial assets in the economy is with banking institutions. Second, as financial markets are usually underdeveloped, banks are typically the most important source of external finance for the majority of firms. Third, the economy is dominated by many small scale firms and most of them

depend on banks. Fourth, by providing a generally accepted means of payment, banks are the main depositories for the economy's savings. Fifth, India has recently liberalized its banking systems through privatization/disinvestment and reducing the role of economic regulation. Economic regulations are getting replaced by prudential regulations like capital adequacy norms, supervisory norms and many others. All these put together place the case of India as distinct from others.

Equivalent distinctions are found in most of the developing countries, but particularly they are quite prominent where there is a dominance of public sector in banking industry, as in India. This dominance ultimately breeds the weak corporate governance arrangements in banking systems (Mortlock, 2002) and they can be traced distinctly to the functioning of PSBs in India. Therefore, governance issues in PSBs assume immense significance, but unfortunately these are less discussed and deliberated. The primary reason identified is the prevalence of government ownership across the institutions, but another important reason can be attributed to the multiplicity of regulatory and supervisory legislations. For instance, there are five legislations in India: RBI Act, SBI Act, Bank Nationalization Act, Banking Regulation Act and Companies Act, which govern the banking sector. Because of this multiplicity of Acts and their enforcing agencies, i.e., RBI and GoI, any concrete form of principles on bank governance is yet to emerge.

Although PSBs attempt to comply with the same codes of board governance as other companies, however, in addition, factors like risk management, capital adequacy and funding, internal control and compliance all have an impact on their matrix of governance. It has been observed that 63% of PSBs have potentials for profitability increase through efficiency improvement (Kumar and Verma, 2003), which ultimately depends on the quality of governance. The prudential reforms already implemented in India have not been effective in preventing banking crises (e.g., the recent failure of Global Trust Bank and other cooperative banks) and the reasons can be traced to many, like poor legal structure, dominance of a docile shareholder, i.e., Government, and asymmetry in information flow across the stakeholders. Even for other categories of banking institutions not owned by government, Bimal Jalan, the former Governor of RBI, observed that "Old private sector banks also have very poor auditing and accounting systems. New private banks—generally good on accounting, but poor on accountability. More modern and computerized, but less risk conscious. One thing which is common to all is that corporate governance is highly centralized with very little real check on the CEO, who is generally also closely linked to the largest owner groups. Boards or auditing systems are not very effective" (Jalan, 2002). This implies that not only PSBs but also private sector banks deserve equal attention.

## **Governance Policy Interventions in Indian Banking**

The global policy formulation on the issue of CG can be traced to the industrialized countries. Blue Ribbon Commission of US, Cadbury Committee from UK, and many stock exchanges around the world started flouting governance principles and the World Bank and OECD tried to give all the principles in a comprehensive framework. India started its ground work for CG principle implementation after many years of the implementation of Codes of Best Practices developed the Cadbury Committee, 1991. Considerable attention has been given to corporate governance in India in recent years. In addition to the Advisory Group chaired by R H Patil (RBI, 2001) and Consultative Group of Directors of Banks/Financial Institutions (RBI, 2002), several official committees have already gone into the issues relating to CG and have given their reports. These include the SEBI Committee chaired

by Shri Kumar Mangalam Birla in 1999; the Gol Task Force on Corporate Excellence through Governance in 2000; Naresh Chandra Committee on Corporate Audit and Governance of SEBI, 2002; Naresh Chandra Committee-II on Regulation of Private Companies and Partnership of Gol, 2003; and Narayana Murthy Committee on Corporate Governance of SEBI, 2003. In 2004, Malegam Committee of SEBI went into disclosure norms for offer documents that would also contribute towards improving CG in the country. Preceding these official committees, the industry association, Confederation of Indian Industries (CII) had itself provided a Code in 1998.

Governance principle formulation exclusively for banking came little late. Although some regulations were issued by the Basel Committee on Banking Supervision (BCBS) way back in 1988, these were not considered as exclusive CG principles. The Basel Committee on Banking Supervision (1999), however, issued regulations and brought an array of principles over a broad spectrum of banking activities. The OECD principles (OECD, 1999) also tried to fulfill some of the requirements of banking industry. Since Basel recommendation started getting more acceptance, countries framed their own set of governance principles for their banking industries and so also it started in India.

For Indian banking, the RBI has taken up the sole responsibility of framing policy in this regard. The Standing Committee on International Financial Standards and Codes, which was set up in 1999 to bring common financial standards in line with international practices, constituted an advisory group on corporate governance under the chairmanship of R H Patil. The group looked into public sector banks and noted that the first important step to improve governance mechanism in these units was to transfer the actual governance functions from the concerned administrative ministries to the boards and also strengthen them by streamlining the appointment process of directors. Furthermore, as a part of strengthening the functioning of their boards, banks should appoint a risk management committee of the board, in addition to the three other board committees viz., audit, remuneration and appointment committees (RBI, 2001). Taking this move towards corporate governance further, the Reserve Bank constituted a Consultative Group of Directors of Banks and Financial Institutions to review the supervisory role of boards of banks and financial institutions (RBI, 2002). The Consultative Group looked into the functioning of the boards vis-à-vis compliance, transparency, disclosures, audit committees and suggested measures for making the role of the Board of Directors more effective.

Besides, the RBI has taken various steps for furthering corporate governance in the Indian banking system. These can broadly be classified into the following three categories viz., a) Transparency b) Off-site surveillance, and c) Prompt corrective action. RBI also brings out the periodic data on "Peer Group Comparison" on critical ratios to maintain peer pressure for better performance and governance. Prompt corrective action has been adopted by RBI as a part of core principles for effective banking supervision. As against a single trigger point based on capita adequacy normally adopted by many countries, RBI, in keeping with Indian conditions, has set two more trigger points—Non-Performing Assets (NPA) and Return on Assets (ROA)—as proxies for asset quality and profitability.

Looking at the developments of governance practices and its implementations in India, it is found that till 2002 most of them were at recommendatory stage. Most of the suggestions given by the Advisory Group and Ganguly Committee were implemented during and after the year 2002. Annexure 1 highlights the status of bank governance as envisaged by the Advisory Group, their recommendations, and the action taken by RBI for their implementation.

## Empirical Analysis

A cursory look at the implementation of various recommendations reveals that before fiscal 2001, banking in India was devoid of most of the governance mechanisms or was operating with a weak framework of governance. Most of the recommendations were communicated during or after 2002 to the banks and GoI (for necessary legislative changes) for implementation either in toto or with some modifications. The post-implementation scenario of Indian banking (2003-05) is of a mixed experience. While there is a handsome profit by most of the banks, particularly the public sector banks have shown very good results, the failure of Global Trust Bank brings the dark side of the governance and role of RBI. However, qualitative changes have been observed in disclosure practices by banks. Many of them have brought a separate section on CG in their annual reports and shown better accounting practices.

The governance score pattern of sample banks shows an increasing trend for all these three groups of banks (Table 1). The mean score is found to be higher in case of new private sector banks with slow improvement over the years. This signifies the fact that from initiation they have a better mechanism. Greater changes are observed in both the PSBs and OPrSBs in post-implementation years. This suggests that in post-2002 years, they have geared up their efforts to put in place the prescriptions of RBI on governance, which is also observed from the same table. Both the groups show almost similar types of score except the last year, in which the latter has exceeded the PSBs.

Year	PSBs	% of Change	OPrSBs	% of Change	NPrSBs	% of Change
2000-01	5.11	–	5.91	–	6.73	–
2001-02	5.52	7.95	6.38	7.90	7.48	11.14
2002-03	6.24	13.04	7.02	10.03	7.90	5.57
2003-04	6.86	9.94	7.67	9.17	8.37	5.91
2004-05	7.23	5.34	8.50	10.82	8.48	1.39

**Note:** \*Computed on a five-point scale.

Governance is found to be highly correlated with most of the indicators of PSBs (Table 2). While statistically significant positive correlation is found for CAR, significant negative correlations are found for CF, NPATA and NPAAAdv. In so far as the performance relationships with CG are concerned, they are on the expected lines. For OPrSBs only three indicators NPATA, NPAAAdv. and CF are found to be correlated with significant t-values. The relationships with other indicators are not very strong. When the similar exercise is made with NPrSBs, few performance indicators are found to be strongly correlated with governance scores. This could be due to the fact that these are new generation banks and from the inception their practices are in conformity with the Quality governance. Further, any change there of is not of substantial in nature which could be linked to their performance. One important observation here is that despite better CG environment and technology savvy outlook the intermediation cost of these banks is on the rise and they have not been even able to compete with PSBs. The negative correlation with CAR is due to the consecutive fall in ratio during 2002-04. The correlation study gives us a mixed picture of governance relationship, which is inconclusive about the Indian banking as a whole.

**Table 2: Relationship of Corporate Governance and Performance**

Key Performance Indicators	Expected CG Impact on Indicators	Expected Nature of Correlation of CG with Indicators	Actual Correlation with CG		
			PSBs	OPrSBs	NPrSBs
CDR	Increase	Positive	0.872	0.857	0.655
NIMTA	Increase	Positive	0.705	0.855	0.166
NIITA	Increase	Positive	0.550	-0.362	0.533
ICTA	Decrease	Negative	-0.848	-0.586	0.516
NPTA	Increase	Positive	0.830	-0.290	0.453
CAR	Increase	Positive	0.950*	0.482	-0.255
NPATA	Decrease	Negative	-0.998**	-0.982**	-0.275
NPAAdv	Decrease	Negative	-0.998**	-0.985**	-0.423
CF	Decrease	Negative	-0.900*	-0.974**	-0.898*

Note: \*Significant at 1% Level; \*\*Significant at 5% Level.

Although the result from Table 2 at the first place establishes a relationship between governance and bank performance for first two of the three categories of banks, with the help of a time series data of only five years any regression result on the impact of CG intervention on performance will be misleading. As an alternative approach, the changes in the financial parameters are studied. Considering 2002-03 as the year of implementation of several CG measures in Indian banks, the changes during the previous two years and post-two years are studied to see whether these changes are positive or negative in nature so far as the financial health of the banks are concerned (Table 3). For PSBs, all the three important RBI trigger points have shown negative results in the post-implementation years

**Table 3: Bank Group-wise Performance Change Implications**

Financial Indicators	PSBs		OPrSBs		NPrSBs	
	Change in 2002 over 2001	Change in 2005 over 2004	Change in 2002 over 2001	Change in 2005 over 2004	Change in 2002 over 2001	Change in 2005 over 2004
CDR	P	P	P	P	P	P
NIMTA	N	P	N	P	N	P
NIITA	P	N	P	N	N	N
ICTA	P	P	N	P	P	N
NPTA	P	N	N	P	P	P
CAR	P	N	P	N	N	P
NPATA	P	N	P	N	P	P
NPAAdv	P	P	P	P	P	P
CF	P	P	P	P	P	P

Note: P: Positive implication for banks; N: Negative implications for banks.

whereas for NPrSBs, they are positive. OPrSBs show a mixed result. But, one clear observation here is that the change in NPA level and cost of fund has a positive implication for all the three groups. However, conclusive evidences of strong performance are not found in post-implementation years and could be linked to governance.

The analysis of key indicators (see Annexure 2) suggests that the progress of banking financials is taking place in the desired directions. PSBs as the first case have shown very encouraging trends in the last five years. However, the intermediation cost ratio, non-performing assets ratios and net profit to total assets ratios are yet to catch up with the international levels. Credit deposit ratio and interest margin are yet to show the true character of profitable banking business. In the second case, OPrSBs in recent years have also shown good financial results. Over the years, NPAs' position has improved a lot, but the intermediation cost is still dragging their net profit ratio. Among all the three categories of banks, NPrSBs have been able to cut their NPAs level to that of international standards. But their intermediation cost is still very high, which may be the possible reason of low profitability. Essentially, the data suggests that in recent years the Indian banking is catching up because of many reform measures taken up by the RBI and others. One of these measures could be the micro-level policy interventions for strengthening the governance mechanism.

### Cross Section Analysis

The third approach attempted here is to make an impact study with the help of a cross section data of 22 sample banks. The summary statistics of sample banks (Table 4) while indicating a qualitative improvement of asset portfolio, capital position, interest margin, cost of intermediation and corporate governance, however, interestingly shows a decline in profitability in post-implementation year of governance prescriptions. A greater degree of variance observed in case of profitability of banks is indicative of across the board less consistent return on assets. The paired sample test run with CG and NPTA also negates any statistically significant relationship. On the basis of the three trigger points of

**Table 4: Summary Statistics of Sample Banks**

Statistics	Year	NIMTA	ICTA	NPTA	CAR	NPATA	NPATAAdv	CG
Mean	2000-01	2.66	2.32	0.63	11.46	2.68	6.39	5.47
	2004-05	2.83	2.10	0.58	12.49	1.16	2.42	7.59
Standard Deviation	2000-01	0.61	0.62	0.37	1.91	1.39	3.20	1.04
	2004-05	0.56	0.50	0.91	2.57	0.86	1.58	0.91
Skewness	2000-01	-1.62	-0.31	0.26	1.64	0.04	0.11	0.56
	2004-05	-0.41	1.55	-1.34	-0.86	1.12	0.80	0.04
Paired Sample Test with CG (t-values)	2000-01	15.47*	12.49*	1.45	26.78*	7.01*	8.45*	-
	2004-05	16.68*	12.20*	-0.92	21.30*	2.13**	4.88*	-

Note: \*Significant at 1% Level; \*\*Significant at 5% Level.

performance set up by RBI, viz., profitability (NPAT), capital adequacy (CAR) and asset quality (NPATA), regression models are run to see whether CG figures as an explanatory variable in them or not. Out of the nine variables, six important variables are considered for these models. The original value of CG variable has been modified as follows:

$$CG = \sqrt{[\sum(CGi - 10)^2]}$$

The standard score against each variable has been considered as 10. Lesser deviation from this standard suggests the closeness of the bank to the standard governance practices.

**Model 1:** Net profit to total assets is a function of net interest margin, intermediation cost, quality of assets, adequacy of capital and quality of governance.

$$NPAT = f(NIMTA, ICTA, NPATA, NPATAAdv, CAR, CG) \quad \dots(1)$$

**Model 2:** Capital adequacy is a function of profitability, which helps in raising more capital from the market, quality of assets which decides the quantum of risk assets and quality of governance.

$$CAR = f(NPATA, NPATA, NPAAAdv, CG) \quad \dots(2)$$

**Model 3:** Quality of total assets is a function of profitability, quality of loan assets and quality of governance.

$$NPATA = f(NPATA, NPAAAdv, CG) \quad \dots(3)$$

The key performance indicators of the sample banks (Annexure 3) indicate varied trends. Improvements for some indicators are marked over the years whereas for others a mixed result is found. The cross section study also negates any strong correlation of CG with performance. All the three models are run for the year 2001 and 2005 to see whether CG played any role and also to see whether the change in CG score has any impact on the change of performance indicators. The findings of the summary results (Table 5) suggest that there could be other variables than CG which explain the performance of Indian banks. Except for the second model of 2005, CG has no other impact. Governance as a determinant of banking performance is found to be a misnomer for Indian banking.

**Table 5: Regression Summary**

2001	Model 1			Model 2		Model 3	
	Correlation with CG	Coefficients	t-values	Coefficients	t-values	Coefficients	t-values
Constant		0.502	1.12	5.43	1.91**	0.11	-0.14
NIMTA	-0.285	0.225	1.60				
ICTA	-0.437*	-0.259	-1.76***				
NPAT	0.410			4.17	-0.43	0.41	1.01
CAR	-0.045	0.005	1.55				
NPATA	-0.415	0.01	0.91	-0.36	0.77		
NPAAAdv	-0.442*	-0.01	-1.85***	0.33	0.84	0.46	9.03*
CG		-0.003	-0.17	0.115	2.8*	-0.003	-0.84
		R <sup>2</sup> = 0.76	F = 7.95**	R <sup>2</sup> = 0.38	F = 2.66**	R <sup>2</sup> = 0.88	F = 56.48*

Contd...

**Table 5: Regression Summary (Contd...)**

2005	Model 1			Model 2		Model 3	
	Correlation with CG	Coefficients	t-values	Coefficients	t-values	Coefficients	t-values
Constant		1.075	1.21	9.81	4.95*	-0.12	-0.53
NIMTA	-0.142	0.50	2.1***				
ICTA	-0.067	-0.63	-2.62**				
NPTA	0.150			-4.86	-2.38**	-0.04	-0.40
CAR	-0.142	0.003	0.60				
NPATA	-0.274	-0.55	-0.91	1.87	1.62		
NPAAAdv	-0.230	-0.014	0.04	0.34	0.40	0.51	9.20*
CG		-0.03	-0.90	0.11	-3.05*	0.005	0.479
		R <sup>2</sup> = 0.83	F = 12.34*	R <sup>2</sup> = 0.60	F = 6.52*	R <sup>2</sup> = 0.95	F = 115.36*
Change (2005 over 2001)							
Constant		0.01	-0.01	-0.008	-0.034	0.66	1.65
NIMTA	-0.002	0.79	2.28**				
ICTA	-0.292	-1.17	-2.93*				
NPTA	0.117			1.373	2.018	-0.11	-1.01
CAR	0.041	0.07	1.21				
NPATA	-0.208	-0.06	-0.14	1.564	1.118		
NPAAAdv	-0.129	0.08	0.48	-0.836	-1.431	0.40	11.86*
CG		0.02	0.42	1.134	0.108	0.06	-1.69
		R <sup>2</sup> = 0.66	F = 4.77*	R <sup>2</sup> = 0.37	F = 2.5***	R <sup>2</sup> = 0.96	F = 63.0*
<b>Note:</b> *, ** and *** Significant at 1%, 5% and 10% level, respectively.							

## Conclusion

The RBI has provided a good framework of corporate governance with the issue of many circulars during 2002 and afterwards. However, their implementation is crucial to the success of the entire exercise. When a better level of governance is found in private sector banks as their counterparts, the public sector banks are yet to catch up. In the Indian context, the entire exercise is undertaken to find the role of CG as micro-level variable in determining the bank performance, rather than trying to find which variable explains bank performance. All approaches indicate a statistically insignificant

governance relationship as well as its non-impact on performance. However, the findings suggest a line of research, where CG score could be utilized at further micro level to see whether there is any impact of individual variable like independence of the Board or transparency and disclosure, etc., on the performance of banks. Similarly, there is scope for further inclusion of several other variables for the computation of the composite CG score. The coverage can also be expanded to more number of banks as well as to more number of years of observation. ★

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