IMPACT OF CORPORATE GOVERNANCE FACETS ON FINANCIAL PERFORMANCE OF INDIAN BANKS

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Abstract *This research aimed to study the relationship between corporate governance and financial performance of Indian public sector banks. Corporate governance continues to gain momentum in the ever changing business environment and has become sine qua non for corporate sustainability and greater financial performance. The economic environment is increasingly dynamic and uncertain, and this is why banks need to reassess their corporate governance practices. Banks are the main intermediaries in the financial system, and facilitate resource allocation. This requires trust from all the stakeholders, and trust emanates good governance. This makes corporate governance of banks crucial, especially for financial performance and economic advancement. The empirical analysis was conducted using multivariate regression models based on balanced panel data. Our findings show that CEO duality and audit committee size have a positive and significant impact on the return on assets (ROA) and return on equity (ROE). The tenure of the CEO also has a positive effect on the net interest margin (NIM) and market-based performance measure (Tobin's Q). We have also found that none of the board facets of corporate governance have a positive and significant impact on the performance of public sector banks. Based on the findings, we suggest to increase the number of independent directors on the board of the public sector banks. The study contributes to the corporate governance literature by introducing some new facets relating to various committees formed by a corporate board.*

Keywords: *Corporate Governance, Board, CEO, Committee, Banks*

JEL Codes: *C33, G30, G34*

INTRODUCTION

During the last three decades, the Indian and global economy have witnessed a string of corporate scams that had a detrimental effect on investors' confidence and revealed the misgovernance practices of the corporate sector. Rapid economic development and unprecedented industrialisation, coupled with the mushroom growth of corporates, have highlighted the need for an immediate policy on governing the corporates (Pareek et al., 2019). Today, corporate houses are bestowed with foreign investors and global fundraising, among many other benefits, as a result of operating in an international market. To sustain these benefits, corporates will have to demonstrate high-quality governance. Management is responsible for performing the business activities as dictated by the board and to supply timely information to the board in a transparent manner. So it can be inferred that good governance cannot be ensured from a system with a checklist and laws governing them. Liberalisation and globalisation have widened the market spaces and Indian companies

need capital, among other requirements, which led to the development of corporate governance reforms and initiatives (Mishra & Kapil, 2018). Corporate governance promotes a culture of accountability, transparency, and disclosure. It is an important mechanism for enhancing and retaining the investors' trust. Corporates with good governance measures attract global investors and global investments. Companies that possess sound governance measures are likely to be transparent and divulge their accounting and auditing procedures. Corporate governance not only boosts the value of an enterprise, it also reduces the risk of corporate scandals and crisis. From the perspective of financial reporting, corporate governance comprises a board of directors led by a chief executive officer (CEO) and some board-level committees to deal with various issues of the organisation. Organisations, both financial and non-financial, need to show unparalleled governance practices to sustain in the long run. In the Indian economy, it is not only the non-financial sector that is searching for better corporate governance. Banks are also on the path of the search. Corporate governance not only influences financial performance, but is also a significant

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factor that increases the stock market performance. Using sound corporate governance practices, companies can attenuate informational asymmetries, and thereby improve stock market liquidity (Sidhu, 2016).

The global financial crisis and repeated governance failures have increased the emphasis on the role of board of directors and governance of financial institutions (Sarkar & Sarkar, 2018; Pathan & Faff, 2013). A governance issue in the banks will have a significant impact on the whole economy, as most of the finances and public deposits are being channelled through them. Banks facilitate credit intermediation, which keeps the wheel of growth on track, and failure of banks' governance will impede the growth of an economy. Now, a bank may recover from the business cycle recession, but it will take longer for the economy to rebound from a crisis. A well-governed bank achieves financial stability, which in turn can facilitate stability to other sectors, and thus, to the whole economy. Banks have a dispersed stakeholder base. One of the main stakeholders of a bank is its depositors. Banks can not only escalate financial growth, but also weaken the whole economy. Therefore, policymakers and regulators of banks keep emphasising bank board governance (Pathan & Faff, 2013). This is clear in the light of some recent frauds in the banking industry in India. Particularly in India, there are various laws, rules, and regulations to strengthen the governance practices in banks and the non-financial companies. However, despite the enforcement of various laws, frauds are still in the picture, particularly in the banking sector. One important question then arises: Does corporate governance affect the financial performance of banks? Even if banks follow the rules, what effect do corporate governance variables have on the income statement, position statement, and performance indicators? What are the effects of the other facets of corporate governance on the performance of banks? In the present study, we will try to answer these questions.

LITERATURE REVIEW

Board Facets and Corporate Governance

In the corporate governance literature, board size is one of the most significant and most frequently used board facets. Its relation with financial performance has yielded mixed results over the years. Authors have reported a positive relationship between board size and firm performance (Belkhir, 2009; Kathuria & Dash, 1999; Kaur & Singh, 2018; Saibaba & Ansari, 2012). Board size is the total number of directors on the board. While appointing more number of directors to the board can improve firm performance (Jackling & Johl, 2009), it can also backfire. It is proved from the literature, as

authors have also found that board size negatively affected financial performance (Garg, 2007; Ghosh, 2006; Guest, 2009). Chauhan and Pasricha (2010) found that the board size of the Indian IT and pharmaceutical companies is positively related with their performance indicators. After conducting a study on the Sri Lankan banking industry, Ajanthan et al. (2013) concluded that corporate governance facets have no significant relation with the financial performance of banks. Another study was conducted by Pathan and Faff (2013) on the US bank holding companies, and they reported that board size and the number of independent directors have a negative impact on firm performance. According to Merendino and Melville (2019), smaller boards positively affect the performance of Italian listed companies. The study by Palaniappan (2017) revealed that board facets have a significant negative relationship with performance of Indian manufacturing firms.

Kalsie and Shrivastav (2016) reported a positive relationship between board size of Indian non-financial companies and Tobin's Q. According to Vafeas (1999), those firms whose boards meet more frequently tend to have less market value, and the years in which an abnormally higher number of meetings are conducted, firms performed poorly, but the performance of the firms improved in the subsequent years. Board meetings also make no significant contribution towards the profitability of manufacturing companies (Palaniappan, 2017). Carter et al. (2003), who worked on Fortune 1000 companies, found that women directors on the board contributed significantly and positively towards performance (Tobin's Q). Pareek et al. (2019) found that board independence has a significant and negative impact on environmental disclosures of NSE listed companies in India. Economic regulations are being more focused on by independent boards. Companies are now required to have a certain percentage of independent directors on the board, along with executive and non-executive directors. Board independence is the proportion of independent directors to the total number of directors on the board. Prior literature shows that board independence has a negative relation with firm performance (Bhagat & Bolton, 2008; Garg, 2007). Researchers have also found no relation between board independence and financial performance (Bhatt & Bhattacharya, 2015). In the Romanian context, board independence has no significant relation with financial performance (Borlea et al., 2017). By taking a sample of 50 Indian manufacturing companies, Narwal and Jindal (2018) found that both corporate governance (board size, board committee, CEO duality, audit committee size, and so on) and working capital improve corporate profitability. Sidhu (2016) reports that corporate governance has significant implications for stock market liquidity of Indian manufacturing companies, as better governed companies showed higher liquidity in her study.

CEO Facets and Corporate Governance

CEOs get the central attention in every type of organisation, be it financial or non-financial. CEO duality arises when one person is appointed to the position of CEO and also chairman. The focus towards studying the connection between CEOs and financial performance is increasing day by day. In the words of Hambrick and Quigley (2013), CEOs can and often generate a positive performance for the organisation, different from the perceived belief. Existing literature suggests that duality is positively associated with organisational performance (Belkhir, 2009; Bhagat & Bolton, 2008; Peni, 2014). However, according to Jermias and Gani (2014), when a CEO held the position of a chairman, US companies performed poorly. On the other hand, the performance of Indian manufacturing companies was found to have a significant relationship with CEO duality (Palaniappan, 2017). With the pace of time, governance researchers are also finding new facets of CEO and their relationship with financial performance is being analysed. In that context, Kaur and Singh (2018) found that the performance of Nifty 500 firms was not related with CEO duality, CEO education, and CEO gender. However, they did find a positive association between CEO remuneration and ROA. Sarkar and Sarkar (2018) reported a negative effect of CEO duality on the performance of state-owned banks in India. Further, the tenure of the CEO was found to have a significant positive impact on the outcome of the banks.

Bolinger et al. (2019) reported that firm performance is more affected by the CEOs than the top management team. In addition, CEO tenure has a detrimental effect on performance. Amran et al. (2014) reported a negative relationship between CEO age and return on assets, and it is their view that CEO characteristics have an influence on performance. In relation to the listed companies in Thailand, Li et al. (2019) found that CEO tenure is positively related to their environmental disclosure practices. They also reported that CEO age and CEO gender are negatively related to the disclosure practices. It is generally believed that CEOs who are paid more, perform better. However, the findings of Brick et al. (2006) say otherwise. The authors found that excess compensation paid to the CEOs and directors resulted in underperformance. In the case of Egyptian listed firms, CEO duality does not affect firm performance, and it is significantly and positively related to low corporate performance (Elsayed, 2007). Based on the analysis on US firms, Khan and Vieito (2013) found that appointing female CEOs reduced the risk level.

Committee Facets and Corporate Governance

The board of directors constitute various board level committees to address the issues more closely. It is also required as per corporate governance norms. One of the most important and known committees of the board is the audit committee. There are also various other committees whose presence in the corporate governance structure affects financial performance. Aldamen et al. (2012) reported a negative relationship between audit committee size and high performance. Zhou et al. (2018) found no evidence of a relationship between audit committee facets and performance of listed firms in Greece. Agyemang-mintah (2015) concluded that having a nomination committee in the corporate boards improved the ROA of financial firms in the UK. Borlea et al. (2017) found no relationship between audit committee, nomination committee, remuneration committee, and financial performance (Tobin's Q and ROA) in Romanian firms. In the words of Rani (2018), audit committee size and independent directors' presence in the audit committee cause greater oversight and high audit fees, which results in higher audit quality.

OBJECTIVES OF THE STUDY

The present study has the following objectives:

- To explore the corporate governance practices of Indian public sector banks.
- To study the impact of corporate governance facets on the financial performance of selected banks.

DATA AND METHODOLOGY

Research Design

The present study is an empirical analysis based on secondary data. The Indian banking sector is our research domain, while public sector banks are our sample domain. Banks are the wheel of growth of a developing economy like India, and a governance failure in bank will have serious economic implications. In addition, the literature states that there are few studies on Indian banks, especially in terms of the three major categories of corporate governance facets. We have applied convenience sampling method to select ten sample banks out of a total of 20 public sector banks operating in India on the basis of size of their assets in the financial year 2018-2019. These ten banks are selected because they account for more than sixty per cent of the total market capitalisation of the Indian public sector banks. Further, a few banks could not be included because they did not have the required data during the study period relating to the variables used in the study. The sample banks are State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India, Canara Bank, Union Bank of India, Industrial Development Bank of India, Central Bank, Syndicate Bank, and Oriental Bank

of Commerce. The study covers a period of seven years from 2013 to 2019. Data relating to corporate governance variables are collected from the corporate governance report of banks published in their annual report. The annual reports and the CMIE Prowess database are the sources from where information relating to performance indicators are collected. Mean, standard deviation, and regression are the important statistical measures used in the study, and data have been analysed with the help of the software package STATA.

Variables Measurement

We used three different types of variables, such as corporate governance variables (independent variable), financial performance indicators (dependent variable), and control variables. Further, corporate governance facets are divided into three categories – board facets, CEO facets, and committee facets. The performance of banks is measured with the help of both accounting-based measures ROA, ROE, NIM, and NPAR, and market-based measure, Tobin's Q, adhering to prior studies by Merendino and Melville (2019), Pareek et al. (2019), Sarkar and Sarkar (2018), Mishra and Kapil (2018), and Jermias and Gani (2013). We also controlled for age and size of the banks. The detailed explanation of the variables is shown in Table 1.

Table 1: Variables Description

Variable Name	Abbv.	Explanation
Board Facets		
Board Size	BS	Total number of directors on the board.
Board Meetings	BM	Number of board meetings in a year.
Board Committees	BC	Total number of committees formed by the board.
Woman Director	WD	Number of women directors present on the board.
Executive Director	ED	No. of executive directors on the board.
Non-Executive Director	NED	No. of non-executive directors on the board, including chairman (if he/she is)
Board Independence	BIND	Independent directors / Total directors
CEO Facets		
CEO Duality	CEOD	Dummy variable, equals 1 if the same person holds the position of CEO and chairman, and 0 otherwise.
CEO Gender	CEOG	Dummy variable, equals 1 if the CEO is a female, and 0 for otherwise.
CEO Compensation	CEOC	Natural logarithm of cash compensation (Salary + Bonus) paid to the CEO.

Variable Name	Abbv.	Explanation
CEO Tenure	CEOT	Tenure of the chief executive officer in years, i.e. the number of years the CEO has been CEO.
CEO Age	CEOA	The length of time that a CEO has lived (in years).
Committee Facets		
Audit Committee Size	ACS	Total number of directors on the audit committee at the end of a financial year.
Audit Committee Meetings	ACM	Total number of meetings conducted by the audit committee during a financial year.
Remuneration Committee Size	RCS	Total number of directors on the remuneration committee at the end of a financial year.
Remuneration Committee Meetings	RCM	Total number of meetings conducted by the remuneration committee during a financial year.
Nomination Committee Size	NCS	Total number of directors on the nomination committee at the end of a financial year.
Nomination Committee Meetings	NCM	Number of meetings conducted by the nomination committee during a financial year.
Risk Management Committee Size	RMCS	Total number of directors on the risk management committee at the end of a financial year.
Risk Management Committee Meetings	RMCM	Total number of meetings conducted by the risk management committee during a financial year.
Stakeholder Relationship Committee Size	SRCS	Total number of directors on the stakeholder relationship committee at the end of a financial year.
Stakeholder Relationship Committee Meetings	SRCM	Number of meetings conducted by the stakeholder relationship committee during a financial year.
Performance Variables		
Return on Assets	ROA	× 100
Return on Equity	ROE	× 100
Net Non-Performing Assets Ratio	NPAR	Net NPAs divided by Net Advances
Net Interest Margin	NIM	× 100
Tobin's Q	Q	
Control Variables		
Age of the Bank	Age	Natural logarithm of number of years since establishment.
Size of the Bank	Size	Size of the firm in terms of total assets. (Natural logarithm of total assets at the end of a financial year.)

Source: Authors' compilation.

HYPOTHESIS

Based on the objectives, we formulated the following hypothesis:

H_0: Corporate governance facets (board, CEO, and committee facets) have no significant impact on financial performance of banks.

Sequence of Analysis

The present study deals with panel data, and therefore we first used the test for multicollinearity with the help of VIF (variance inflation factor) and tolerance. Variables showing VIF value more of than ten are dropped from the analysis, since it shows presence of multicollinearity. Since panel data is a combination of both time series and cross-sectional data, we also checked for autocorrelation and heteroscedasticity. The Wooldridge test and the Breusch-Pegan test are used to deal with the two issues. We used Hausman test to determine between fixed effects or random effects GLS models.

Econometric Models

The models used in the study are as follows:

Performance = $\beta_0 + \beta_1 BS + \beta_2 BM + \beta_3 BC + \beta_4 WD + \beta_5 ED + \beta_6 NED + \beta_7 BIND + \beta_8 Age + \beta_9 Size + \varepsilon$

Performance = $\beta_0 + \beta_1 CEOD + \beta_2 CEOG + \beta_3 CEOT + \beta_4 CEOC + \beta_5 CEOA + \beta_8 Age + \beta_9 Size + \varepsilon$

Performance = $\beta_0 + \beta_1 ACS + \beta_2 ACM + \beta_3 RCS + \beta_4 RCM + \beta_5 NCS + \beta_6 NCM + \beta_7 RMCS + \beta_8 RMCM + \beta_9 SRCS + \beta_{10} SRCM + \beta_{11} Age + \beta_{12} Size + \varepsilon$

DISCUSSION AND ANALYSIS

Table 2 summarises the descriptive statistics of all the variables used in the study. Board size of the public sector banks ranges from seven to 17, with a mean and median of 11 and a standard deviation (SD) of 2.28. It is clear that all public sector banks have adhered to the minimum number of required board meetings in a year. They had 15 board level committees on an average during the period of study.

Table 2: Descriptive Statistics

	Minimum	Maximum	Mean	Median	Std. Deviation
BS	7	17	11.21	11	2.28
BM	5	21	14.43	14.50	2.89
BC	4	22	15.21	15	4.60
WD	0	3	1.07	1	0.75
ED	1	5	3.06	3	1.01
NED	0	12	5.99	6.50	3.10
ID	0	11	3.59	3	2.40
BIND	0.00	0.79	0.32	0.27	0.21
CEOD	0	1	0.49	0	0.50
CEOG	0	1	0.11	0	0.32
CEOT	0.25	4.67	1.52	1.25	1.05
CEOC	12.83	15.31	14.56	14.67	0.44
CEOA	54	61	57.77	58	1.67
ACS	4	8	5.99	6	1.11
ACM	8	17	11.34	11	1.97
RCS	0	6	4.00	4	1.08
RCM	0	3	0.74	1	0.79
NCS	0	5	3.00	3	0.96
NCM	0	3	0.91	1	0.79
RMCS	0	11	6.61	6.50	1.84
RMCM	0	10	4.86	4	1.80
SRCS	3	9	5.16	5	1.31
SRCM	1	6	3.80	4	1.11
ROA	−4.68	1.01	−0.11	0.21	0.99
ROE	−66.73	23.48	−7.39	0.67	22.22
NIM	1.62	3.52	2.50	2.43	0.39
Q	0.47	1.39	0.86	0.85	0.15
NPAR	0.76	16.69	5.13	4.60	3.20
Age	2.20	4.83	4.31	4.58	0.66
Size	21.42	24.33	22.33	22.26	0.65

Source: Authors' calculation.

During the period of study, some of the banks did not have a woman director on the board and some also did not have any independent directors on the board. The tenure of CEO ranges from 0.25 years (three months) to 4.67 years (four years and eight months). This goes to show that there is high CEO turnover in public sector banks. The average tenure of

a CEO was approximately 1.5 years. The average biological age of CEOs is approximately 58 years, which is equal to its median. The age of the CEOs during the period under study ranges between 54 and 61. A few of the board level committees neither had any board members nor conducted any meetings at a certain point of time. Only the audit committee and stakeholders' relationship committee have the necessary number of committee members and conducted the required number of meetings. It is also clear from the table that during the period of study, banks also had negative returns. Public sector banks have been very poor in NPA management, as the maximum value of the ratio was 16.69. On the contrary, some public sector banks were found to be efficient in managing their NPAs, as the minimum value of the NPAR was 0.76.

Table 3: Regression Results of Board Facets

	ROA	ROE	NIM	NPAR	Tobin's Q
	Coefficients (T-Value)	Coefficients (T-Value)	Coefficients (Z-Value)	Coefficients (T-Value)	Coefficients (T-Value)
BS	−0.054 (−0.76)	−0.249 (−0.14)	0.035 (1.34)	−0.065 (−0.26)	0.004 (0.30)
BM	−0.032 (−1.04)	−0.626 (−0.80)	−0.036*** (−3.03)	0.001 (0.01)	0.004 (0.65)
BC	−0.078 (−1.90)	−1.688 (−1.59)	−0.012 (−1.31)	0.227 (1.58)	−0.001 (−0.34)
WD	0.084 (0.65)	0.492 (0.15)	−0.058 (−1.20)	−0.017 (−0.04)	−0.014 (−0.61)
ED	0.169 (0.92)	2.996 (0.63)	−0.051 (−0.79)	−0.117 (−0.18)	0.018 (0.59)
NED	0.052 (0.91)	1.425 (0.96)	0.053*** (2.96)	−0.302 (−1.51)	0.002 (0.22)
BIND	−0.245 (−0.34)	−15.534 (−0.83)	−0.646*** (−3.63)	1.231 (0.49)	0.039 (0.48)
Age	−9.438*** (−6.51)	−173.788*** (−4.61)	0.102 (1.85)	29.442*** (5.81)	−0.044 (−1.72)
Size	−0.744 (−1.04)	−24.788 (−1.34)	0.053 (0.54)	1.802 (0.72)	0.106 (2.33)
Constant	57.684*** (3.56)	1315.484*** (3.13)	1.297 (0.59)	−159.189*** (−2.81)	−1.446 (−1.43)
F	8.48***	5.57***	Wald Chi^2 = 85.23***	6.80***	4.11***
R^2	0.7496	0.6630	0.5869	0.7060	0.3812
Adjusted R^2	0.6612	0.5441	-	0.6022	0.2884

Source: Calculated and compiled by authors.
Statistically significant at 1% (***), 5% (**).

The results of the regression analysis are presented in Tables 3, 4, and 5. As stated earlier, we categorised the corporate governance facets into three categories, viz. board facets, CEO facets. and committee facets. Table 3 shows the results of regression of board facets with the performance indicators. We find that none of the board facets have significant results in case of the dependent variables ROA, ROE, NPAR. and Tobin's Q. However, board meetings have a significant negative impact on interest earning capacity of public banks (−0.036, p < 0.01). The presence of non-executive directors on the board positively affects NIM of the public banks (0.053, p < 0.01). Further, the percentage of independent directors on the board have affected the financial performance significantly and negatively (−0.646, p < 0.01). Age of the banks has a significant positive effect on non-performing assets ratio and a significant negative impact on ROA and ROE. Size of the banks has no significant effect on any financial measure. Table 3 also shows that board size does not have any significant relation with any of the performance variables. As a result, we fail to reject the null hypothesis and conclude that board size does not have any significant impact on the financial performance of public

sector banks. Based on the signs, we can infer that board size is negatively affecting ROA, ROE, and NPAR. However, it is also contributing towards generation of interest income and market value of stock, though the results are not significant. With relation to BM, we find significant results and reject the null hypothesis only in the case of NIM. It implies that the number of board meetings do have a significant impact on banks' performance and a negative coefficient indicates that the impact is negative. In case of BC, we fail to reject every hypothesis and infer that the number of board committees do not have a significant impact on public sector banks'

performance. We find similar results in the case of WD and ED, as none of these two board facets exhibit any significant results. Therefore, we can conclude that the number of women directors and number of executive directors do not have any significant impact on the performance of public sector banks. The null hypothesis for both NED and BIND is rejected with respect to performance measure NIM. This implies that the number of non-executive directors and board independence have a significant impact on generation of interest from banks' assets. However, they do not have a significant impact on any other performance variables.

Table 4: Regression Results of CEO Facets

	ROA	ROE	NIM	NPAR	Tobin's Q
	Coefficients (T-Value)	Coefficients (T-Value)	Coefficients (T-Value)	Coefficients (T-Value)	Coefficients (T-Value)
CEOD	0.636***	16.186***	0.089	−2.329***	0.049
	(2.96)	(2.87)	(1.11)	(−3.23)	(1.68)
CEOG	0.096	3.510	−0.168	0.236	−0.002
	(0.36)	(0.50)	(−1.69)	(0.26)	(−0.05)
CEOT	0.056	0.502	0.077**	0.353	0.032**
	(0.69)	(0.24)	(2.54)	(1.29)	(2.11)
CEOC	0.086	−1.418	−0.053	0.898	0.044
	(0.41)	(−0.26)	(−0.68)	(1.29)	(1.21)
CEOA	−0.077	0.181	0.006	−0.348	−0.020**
	(−1.47)	(0.13)	(0.29)	(−1.97)	(−2.24)
Age	−8.876***	−136.745***	0.024	21.213***	−0.054**
	(−6.54)	(−3.84)	(0.05)	(4.66)	(−2.57)
Size	−0.478	−23.034	−0.957***	2.230	0.135***
	(−0.85)	(−1.57)	(−4.58)	(1.19)	(5.20)
Constant	50.913***	1106.637***	26.092***	−127.928***	−1.446
	(3.61)	(2.99)	(4.96)	(−2.70)	(−1.97)
F statistics	10.71***	6.92***	12.01***	9.69***	8.55***
R^2	0.7638	0.6763	0.7839	0.7453	0.4911
Adjusted R^2	0.6925	0.5785	0.7186	0.6684	0.4337

Source: Calculated and compiled by authors.
Statistically significant at 1% (***), 5% (**).

Table 4 shows the relationship between CEO facets and the performance indicators. According to the results, CEO duality has a significant positive impact on ROA (0.636, $p < 0.01$) and ROE (16.186, $p < 0.01$), and a negative impact on NPAR (−2.329, $p < 0.01$). No other CEO facets have shown any significant relation with ROA, ROE, and NPAR. CEO tenure has a significant positive impact on NIM (0.077, $p < .05$) and Tobin's Q (0.032, $p < 0.05$). CEO age has a significant negative effect on Tobin's Q (−0.020, $p < 0.05$). According to the results reported in Table 4, the null hypothesis for CEO duality is rejected for performance variables ROA, ROE, and NPAR at 1% level of significance. This indicates that CEO duality has a significant impact on the financial

performance of public sector banks. The results indicate that the same person occupying the position of both chairman and CEO helps in generating return on assets, return on equity, and efficient management of non-performing assets. However, CEO gender did not show any significant results with any performance variable. Therefore, we can conclude that a female CEO does not contribute towards the financial performance of public sector banks. We also find significant results in the case of CEO tenure with performance variables NIM and Q, which indicates that CEO tenure significantly and positively affects the interest generating capacity and market value of public sector banks' stock. Conversely, the compensation paid to the CEO (CEOC) have not shown

any significant results with any performance variable. CEO age showed significant results in the case of Tobin's Q, and therefore, we reject the null hypothesis and deduce that the age of the CEO has a significant impact on the market value of the public sector banks. The negative coefficients indicate that an aged CEO negatively contributes towards the market value of stock.

The regression outcomes of committee facets with the financial performance of banks are depicted with the help of Table 5. The results show that audit committee size has a significant positive impact on ROA (0.252, p < 0.01) and ROE (7.306, p < 0.01). It also affects the non-performing assets ratio significantly and negatively (−0.708, p < 0.01). However, ACM, RCM, RMCM, and SRCM are found to be positively associated with performance measure ROA. On the other hand, we found a negative relationship between ROA and RCS, NCS, NCM, RMCS, and SRCS. All these variables are negatively associated with ROA of banks. Committee facets such as ACM, RCS, NCS, NCM, and RMCM have shown a positive relation with ROE, but the relationship is not significant. On the other hand, we find evidence of a positive relation between RCM, RMCS, SRCS, SRCM, and ROE. However, this relationship is also not statistically significant.

We find that audit committee meetings (ACM), remuneration committee size (RCS), and nomination committee size (NCS) have a significant negative impact on banks' performance, measured in terms of NIM at 5% level of significance. On the other hand, RCM, RMCS, RMCM, and SRCM are found to significantly and positively affect NIM. However,

we also find that ACS is positively and NCM and SRCS are negatively associated with the performance measure NIM, though the association is not statistically significant. We also find that ACS and RCM have a significant and negative impact on NPAR. Only RCS depicted a positive and significant impact on it (0.656, p < 0.01). With respect to the dependent variable NPAR, we find that ACM, NCM, and RMCM have positive associations, while the associations of NCS, RMCS, SRCS, and SRCM are negative. Regarding the market-based measure Tobin's Q, we find that ACS, ACM, RCM, RMCS, RMCM, SRCS, and SRCM have a positive association, and NCS has a negative association. However, none of these associations are statistically significant. On the contrary, we find that NCM has a statistically significant and positive impact on Tobin's Q (0.043, p < 0.05) and RCS has a significant negative impact (−0.036, p < 0.05). ACS has significant results in the case of ROA and ROE at 1% level of significance, and NPAR at 5% level. Therefore, we reject the null hypothesis and conclude that audit committee size helps in increasing ROA and ROE, and reduces the NPAs of public sector banks. However, we failed to reject the null hypothesis in the case of NIM and Tobin's Q. In the case of both ACM and NCS, we reject the null hypothesis for the performance variable NIM only. This indicates that the number of audit committee meetings and size of the nomination committee significantly and negatively affect the net interest margin. Both these variables do not have any significant impact on any other performance variables. Because of the significant results, the null hypotheses of RCS relating to NIM, Tobin's Q, and NPAR are rejected, which means that remuneration committee size has a significant impact on these three variables.

Table 5: Regression Results of Committee Facets

	ROA	ROE	NIM	NPAR	Tobin's Q
	Coefficients (T-Value)	Coefficients (T-Value)	Coefficients (Z-Value)	Coefficients (T-Value)	Coefficients (T-Value)
ACS	0.252*** (2.92)	7.306*** (3.47)	0.059 (1.52)	−0.708** (−2.65)	0.004 (0.24)
ACM	0.021 (0.40)	−0.447 (−0.34)	−0.056** (−2.56)	0.240 (1.45)	0.013 (1.40)
RCS	−0.016 (−0.21)	−1.324 (−0.71)	−0.084** (−2.25)	0.656*** (2.77)	−0.036** (−2.32)
RCM	0.173 (1.47)	2.069 (0.72)	0.109** (2.28)	−1.058*** (−2.90)	0.001 (0.04)
NCS	−0.092 (−0.85)	−0.221 (−0.08)	−0.100** (−2.26)	−0.327 (−0.97)	−0.017 (−0.91)
NCM	−0.063 (−0.54)	−3.566 (−1.26)	−0.080 (−1.61)	0.202 (0.56)	0.043** (2.09)
RMCS	−0.010 (−0.18)	0.683 (0.50)	0.046** (2.04)	−0.093 (−0.54)	0.010 (1.13)

	ROA	ROE	NIM	NPAR	Tobin's Q
	Coefficients (T-Value)	Coefficients (T-Value)	Coefficients (Z-Value)	Coefficients (T-Value)	Coefficients (T-Value)
RMCM	0.012	−2.573	0.051**	0.336	0.004
	(0.16)	(−1.41)	(2.00)	(1.44)	(0.34)
SRCS	−0.026	0.528	−0.002	−0.381	0.014
	(−0.28)	(0.23)	(−0.06)	(−1.31)	(1.09)
SRCM	0.259	4.167	0.125***	−0.014	0.006
	(1.39)	(0.92)	(3.03)	(−0.02)	(0.34)
Age	−9.979***	−158.256***	0.154***	21.758***	−0.067***
	(−7.09)	(−4.62)	(2.73)	(4.99)	(−2.89)
Size	−0.299	−10.427	0.121	2.024	0.119***
	(−0.46)	(−0.66)	(1.74)	(1.00)	(4.16)
Constant	45.876***	846.188**	−0.966	−132.212**	−1.697***
	(2.77)	(2.10)	(−0.72)	(−2.58)	(−3.05)
F statistics	8.81***	7.11***	Wald Chi^2 = 74.67***	9.76***	4.45***
R^2	0.7939	0.7566	0.5671	0.8103	0.4835
Adjusted R^2	0.7038	0.6501	-	0.7273	0.3747

Source: Calculated and compiled by authors.
Statistically significant at 1% (***), 5% (**).

In the case of RCM, we find that it has a significant positive impact on NIM and a significant negative impact on NPAR, both of which are good for the banks. We also reject the null hypothesis of NCM only in the case of market-based measure Tobin's Q. This suggests that the meetings of the nomination committee contributes positively towards the market value of the stock. However, NCM has no significant impact on any other performance measure. Both RMCS and RMCM have significant results only with NIM, which shows that the risk management committee plays a significant role in taking investment decisions regarding assets that generate interest income for banks. While we fail to reject the null hypothesis of SRCS regarding all performance measures, SRCM is found to have a significant positive impact only on NIM. So, we can deduce that SRCS has no significant impact on banks' performance and SRCM does not contribute significantly towards ROA, ROE, Tobin's Q, and NPAR.

CONCLUSION

Our study examines the impact of corporate governance facets on the financial performance of Indian public sector banks. The governance facets are divided into three categories relating to the board, CEO, and committees of the banks. Our study indicates that board size has no significant impact on the financial performance of public sector banks. Board meetings have a significant negative impact on the net interest margin of public sector banks, which means that conducting more board meetings does not improve the interest earning capacity

of public banks. It signifies the inefficiency of board meetings and lack of coordination among the board. The number of board committees, women directors, and executive directors have no impact on any performance measures of public sector banks. While the number of non-executive directors in the public sector banks causes growth in interest income, board independence seems to have a significant negative impact on NIM. Among the CEO facets, CEO duality helps in increasing the return on assets, return on equity, and market value of the stock. It also helps in reducing the NPAs of public banks. A female CEO in public sector banks has no significant impact on any performance indicator except NIM, and the impact is negative. This suggests that having a female CEO does not help in improving the net interest margin of a public sector bank. The positive effect of CEO tenure on NIM and Tobin's Q indicates that appointing a CEO for a longer period improves the interest income generating capacity and the market value of public sector banks' stock. The compensation paid to CEOs in public sector banks does not have any significant impact on banks' performance. Appointing an aged CEO negatively affects the market value of public sector banks' stock. However, an aged CEO has a significant role in reducing the NPAs of public sector banks.

In addition to the few commonly used committee facets, we also introduced new committee facets as corporate governance variables. Audit committee size played a significant role in improving the ROA and ROE of public sector banks, and it also reduced the NPAs. However, the number of audit committee meetings conducted by the public sector banks may have

reduced their net interest margin. The size of remuneration committee has a significant impact on NIM, Tobin's Q, and NPAR. However, we find that it reduces both NIM and Tobin's Q, and increases the non-performing assets of the banks. This may be due to the fact that few banks have low or no directors on their remuneration committee. The number of meetings conducted by the remuneration committee seems to improve the NIM and reduce the net NPAs. While the nomination committee size seems to reduce the NIM, the nomination committee meetings increase the market value of the stock. Both risk management committee size and meetings have played a significant role in increasing the net interest margin of public sector banks. While the size of the stakeholders' relationship committee has no significant impact on the financial performance of public sector banks, the number of meetings conducted by the said committee has an increasing effect on the interest income generating ability of the public sector banks. We can also suggest policy implications for the Indian public sector banks. The regulators should develop a framework for assessing the skill and competencies of independent directors appointed in the Indian public sector banks. The banks should appoint more independent directors to the board, who are well qualified.

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