CORPORATE GOVERNANCE IN LISTED INDIAN BANKS

AN EMPIRICAL INVESTIGATION

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ABSTRACT

Manuscript Type: Empirical

Research Question/ Issue: The present study intends to study the phenomenon of corporate governance with reference to banks being the most imperative industry having systemic repercussions and to build empirical evidence for following governance mechanism and improving the performance of banks as long-term survival strategy. It attempts to fill the void of the available published literature on corporate governance in Indian banking sector providing empirical evidence towards the impact and effectiveness of basic variables of governance on performance and financial strength of public and private sector banks listed in India. It investigates whether governance mechanism has any effect on the financial indicators of long term sustainability and returns of banks.

Academic Implications: The results of the study provide evidence towards the essence of corporate governance and its contribution towards the net worth of the bank. Further, it highlights that corporate governance may not affect the performance of banks significantly but definitely contributes to the net worth, which is the most pertinent element for financial strength, stability and growth.

Practitioner and Policy Implication: The findings of the study provide insights to policy makers for addressing the weak areas of banks' corporate governance. It presents the observations of those who practice corporate governance and seek improved implementation to enhance the long term stability and sustenance of Indian banking.

Keywords: Corporate Governance, Board Management, Duality, Performance and Networth of Bank's .

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INTRODUCTION

Corporate governance is the way in which suppliers of finance assure themselves with a return on investments (Shleifer and Vishny, 1997). Moreover, an alternative to direct monitoring by shareholders is governance through the board of directors, who are elected by shareholders (Bebchuk and Weisback, 2009). Corporate boards have a responsibility to encourage strategies that maximize shareholders wealth [1].Almost two decades back the concept of corporate governance was relatively unknown, but the series of strategically crafted scams and feeble foundations made it a phenomenon. Corporate governance is merely not a concept rather it is a system having two dimensions, one micro level and the other at macro level. At micro level it needs to ensure that a company or business entity is a successful device to further the well-being to its owner- shareholders by ensuring that decisions are taken and implemented in the most transparent and responsible manner and thereby making the management accountable for the relevant disclosures to all stakeholders. On the other hand, at macro level it deals with an effective allocation of nations' savings to maximize its productivity and ultimately affects the national prosperity. Banking industry plays a crucial role in any nation's development and prosperity. A bank is considered to be the custodian of peoples' wealth and therefore needs a system of utmost trust. A structure, which is feeble, unaccountable and poorly governed, can never sound long lasting for a bank. The corporate governance of banks in developing economies is important for several reasons. Surprisingly, despite of a rich body of academic literature on the topic of corporate governance in banks, direct empirical evidence on the value of corporate governance in banks is scant in India.

RELEVANCE OF THE STUDY

The importance of supervision for the corporate governance framework relates to its mission of creating a regulatory environment in which the quality and effectiveness of risk management can be optimized in order to contribute to a sound and reliable banking system[2]. The area of banks' corporate governance has been approached to a lesser extent and most authors agree that extended research in this issue is necessary[3]. The issues and challenges before the business community and the entire economy of the world have never been as turbulent and unpredictable as they are today. The intense competition, globalization, newly emerging multilateral trading order and the need for sustainable development have generated extensive debate on the process and style of governing the businesses[4]. Therefore, professional management, transparency and

corporate democracy are the core and essence of corporate governance strategy because feeble foundations cannot hold well in a dynamic market driven business environment. When banks efficiently mobilize and allocate funds, it lowers the cost of capital to firms, boosts capital formation, stimulate productivity and growth. Thus, weak governance of banks reverberates throughout the economy with negative ramifications for economic development[5]. Surprisingly, despite of a rich body of academic literature on the topic of corporate governance in banks, direct empirical evidence on the value of corporate governance in banks is scant in India. A bank act as an intermediary, contribute in asset transformation and plays an important role in the micro and macro economy by having a special relationship with the central bank. Therefore, banks are distinguished from other financial firms by the intermediary and payment functions they perform. The stability in banking sector cannot be overemphasized at any level of development. The following factors are necessary for the stability of banks[6].

➢ Supervision including establishment of legal framework,

➢ Sound and sustainable macroeconomic policy of banking and financial system,

➢ Enhancement of regulations that limits the level of risk that banks are allowed to take.

➢ Effective market discipline

➢ A supervisory authority having appropriate enforcement powers and an adequate degree of autonomy, in order to resist undue pressures from the government, banks and shareholders, depositors and creditors, borrowers and other entities that use financial services.

Corporate governance should be seen as a tool to strike the right balance by supplementing an entrepreneurial approach with greater professionalism, rather than as stringent rules that are policed across. In India, the existing Clause 49 of the SEBI Listing Agreement, The Banking Regulations Act, RBI policies and Basel Committee norms do cover the fundamentals of effective corporate governance to compare favorably with many other developing and Asian economies, as far as the adequacy of corporate governance regulations are concerned. Improved corporate governance, however, does not solely rest on control through increased regulations but a principle based approach developed on fundamentals preventing moral fragility enforced by pragmatic levels of regulations is always desired. The study attempts to emphasize that there is a difference in the governance of a company and that of a bank. Banks are different in terms of operations and the framework required for governance.   The study intends to find empirical evidence for adopting corporate governance measures in Indian banking sector.

RESEARCH METHODOLOGY

The present study has been conducted by using both qualitative and quantitative data gathered through primary and secondary data sources. The study encompass both listed public and private sector banks from 2005-06 to 2009-10. The period of study has been taken up from 2005-06 because the revised clause 49 came into effect from 1 April 2005. There are twenty-two public sector banks and seventeen private sector banks, which were listed for the study period and constitute the sample of the study. The data with respect to the corporate governance practices followed by the banks has been tapped from one hundred and ninety five annual reports of the relevant period of study. Following the studies of Giovanni 2007, Webb 2008, Andre. P. De and Vallelado.E, 2008 and Mishra .S. and Srivastava.H 2010, parameters like return on asset, Net Worth are considered as indicators of performance and shareholders wealth respectively. For capturing the effectiveness of corporate governance mechanism, board strength, board independence, duality of chairman and managing director, chairman of audit committee meeting, monitoring through board committee, management committee and audit committee are considered as governance indicators. The list of corporate governance variables have been drawn from various codes and standards announced and adopted for improved corporate governance. The financial data has been gathered from the online database of capital line, prowess, sebiedifar.com, report junction, websites of banks and annual reports. To test the hypothesis of the study, multiple regression, binary logistic regression, chi-square, and Pearson's correlation has been applied at the suitable places.

TESTS AND RESULTS

The first hypothesis intends to check whether there is any significant difference between the corporate governance parameters in public or private sector bank, which is amongst the primary objective of the study. The variables considered in the study for corporate governance framework are audit committee, board independence, board size (Jenson, 1993, Lipton and Lorch, 1992) and capital adequacy as per Basel II norms. Each of the variables is tested separately in the following hypothesis with chi- square test at 5% level of significance.

H_{01}: *The board size, level of board independence, activeness of audit committee and Capital adequacy maintained is symmetric in public and private sector banks.*

The result of chi-square test at 5% level of significance for the hypothesis stated as H01 are exhibited in table 1. Table 2 shows the descriptive statistics of the two sample groups and

indicates that the average board size of a private sector bank is slightly smaller than that of public sector banks, where as in table 1 the p value at 1.000 (shown as Asymp Sig) is larger than the level of significance and hence we may accepts the null hypothesis. We may accept the null hypothesis and state that the board size of public and private sector banks is symmetric and do not have any significant difference. Further, it may also be stated that there is no significant difference in the level of independence of board, activeness of audit committee and capital adequacy in both the sectors of Indian banking industry.

Table 1 Test Statistics

Chi-Square	Public Sector Bank	Private Sector Banks
Asymp. Sig. (board size)	1.000	.946
Asymp. Sig. (Level of board independence)	1.000	1.000
Asymp. Sig. (activeness of audit committee)	1.000	.998
Asymp. Sig. (capital adequacy maintained)	1.000	1.000

Table 2 Descriptive Statistics

	Banks	N	Mean	Std. Deviation	Minimum	Maximum
Board size	Public sector banks	22	1.15727E1	.970607	10.000	13.600
	Private sector banks	17	1.08706E1	2.304280	8.000	16.000
Level of board independence	Public sector banks	22	.22459	.132580	.000	.563
	Private sector banks	17	.68318	.143058	.352	.900
Activeness of audit committee	Public sector banks	22	9.0909	1.61861	6.40	11.60
	Private sector banks	17	8.1529	2.19263	6.00	12.40
Capital adequacy maintained	Public sector banks	22	.1139	.02613	.01	.13
	Private sector banks	17	.1229	.01965	.09	.16

As evident from the above tested hypothesis H_{01} there is no significant difference in the board size, board independence, monitoring by audit committee and the capital adequacy maintained by public and private sector banks. The next hypothesis finds the relationship of these governance mechanisms with the performance and financial stability of the banks measured as return on asset and Net Worth respectively. The performance of banks has been indicated by the ROA (which is also a parameter of profitability) in prior studies of Sarkar. J. et.al, 1998; De, 2003; Giovanni, 2007; Webb, 2008 and Mishra .S. and Srivastava.H 2010. The Net Worth of a bank shows the difference of how much a bank own and owe, a higher and positive net worth gives a

signal of financial strength and stability. Studies of Georgen.M.et.al (2008) investigated the relationship of ownership pattern and performance indicator at firm level. In the present study, an attempt to find any relation between ownership pattern, ROA, and Net worth of banks in India has been made.

H_{02}: *The ownership pattern of a bank has nolinear relationship with its ROA.*

To test the hypothesis H_{02}equation 1 has been used to calculate multiple regressions keeping ROA as the dependent variable and ownership pattern as control variables.

$$ROA = \alpha + \beta_1 \text{ Foreign} + \beta_2 \text{ Institution} + \beta_3 \text{ Non-Promoter} + \beta_4 \text{ Promoter} + \beta_5 \text{ Public} + \mu \qquad (1)$$

The results of multiple regressions for equation 1 have been highlighted in table 3, 4 and 5 as model 1. Table 3 gives the statistics of r square at .037 showing a variation of 3.7% in the ROA due to the independent variables. Table 4 shows that the p value of the test is more than α, i.e. .05, therefore we may accept the null hypothesis and state that there is no significant relationship between the set of predictors and the dependent variable. The p values of all the explanatory variables shown in table 5 are more than .05, stating that none of them is significant although there is no problem of multi collinearity been detected. From such low R square, we may state that as observed by Georgen,M,et.al, (2008), the relevance of ownership pattern is less on return on asset being a measure of performance and profitability. It indicates the return on assets is affected by another set of variables at large and ownership variables does not impact the returns distinctively. Since we could not find any significant relationship between ROA and ownership pattern, the same set of variable has been used as regressor's for Net Worth with the hypothesis H_{03}in equation 2.

Table 3 Model Summary[b]for Multiple Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Model 1(ROA & Ownership Pattern)	.191[a]	.037	-.109	.037667744
Model 2 (Net Worth & Ownership	.725[a]	.525	.453	.0915232043

Pattern)				
Model 3 (ROA & Active Board Monitoring)	.292[a]	.085	-.054	.036708303
Model 4 (Net worth & Active Board Monitoring)	.598[a]	.357	.260	.106484723
Model 5 (NPA & Active Board Monitoring)	.390[a]	.152	.023	.0725118
Model 6 (Performance & CG variables)	.272[a]	.074	-.035	.036381584
Model 7 (Net worth & CG variables)	.543[a]	.294	.211	.109934812

Table 4 ANOVA[b] for Multiple Regression Analysis

Model	Sum of Squares	df	Mean Square	F	Sig.
Model 1(ROA & Ownership Pattern)	.002	5	.000	.250	.937[a]
Model 2 (Net Worth & Ownership Pattern)	.306	5	.061	7.305	.000[a]
Model 3 (ROA & Active Board Monitoring)	.004	5	.001	.613	.691[a]
Model 4 (Net worth & Active Board Monitoring)	.208	5	.042	3.672	.009[a]
Model 5 (NPA & Active Board Monitoring)	.031	5	.006	1.181	.339[a]
Model 6 (Performance & CG variables)	.004	4	.001	.679	.611[a]
Model 7 (Net worth & CG variables)	.171	4	.043	3.547	.016[a]

Table 5 Coefficients[a] for Multiple Regression Analysis

Model 2 (Net Worth & Ownership Pattern)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.151	.064		2.350	.025		
FORIEGN	.006	.001	.729	5.053	.000	.692	1.445
Institutions	-.002	.002	-.106	-.818	.419	.856	1.168

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NONPROM	-.001	.001	-.108	-.779	.442	.752	1.330
Promoters	-4.320E-5	.001	-.009	-.058	.954	.572	1.748
PUBLIC	.000	.001	-.019	-.123	.903	.621	1.609
Model 4 (Net worth & Active Board Monitoring)							
(Constant)	.248	.108		2.303	.028		
MCM	-.001	.002	-.079	-.491	.626	.752	1.330
ACM	.010	.009	.148	1.037	.307	.952	1.051
BCM	-.014	.004	-.454	-3.202	.003	.969	1.032
AUDCOCHR	.009	.043	.029	.203	.841	.955	1.048
boardindep	.167	.076	.361	2.201	.035	.724	1.382
Model 5 (NPA & Active Board Monitoring)							
(Constant)	-.075	.073		-1.025	.313		
MCM	.000	.002	.033	.180	.858	.752	1.330
ACM	.012	.006	.324	1.973	.057	.952	1.051
BCM	-.004	.003	-.221	-1.359	.183	.969	1.032
boardindep	.046	.052	.168	.894	.378	.724	1.382
AUDCOCHR	.016	.029	.090	.547	.588	.955	1.048
Model 6 (Performance & CG variables)							
(Constant)	.015	.045		.329	.744		
BOARDSIZE	.002	.004	.078	.454	.652	.936	1.069
boardindep	-.026	.023	-.193	-1.136	.264	.941	1.063
Duality	-.011	.012	-.154	-.915	.367	.966	1.035
AUDCOCHR	-.001	.015	-.016	-.094	.926	.947	1.056
Model 7 (Net worth & CG variables)							
(Constant)	.318	.137		2.314	.027		
BOARDSIZE	-.015	.011	-.205	-1.374	.178	.936	1.069
boardindep	.160	.069	.346	2.327	.026	.941	1.063
Duality	.092	.037	.360	2.455	.019	.966	1.035

AUDCOCHR	-.024	.045	-.080	-.541	.592	.947	1.056

H$_{03}$: The ownership pattern of a bank haveno linear relationship with its Net Worth.

Net Worth = α + β$_1$ Foreign + β$_2$ Institution + β$_3$ Non-Promoter +β$_4$ Promoter + β$_5$ Public + μ (2)

The results of multiple regression for equation 2 has been indicated in table 3, 4 and 5. In table 3, the value of R square at .525 highlights that a variation of 52.5% has been observed in the Net Worth due to the predicting variables. The p value shown in table 4 at .000 shows that the results are statistically significant, however, only foreign investors are significant in predicting the net worth as indicated in table 5. Further, the value of VIF in table 5 confirms no collinearity amongst the predicting variables.It is evident by the previous section that ownership pattern does not have any underlying relationship with ROA but certainly relates to the Net worth. The struggle for efficient internal management control is the centre of the corporategovernance debate in Europe since 1602 (Hopt and Leynes, 2004) where in the internal corporate control is related to the way board manage the organization in a better and efficient way. One recipe that has been increasingly suggested by public and private decision-makers is to have independent boards (Gordon, 2007). Is it sufficient to have independent director on board, no, unless these independent directors meet at a regular interval to discuss and analyse the proceedings of the corporation. (Ravina and Sapienza, 2009) analyze their results as consistent with the view that independent directors have an informational advantage over outsiders and thus can perform their job well. Independent directors can have information when the company or the bank holds the meetings at regular frequency. In fact, it was the intent behind recommending regular board meetings and that too with a standard minimum time gap between the two consecutive meetings by various committees suggesting reforms in corporate governance on national and international level. The board meeting is for the regular oversight of the business and it is desired that all board of directors attend it. For efficient and transparent reporting, it is preferred to call board meetings at a regular interval of time and appraise the members. The management committee board has the power to approve big-ticket loans. In some banks, the committee is also known as the credit committee or the executive committee of the board. To a great extent, it depends on the active functioning of management committee of the board that how they proceed for granting high value loans. This committee actually starts the story of any bad or good lending practice followed by the board. The audit committee is the supreme committee for the purpose of

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achieving corporate excellence. It is vested with utmost powers of supervision, vigilance and investigation. The audit committee can exercise all these powers judiciously, unless they meet and have threadbare discussions at a regular interval of time. All the veteran committees which initiated reforms in corporate governance, recommended for an increase in the times the board and its committees meet with a standard minimum time interval between two consecutive meetings during a financial year for better governance mechanism.

H_{04}: *Independent and Active monitoring by board does not affect the performance of banks.*

ROA= α+ β_1 BCM + β_2 ACM+ β_3 MCM+β_4 AUDCOCH + β_5 Boardindp+ μ (3)

The results shown in table 3, 4 and 5 indicate that there is no significant relationship between the independent variable of board monitoring and the dependent variable of ROA. The p value of .691 shown in table 4 is more than the level of significance of .05 and hence accepts the null hypothesis stating that the coefficient is zero. The result has been verified by the p values of all the predicting variables being more than the level of significance and therefore none of them have been a significant variable, as shown in table 5.

Since we could not find any relationship of active board monitoring and performance variable, an attempt has been made to find the relationship of independent and active board monitoring with the net worth, if any.

H_{05}: *Independent and active monitoring by board does not affect the Net Worth*

Net Worth = α+ β_1 BCM + β_2 ACM+ β_3 MCM+β_4 AUDCOCH + β_5 Boardindp+ μ (4)

The value of R square in table 3 predicts that a variation of 35.7% in the dependent variable is caused by the set of independent variables. The p value of .009 is less than .05 the level of significance and hence states that the results are statistically significant and there exist a relationship between net worth and the independent and active board monitoring. Amongst the independent variables, the monitoring through board committee meetings and the board independence are significant predictors as they have the p value less than .05, at .003 and .035 respectively, in table 5. The VIF factor shows that there is no multi colliniearity amongst the variables. In general, we say there is collinearity problem, if the VIF exceeds 10.

The non-performing assets and its management has always been a challenge for Indian banking sector. Every management aspires to reduce the NPA's and make strategies for the same as well. For this purpose, management attempts to strike a balance in controlling the NPA's with rigorous exercises and strategies. A few public sector banks were either merged or acquired by healthier

banks due to very high levels of NPA's in the 90's as a part of restructuring process. The study attempted to find whether active and independent monitoring by board affects the non-performing assets of the banks. The following hypothesis H_{06} in equation 5 has been used with multiple regression to predict the dependent variable.

H_{06}: The non-performing assets of banks are not affected by active and independent board monitoring.

$$NPA = \alpha + \beta_1\,BCM + \beta_2\,ACM + \beta_3\,MCM + \beta_4\,AUDCOCH + \beta_5\,Boardindp + \mu \qquad (5)$$

The results of multiple regression at 5% level of significance do not find any underlying relationship between the NPA and active and independent board monitoring. The R square of 0.152 indicate a variation of 15.2% in the NPA due to the variation of set of independent variables in table 3. The p value of .339 shown in table 4 is more than the level of significance and states that the findings are not statistically significant. Although monitoring through audit committee has been a little significant variable at .057, as highlighted in table 5. The next section attempts to find the association between the corporate governance, financial strength and performance variables and relationship, if any, between corporate governance, performance and Net worth.

H_{07}: The variables of corporate governance, performance and shareholders wealth are associated amongst each other.

To find the association Pearson correlation has been used and exhibited in table 6 which suggests that association between Net worth, board independence, board committee meetings and duality of chairman and managing directors is significant at .01 and .05 level of significance. The variables listed in table 6 have been used to find the Pearsons' correlation. The result of correlation matrix validates that there is no problem of multi-collinearity.

To check that duality of chairman and managing director is a trait of independent and active board monitoring, the following hypothesis *H_8* has been tested with logit regression equation.

H_8: Duality of Chairman and managing director does not depends on independent and active board monitoring

$$Log\,(P/1\text{-}P) = \beta_0 + \beta_1\,BoardIndp + \beta_2\,MCM + \beta_3 ACM + \beta_4\,BCM + \beta_5\,Audcochr + \mu \quad (6)$$

The hypothesis H_8 intends to find, if the position of chairman and managing director is held in duality where the board is not having independent and active monitoring. For the purpose, equation 6 has been tested with binary logistic regression at 5% level of significance. The tables

7 of omnibus tests of model coefficients exhibit the p value as .002 which is less than the α, therefore the model is statistically significant. Further, in table 8 the overall percentage of cases that are correctly predicted by the model is 87.2, which is again supporting the model.The p value of BCM at .01 in the table 9 of Variables in the equation makes it the most significant. Based on these results we may say the model predicts that where the board is headed by dual chairman and managing director the level of monitoring by board needs to be more active and vigilant. Therefore, separation of chairman and managing director is an important variable of governance and monitoring the management.

Table 6 Correlations

Pearson Correlation	boardindep	Duality	MCM	ACM	BCM	ROA	NPA	ROE	NETWORTH	CAPADQ	AUDCOCHR
boardindep	1	.035	-.490[**]	-.155	-.004	-.216	.118	-.334[*]	.383[*]	.311	.170
Duality	.035	1		-.382[*]	-.533[**]	-.153	-.123	.001	.337[*]	-.062	.115
MCM	-.490[**]	-.035	1	.124	.016	.138	-.014	.164	-.245	.003	-.011
ACM	-.155	-.382[*]	.124	1	.146	.182	.269	.217	.016	.171	-.005
BCM	-.004	-.533[**]	.016	.146	1	.131	-.165	.035	-.432[**]	-.001	.099
ROA	-.216	-.153	.138	.182	.131	1	-.017	.277	-.060	.071	-.076
NPA	.118	-.123	-.014	.269	-.165	-.017	1	.050	.291	.096	.094
ROE	-.334[*]	.001	.164	.217	.035	.277	.050	1	.020	-.152	-.047
NETWORTH	.383[*]	.337[*]	-.245	.016	-.432[**]	-.060	.291	.020	1	.220	.045
CAPITAL ADEQUACY	.311	-.062	.003	.171	-.001	.071	.096	-.152	.220	1	.037
AUDIT COMMITTEE CHAIRMAN	.170	.115	-.011	-.005	.099	-.076	.094	-.047	.045	.037	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 5.24 List of Variables

Table 7 Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	18.992	5	.002
	Block	18.992	5	.002
	Model	18.992	5	.002

Table 8 Classification Table[a]

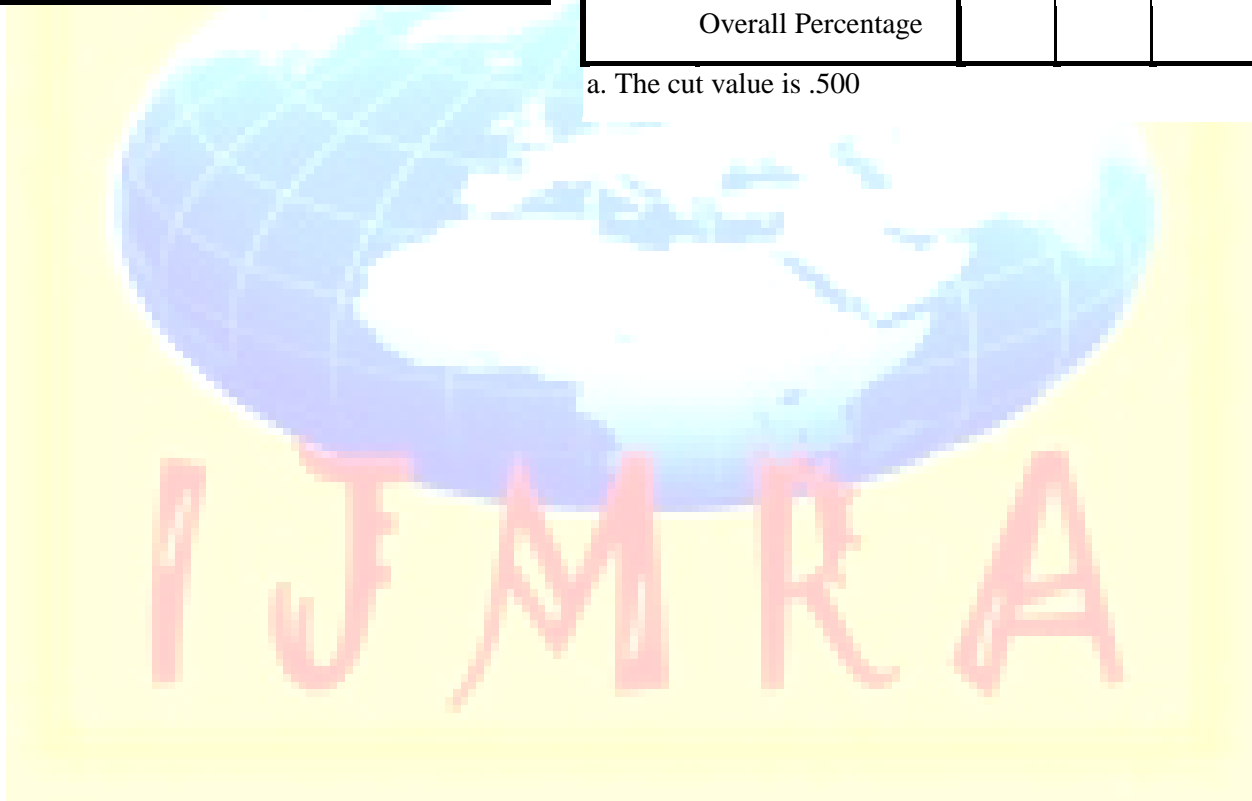| Observed		Predicted		
		Duality		Percentage Correct
		0	1	
Step 1	Duality　0	24	1	96.0
	1	4	10	71.4
	Overall Percentage			87.2

a. The cut value is .500

Table 9 Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)	95.0% C.I.for EXP(B)	
							Lower	Upper
Step 1[a] boardindep	-.542	1.942	.078	1	.780	.581	.013	26.127
MCM	.011	.053	.044	1	.834	1.011	.911	1.123
ACM	-.420	.283	2.207	1	.137	.657	.377	1.144
BCM	-.445	.173	6.618	1	.010	.641	.457	.900
AUDCOCHR(1)	-.963	1.160	.690	1	.406	.382	.039	3.706
Constant	8.224	3.338	6.069	1	.014	3.729E3		

a. Variable(s) entered on step 1: boardindep, MCM, ACM, BCM, AUDCOCHR.

The next set of hypothesis reveals the relationship of independent board with the performance (ROA) and financial strength (Net Worth) of the banks. The independent board includes the size of board, no of independent directors to total directors, duality in position of chairman and managing director and the chairman of audit committee of board if independent. Duality and chairman of audit committee are binary variables whereas the board independence and size are scale variables. The hypothesis has been tested with multiple regression at 5% level of significance for equation 7.

H_9: *Performance of banks is not a function of board size, board independence and duality.*

$$ROA = \alpha + \beta_1 \text{ Boardsize} + \beta_2 \text{ Boardind} + \beta_3 \text{ Duality} + \beta_4 \text{ Audcochr} + \mu \qquad (7)$$

The result of multiple regression provides evidence toward no relationship of ROA and board independence. The low R square at .074 in table 3 and the p value at .611 in table 4 indicate that the results are not statistically significant and coefficient is zero. None of the variable affects the return on asset significantly, as shown by the p values in table 5.

H_{10}: *Board size, board independence and duality does not affect Net Worth of banks.*

$$\text{Net Worth} = \alpha + \beta_1 \text{ Boardsize} + \beta_2 \text{ Boardind} + \beta_3 \text{ Duality} + \beta_4 \text{ Audcochr} + \mu \qquad (8)$$

The findings of the regression equation 8 reveal that the model is statistically significant with p value in anova table at .016 and depicts that the set of independent variables cause a variation of 29.4% in the net worthin table 3. Further, in table 5 an underlying relationship between board independence and duality has been highlighted as they are the significant variables with p values of .026 and .019 respectively. Therefore, we may state that the independent board and separation of chairman and managing director leads to higher net worth of banks.

OBSERVATIONS AND RECOMMENDATIONS OF THE STUDY

From the analysis of secondary data certain observations were made, which have been reported along with the findings and recommendations in the following points.

➢ As evident from the above tested hypothesis that there is no significant difference in the board size, board independence, monitoring by audit committeeand the capital adequacy maintained by public and private sector banks which imply that a separate set of strategies are not required for affecting the above mentioned variables of corporate governance.

➢ The relevance of ownership pattern is less in case of return on asset but is significant in case of net worth and foreign ownership being the most predicting variable. It may also be stated in case of examining the effect of active and independent board monitoring on the return on assets, that ROA is not affected by the governance variables, also observed by Georgen. M, et.al,(2008). Whereas the R square of net worth with same set of independent variable is 52.5% which can be considered a good variation caused by the independent variables and has also been supported by the regression results. Further, there is no significant relationship between the independent variable of board monitoring and the dependent variable of ROA but we do received a positive response for net worth being affected by the board monitoring variables. In addition to above, even the NPA is not significantly affected by board monitoring but it does get certain impact from the monitoring of audit committee.

➢ Therefore, it is apparent that the governance variables have a significant impact on net worth which is the difference between what a bank own and what it owe's. A positive and higher net worth always creates financial strength of a corporation, be it banking or non-banking. In case of banking, financial strength is utmost important for long term survival and growth and the study suggests that corporate governance practices contribute positively towards such growth.

➢ It has been shown by the results of regression between board monitoring and duality of top position that separation of chairman and managing director is a function of active and independent board management. Based on the results of our empirical examination, we may say the model predicts that where the board is headed by dual chairman and managing director the level of monitoring by board needs to be more active and vigilant. Therefore, separation of chairman and managing director is an important variable of governance and facilitates in improved monitoring through board of directors.

➢ While studying the relationship of independent board with the performance (ROA) and financial strength (Net Worth) of the banks, the results reveal that the corporate governance variables including the size of board, no of independent directors to total directors, seperation in position of chairman and managing director and the chairman of audit committee of board if independent, do not have any relation with ROA but certainly contributes variation in the net worth. Therefore, we may say the independent board and separation of chairman and managing director leads to higher net worth of banks.

CONCLUSION

In nutshell, it is only after the series of scams and scandals that corporate governance mechanism has emerged as a strategy for long term survival of firm and specially banks. The major reasons of various corporate failures have been revolving around few basic evils like dominant CEO, ineffective board, flaw in audit, lack of commitment, fraudulent transactions, lack of disclosures and unethical conduct. The results of the study provide evidence towards the essence of corporate governance and its contribution towards the net worth of the bank. The weak variation caused in the return on assets do states that the impact of governance cannot be trapped completely either with the multiple regression or there are some more significant variables which need to be considered in the model.

PRACTICAL IMPLICATION

The conclusions drawn from the study implies that the policy makers and board of directors should focus more on the board independence, board monitoring and separation of chairman and managing director, these being the significant variables affecting the net worth. These three variables suggest that it is "the conduct of board and the spirit of management" towards good corporate governance, which can lead to long term survival of banks.It is a matter of ethical conduct and exercising power in the most responsible way. In addition to this, the study

emphasize that banks need to have a tailor made corporate governance framework for them due to the complexities and peculiarities of banking sector.

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